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

ECUADOR

PROJECT PAPER

POLICY DIALOGUE AND IMPLEMENTATION

AMENDMENT NUMBER 3

AID/LAC/P-897
CR-628

PROJECT NUMBER: 518-0089

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PROJECT DATA SHEET

1. TRANSACTION CODE

C A = Add
C = Change
D = Delete

Amendment Number
3

DOCUMENT CODE
3

2. COUNTRY/ENTITY

ECUADOR

3. PROJECT NUMBER

518-0089

4. BUREAU/OFFICE

LAC

5. PROJECT TITLE (maximum 40 characters)

Policy Dialogue and Implementation

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
10 9 13 10 9 18

7. ESTIMATED DATE OF OBLIGATION
(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 914

B. Quarter 4

C. Final FY 918

8. COSTS (\$000 OR EQUIVALENT \$) 509,607.00

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	517,917.00	659,168.00	1,177,085	7,323,227	3,676,773	
(Grant)	517,917.00	659,168.00	1,177,085	7,323,227	3,676,773	
(Loan)	()	()	()	()	()	()
Other						
U.S.						
Host Country						
Other Donor(s)						
TOTALS						11,000,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	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)				3,566,806		7,433,194		11,000,000	
(2)									
(3)									
(4)									
TOTALS				3,566,806		7,433,194		11,000,000	

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

11. SECONDARY PURPOSE CODES

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To strengthen the Ecuadorian capacity to formulate and implement improved social democratic and economic policy reforms.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
1 2 9 17 0 1 9 19

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 concur in the proposed methods of implementation and financing for this project.

Thomas Totino
USAID/Quito, Ecuador Controller

17. APPROVED BY

Signature

Title

John A. Sanbrailo
Mission Director

Date Signed

MM DD YY
10 18 21 6 9 14

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DCMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

(Amendment No. 3)

Name of Country: **Ecuador**
Name of Project: **Policy Dialogue and Implementation**
Number of Project: **518-0089**

Pursuant to Sections 105 and 106 of the Foreign Assistance Act, the Policy Dialogue Support Project was authorized on September 20 1990. The authorization is hereby amended in its entirety to read as follows:

"1. Pursuant to Sections 105 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Policy Dialogue and Implementation Project for Ecuador (the "Project", formerly the "Policy Dialogue and Support Project"), involving planned obligations of not to exceed \$11,000,000 (Eleven Million Dollars) in grant funds over an eight year period from date of original authorization, subject to the availability of funds in accordance with the USAID OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned Life of the Project is approximately eight years and four months from date of initial obligation, to September 30, 1998.

"2. The goal of the Project is to increase sustainable economic growth for a broad base of the population, through improved social, democratic and economic reforms. The Project purpose is to strengthen the Ecuadorian capacity to formulate and implement improved social, democratic and economic policy reforms.

"3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with USAID regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as USAID may deem appropriate:

a. Source and origin of Commodities, Nationality of Services

Commodities financed by USAID under the Project shall have their source and origin in Ecuador or in the United States, except as USAID may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have Ecuador or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing.

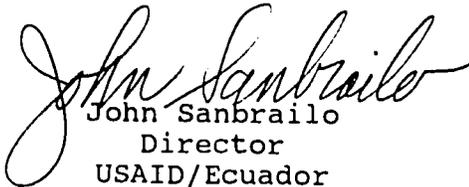
Ocean shipping financed by USAID under the Project shall, except as USAID may otherwise agree in writing, be financed only on flag vessels of the United States.

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b . Based on the description of Project activities in the original Project Paper and the Project Paper Amendment, local cost financing is authorized for the Project, per HB1B Chapter 18.

4. a. Based on the Justification for Nationality Waiver in the original Project Paper and the Project Paper Amendment, nationality waivers, in the cumulative amount of \$6.4 million from Code 000 to Code 941 (Selected Free World) are approved to permit either the procurement by contract of technical assistance from the Instituto Centroamericano de Administración de Empresas (INCAE), a Costa Rican NGO, or assistance through INCAE under a grant or cooperative agreement."

"b. Based on the Waiver for Financing International Travel included in the Project Paper Amendment, the requirement that the Ecuadorian Government or other sponsor pay the cost of international travel for participants travelling to Costa Rica for training by INCAE is hereby waived, pursuant to HB 10 Section 16.1-3.


John Sanbrailo
Director
USAID/Ecuador

Date: 8/26/94

Clearances:

RCO:AEisenberg AS
PPD: PMaldonado (in draft)
PPD: PLapera (in draft) /v
RCO: HGranja (in draft)
O/CONT: TTotino [Signature]
A/DDIR: MJordan [Signature] 8/26/94

Drafted: RLA/SAllen 7/29/94 (per fax 7/29/94) /v

DRAFT PROJECT PAPER AMENDMENT

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

ECUADOR

PROJECT PAPER AMENDMENT

POLICY DIALOGUE AND IMPLEMENTATION PROJECT

PROJECT NUMBER: 518-0089

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UNATTACHED ANNEXES

- INCAE Proposal
- Evaluation of Policy Dialogue Support Project
- Assessment of Fundación Ecuador
- Draft SO 1 Monitoring and Evaluation Plan

Acronyms

AME	Ecuadorian Municipalities Association
APROFE	Ecuadorian Association for Family Health
BEA	Basic Economic Analysis
BNC	Building National Consensus
CA	Cooperative Agreement
CAF	Andean Development Corporation
CEMOPLAF	Ecuadorian Center for Family Planning and Education
CEPAR	Center for Population Studies and Responsible Parenthood
CLASP II	Ecuadorian Development Scholarship Program
CLD	Latin American Development Center
CONADE	National Council for Development
CONAM	National Modernization Council
CONAPEI	National Council for Export and Investment Promotion
CONCOPE	Ecuadorian Consortium of Provincial Councils
CRD	Consciousness Raising Dialogue
ESF	Economic Support Fund
FE	Fundación Ecuador
FEDEXPOR	Ecuadorian Foundation of Exporters
FISE	Ecuadorian Social Investment Fund
GAO	General Accounting Office (U.S.)
GDO	General Development Office (USAID/Ecuador)
GDP	Gross Domestic Product
GOE	Government of Ecuador
IDB	Inter-American Development Bank
IDEA	Ecuadorian Institute for Agricultural Development
IMP	Implementation of Policies
INCAE	Central American Institute of Business Administration
INEC	National Statistic Institute
IPR	Intellectual Property Rights
IQC	Indefinite Quantity Contract
LOP	Life of Project
MSP	Ministry of Public Health
NAFTA	North American Free Trade Agreement
NGO	Non-governmental Organization
OIKOS	Organization for Technical Advancement and Environmental Education
PP	Project Paper
PPD	Program and Project Development Office (USAID/Ecuador)
PPR	Promotion of Policy Reform
PROEXANT	Ecuadorian Program for Non-traditional Exports
PVO	Private Voluntary Organization
RCD	Reforms Consensus and Drafting
RHUDO	Regional Housing and Urban Development Office (USAID/Ecuador)
SEGO	Sustainable Economic Growth Office (USAID/Ecuador)
SENDA	National Public Administration Service

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SO	Strategic Objective
TA	Technical Assistance
TDP	Training Development Project
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
USAID/Ecuador	United States Agency for International Development(Ecuador Mission); also referred to as the Mission
USAID/W	United States Agency for International Development (Washington)
USTR	United States Trade Representative

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I. EXECUTIVE SUMMARY: POLICY DIALOGUE AND IMPLEMENTATION PROJECT PAPER AMENDMENT

Introduction and Overview

The purpose of this Project Paper Amendment is to redesign USAID Ecuador Project No. 518-0089 authorized on September 20, 1990, with a Life-of-Project funding of \$3.6 million. The goal and purpose of the redesigned project remain essentially the same as the original project. This amendment adjusts the project design to the progress that has taken place in policy reform during the period since project authorization, taking into account important reforms which remain to be addressed, and brings the project into line with USAID's social and economic policies as described in Strategies for Sustainable Development issued in March, 1994. It also increases project funding from \$3.6 million to \$11.0 million and extends the Project Assistance Completion Date (PACD) for four years to September 30, 1998. As a result, this project will be USAID's principal vehicle for the mid-1990s for supporting social and economic policy reform in Ecuador.

The timing for amending the Policy Dialogue Support (PDS) Project is appropriate now. From 1990-94 the PDS Project successfully helped Ecuador formulate and implement historic economic reforms including major stabilization and structural reforms. Stabilization measures included cutting inflation drastically from 52 percent in August 1992 to 31 percent by December 1993, through: the elimination of costly subsidies, an initial devaluation of 35 percent and maintenance of a highly stable exchange rate, implementation of a new budget reform law, and reduction of the fiscal deficit to less than 1 percent of GDP. Structural reforms included legislation in areas such as tariff reform, capital markets, foreign investment, monetary and financial regimes, facilitation of exports, privatization and modernization of the state. Intellectual Property Rights (IPR) and Bilateral Investment Treaty (BIT) agreements were signed with the U.S. and eligibility for the U.S. Andean Trade Preference Act was achieved. As a result Ecuador has been able to obtain an IMF Stand-By Agreement, finalize large IDB and World Bank Structural Reform Loans and renegotiate its outstanding commercial bank debts. Over the past four years the country has gradually moved away from its older import-substitution development strategy to a more export-oriented strategy based on a market economy, private investment, a reduced role for the state and modernization and privatization of state-owned enterprises. The first phase of Ecuador's reform process is clearly drawing to a close. Redesigned USAID support for phase two 1994-98 is now needed for the following reasons:

First, the first phase of PDS and other USAID economic policy reform activities have been successful in terms of making GOE decision makers, influential private sector figures, the news media and the Ecuadorian population in general, more conversant with the needs and benefits of macroeconomic reform. Combined with ESF to support important stabilization measures of the GOE and Trade and Investment Project financed advocacy activities of the Fundación Ecuador, PDS contributed to the GOE's cutting inflation in half in the first year in

office, unprecedented privatization of firms and issuance of a privatization ("modernization") law, as well as trade liberalization. However, there are gaps in progress, as evidenced by the GOE's inability to accelerate privatization of major state-owned enterprises (e.g. telephones), under-utilization of the Andean Trade Preference Act, and a lack of awareness of NAFTA. Most importantly, macroeconomic reform in Ecuador is fragile and lacks deep support of the Ecuadorian population because the benefits of these reforms have not as yet been fully realized and because there has been more limited progress on social and democratic reforms.

Second, the project needs to be amended to include social policy reform to render general reform sustainable and broad-based and to reflect the development strategies of major international donors. The World Bank, Inter-American Development Bank, USAID and other international development agencies are coinciding in the importance of better providing opportunities and access to the poor and in the importance of social development policies and improving developing countries' effectiveness in social investment. Forward movement in this respect is essential given the severity of poverty indicators in Ecuador which are summarized in annex G. All indicators of poverty point to approximately 50 to 60 percent of the population as falling in any one of the categories of poverty. The remaining years of the 1990s will be a period of encouraging and helping developing countries like Ecuador to implement major structural reforms in social sectors and implementing reforms that strengthen democracy as well as deepening and consolidating economic liberalization measures.

Third, the reaction of the GOE and private sector groups to initial USAID-supported efforts in raising awareness on the need for comprehensive social policy development, and educational, health and other social sector reforms, has been very positive. Interest in social sector reform is growing significantly especially within the private sector where there is recognition that new policies are needed to rationalize social sector expenditures.

Fourth, USAID policy reform efforts have been pursued through several projects. Putting comprehensive social and economic policy reform under one project will improve and better focus USAID's reform efforts and will better mobilize other donor support, as well as more efficiently support more specific sectoral reform efforts under other USAID projects such as the Child Survival II Project.

Fifth, there is increasing awareness in Ecuador that the country's economic and social reform process cannot be accelerated and deepened without more progress in strengthening the ability of democratic institutions to govern with greater coherence and credibility. Reforms that support "good governance" and improve the ability of democratic institutions to formulate and implement social and economic reforms are urgently needed. More recently, the President, Congress and the major political powers reached a consensus on reforming the Constitution of Ecuador to take into account the need to modernize the country.

Redesigned Project Goal, Purpose and End of Project Status

The name of the project is being modified from *Policy Dialogue Support* to *Policy Dialogue and Implementation* to reflect the approach of the amended project of managing policy reform as a *comprehensive process* leading to actual implementation of policy reforms. The original project goal was to improve income distribution and productive employment opportunities through broad-based, self-sustaining growth. The goal of the redesigned project is being rephrased as follows: *to increase sustainable economic growth for a broad base of the population, through improved social, democratic and economic reforms*. The purpose of the original project was to establish a process and a mechanism of informed macroeconomic policy dialogue and discussion, based on the implications and advantages of outward and market-oriented policy reform in the medium to long term. That purpose remains essentially the same, except that, in the amended project, greater emphasis will be placed on a more complete and sequential dialogue process for both economic and related social and democratic reforms. Social reform is being included because the international donor community has concluded that sustainable economic development benefitting a broad base of the population is more likely to occur when social, democratic and economic reforms are accomplished together. This seems to be true of recent experience under Ecuador's Durán Ballén administration: what has been lacking in achieving sustainable development in Ecuador has been the absence of effective social investment. Therefore, the purpose of the project is rephrased as follows: *to strengthen the Ecuadorian capacity to formulate and implement improved social, democratic and economic policy reforms*.

End of Project Status

End-of-Project conditions, which when evaluated qualitatively will indicate that the project has been successful in achieving its purpose, will be centered on Ecuadorian adoption and implementation of improved social, democratic and economic policy reforms, as follows:

Social Policy Reform: Development and initial implementation of a coherent social policy reform agenda including in education, health, nutrition, social security, housing, municipal development and decentralization. Five policy directions to be applied in the agenda are:

- Targeting of government subsidies and expenditures on the poorest and most vulnerable groups;
- Cost recovery and greater efficiency in the application of social sector expenditures;
- Rationalizing the respective roles of the public and private sectors, with the public sector practicing a more normative role;
- Gradual decentralization of the administration and provision of social services to NGOs, foundations, municipalities and other decentralized service delivery mechanisms; and,

-Privatization, i.e. increased reliance on private for-profit and not-for profit entities for the delivery of services.

Democratic Reform: Achievement of Ecuadorian consensus on measures and strategy for strengthening democratic processes, in order to address the political fractionalization which has impeded progress in social and economic development and implementing other new initiatives to strengthen democratic institutions.

Economic Reform: Further progress in implementing major privatization, and in helping Ecuador prepare its policy and legal framework for accession to NAFTA or other hemispheric open trade arrangements. Special emphasis will also be placed on the achievement of policy, legal, regulatory, and institutional reforms to benefit the formation and growth of microenterprises, such as reforms to permit savings mobilization and greater access to credit and technical assistance training services.

Project Strategy

The strategy of this Amended Project will continue USAID efforts to help Ecuador accelerate and deepen its social, democratic and economic reform process so as to better prepare the country to meet the challenges of the 21st Century. This will be achieved by continuing efforts to develop and support private sector "think tanks" and advocacy groups that can raise Ecuadorian consciousness on the need for policy reform and then lobby for accelerated implementation of key reforms. The Project is based on a strategy whereby NGO "think tanks" such as INCAE, Fundación Ecuador and other similar groups better orient and educate Ecuadorian private sector leaders on the need for reforms and then help support their quick adoption and implementation. Complementary technical assistance and training resources are also provided to help the public sector, especially the Modernization Commission (CONAM) and GOE ministries and agencies better and more rapidly respond to these private sector advocacy groups.

The strategy of this project is directly tied to the program presented in the FY 95-96 Action Plan, i.e., by working with local NGOs and other donors together. The Mission emphasizes local participation in the development process by supporting non-governmental groups. Through a combination of activities (policy analysis and advocacy, training, workshops, seminars, publications) Mission-assisted NGOs are playing lead roles, raising public awareness and stimulating debate, advocating reform, promoting policies for sustainable development and providing services to unserved populations. In turn, these pioneering efforts prepare the groundwork and increase absorptive capacity so that other donors can more quickly develop and implement their larger programs.

Over the past 15 years, USAID has been unique among donors in Ecuador in helping to develop and strengthen NGO policy advocacy groups that better address critical Ecuadorian development problems. The USAID supported Centro de Estudios de Población (CEPAR) has successfully lobbied for a National Population Policy and improved family planning programs.

The Fundación NATURA has raised consciousness and better educated the Ecuadorian public on the country's growing environmental problems and measures needed to address them. The Fundación IDEA has pioneered proposals for reforming and modernizing the agricultural sector. During the period 1990-94, INCAE and Fundación Ecuador with USAID support have helped accelerate the formulation and implementation of historic GOE economic stabilization and structural reforms. The USAID assisted NGO Corporación Latinoamericana de Desarrollo (CLD) is playing a similar role advocating judicial reforms and other actions to improve the administration of justice. The amended Project proposed herein will continue to support this highly successfully USAID strategy carefully targeted at key NGOs that have a proven track record in helping Ecuador bring about the adoption and implementation of urgently needed reforms.

The Amended Project will also bring together under one umbrella a number of the discrete but linked activities that will give clearer focus to the Mission's efforts to enhance the environment for social, democratic and economic policy reform. The Project will also ensure that the strengths of the whole are greater than the sum of the individual components by combining INCAE's proven methodology for promoting policy dialogue; the Fundación Ecuador's access to government and private sector leaders and its nascent abilities to reach out to other sectors of Ecuadorian society. These activities will be complemented further by targeted technical assistance to selected GOE agencies to implement its reform activities such as social sector reforms, privatization and modernization of the state. Individual Project components will come together to ensure that all facets of the policy reform process are covered: from reaching consensus on the definition of the problem and alternative solutions through dialogue, to advocacy of specific reforms, to technical assistance to ensure that reforms are implemented efficiently.

The underlying premise of the Project is that policy reform is, in varying degrees, a sequential *process* consisting of: (1) initial analysis of problems and needed reforms to address them; (2) consciousness-raising targeted at influential groups; (3) consensus-building on options for reforms and drafting of the reform; (4) promotion of the reform; (5) building a national consensus for acceptance of the reform; (6) formal approval/passage of legislation, regulation, or policy; and, (7) implementation. For the purposes of this Project, the major actors in this process are NGO "think tanks", such as INCAE or Fundación Ecuador, sectoral "think tanks" such as CEPAR, other private sector institutions, and the GOE.

The table below lays out the three policy areas, problems and causes, objectives, interventions, implementation mechanisms, and end of project status. Linkages are evident especially under the project interventions and implementation mechanisms. Democratic strengthening efforts will complement other reform areas by addressing the process of political consensus through democratic procedures. Other relationships can be seen across the board, e.g., the relationship of microenterprise development to social sector reform, in general.

Policy → Area →	Social Policy Reform	←←Democratic→→ ←←Strengthening→→	Economic Policy Reform
Problem Cluster	Poor and disadvantaged not effectively benefitting from social programs in education, health, housing and other services	Inability to achieve political consensus on social and economic reform, inability to pass implementable legislation for social and economic development	Little success in microenterprise development, no comprehensive privatization program, qualified success in diversifying exports and in implementing free trade
Principal Causes	Inefficient, centralized GOE bureaucracies, vested interests, lack of private sector involvement, inappropriate focus on curative in the case of health and on university education in the case of education	Proliferated and problematic party system, political gridlock in congress, lack of consensus within GOE administration, too much focus on the written law and not enough on implementation	Laws on financial inst. which constrict SME development, lack of political will in implementing major privatization and resistance from vested interests, lack of knowledge of ATPA and NAFTA
Project Objective	Development and initial implementation of a coherent social policy reform agenda	Recognition of the problem by private sector, political parties, GOE, congress; general agreement on necessary reforms	Consolidation of the economic reform process and bringing it into line with more progressive Andean neighbor countries
Project Interventions	Analysis of social sectors, consciousness-raising, consensus building, promotion of reform, building national consensus, formal approval of reform	Initial analysis of democratic process, consciousness-raising, consensus building, promotion of reform, building national consensus	Analysis of progress in economic reform sectors, consciousness-raising, consensus building, promotion of reform, building national consensus, formal approval of reform
Implementation Mechanisms	-CA with INCAE -CA with Fundación Ecuador -Technical Assistance -Other Ecuadorian NGOs -Coordination w/RHUDO activities	-CA with INCAE -Technical Assistance -Coordination with FE -Coordination w/other NGOs	-CA with INCAE -CA with FE -Technical Assistance -Coordination w/other NGOs
End of Project Status	Development and initial implementation of a coherent social policy reform agenda	Agreement on necessary reforms and initial steps toward improvement in national approval of policies and/or legislation	-Implementation of specific reforms to benefit SME, consolidate privatization, and bringing Ecuador closer to qualifying NAFTA accession

A second table, below, illustrates ways in which Project activities, in order of priority, (social, democratic and economic reform) will be integrated as well as how institutions will coordinate, leading to improved implementation of reforms.

Illustrative Cooperation Between Project Components and Activities

Comp./Activity	INCAE	Fundación	Tech.Support
<i>Social Reforms</i>			
Assist in the establishment of social policy agenda	Networking with Frente Social and other policy makers, NGOs, etc.	Together w/INCAE conduct study on efficiency of social spending by GOE; seminars	Contract leading international experts to expand dialogue process
Social Security Reform	Seminar on alternative private sector approaches	Joint seminar with INCAE; advocacy	TA for actual implementation of reforms
<i>Democratic Strengthening</i>			
Achieve consensus on nature of problems	Conduct sessions with Congress, others	In coordination with INCAE, present message to private sector	Contract TA to review specific constitutional reforms
<i>Economic Modernization</i>			
Consciousness-raising education (general pop.)	Assist FE in developing long-term strategy and methodology	Implement strategy w/ INCAE advice; through media; special promotions	Mission provides TA to GOE to assist it in promotion of reform programs
Implement Privatization Program	Conducts case studies on international experience	Supports international speakers; studies; Advocacy	TA to CONAM; assistance for specific transactions

Linkages to Agency, Bureau and Mission Strategic Objectives and Program

The Overview of USAID's Strategy for Sustainable Development (March, 1994) states that "USAID will use **integrated approaches and methods**" and that "integration begins with policy." The Overview further states that "The fundamental building block of USAID's programs will be integrated country strategies. These strategies will take into account the totality of development problems confronting the society. They will be developed in close cooperation with the host governments, local communities, and other donors and will consider how social, economic, political and cultural factors combine to impede development." The Strategy of the Policy Dialogue and Implementation project to jointly address social, democratic and economic reform is exactly the integrated approach discussed in USAID's Strategy document. USAID's strategy for Encouraging Broad-Based Economic Growth stipulates **Investing in People** as an area of concentration: "USAID will support programs that address inadequate health services...education systems, especially primary education...and other related social services and institutions that facilitate broad-based participation..." Finally, in order to **Expand Access and Opportunity** for the less-advantaged, USAID's strategy prescribes not only helping to promote microenterprises and small businesses, but also "supporting social sector development intended to enhance the well-being of poor and disadvantaged peoples. The project is responsive to all of these Agency strategy mandates. As described above, the project's strategy is an integrated approach to social, democratic and economic policy reform. INCAE and Fundación Ecuador will include the private

sector, host country government, local communities and other donors in policy dialogue seminars and other project activities. With current project funding, leading international social policy experts are already providing technical assistance to the GOE and private sector, and other donors are being included in seminars. In fact, other donors have already contributed to funding the visits of such experts. As stipulated under **Expand Access and Opportunity for the less-advantaged** of USAID's strategy, Fundación Ecuador will simultaneously improve policy relating to microenterprise development and advocacy for social policy reform under the project.

The LAC Bureau's The Strategic Role of U.S. Assistance in the Americas emphasizes that the chief challenge for LAC governments in the 1990's will be "to tangibly demonstrate that they can meet popular demands for improved standards of living." Accordingly, the LAC Strategy outlines U.S. assistance in helping countries to decentralize, to redesign social investment policies in order to answer local needs and target the poor, and to reform social programs in education, family planning, health care and provision of infrastructure. The amended project activities fully support these LAC priorities, and further include a major municipal development/decentralization policy activity responding to one of the top priorities in the LAC document. In addition, the LAC Strategy, states that "USAID will view as priorities policy reform activities that promote equity, that build analysis and advocacy capability within civil society...." Through activities carried out by INCAE, and the Fundación Ecuador, and possibly other NGOs, the project will enable Ecuadorians (including representatives of less-advantaged groups) to analyze, advocate and implement policies that promote equity.

Lastly, the project is the primary vehicle for achieving the Mission's Strategic Objective No. 1 (SO 1), as stated in the 1995-96 Action Plan: Increase sustainable economic growth for a broad base of the population. In fact, SO 1 and its Program Outcome No. 1 (improved social and economic policies) are combined in the goal statement of the amended project (increase sustainable economic growth for a broad base of the population, through improved social, democratic and economic policies). Also, development and initial implementation of a social policy agenda is both an EOPS condition of this project and a Program Outcome indicator under SO 1.

Finally, the project is a consolidation and continuation of other projects in the Mission's program. As described above, the project will continue activities begun under PDS with INCAE and policy advocacy work with Fundación Ecuador. The Fundación's primary emphasis has already been shifted to social policy reform. The USAID Trade and Investment Project that previously supported the Fundación Ecuador is currently being phased-out and should be terminated by early FY 95. The Amended Project proposed herein will be the primary instrument for continuing USAID support to the Fundación Ecuador reflecting its emphasis on developing itself as an NGO "think tank" and policy advocacy group with emphasis on social and economic policy reform. Additionally, the project will support reform efforts underway in other projects. These efforts are more sector specific and include health reform under the Child Survival II project, and agricultural policy reform under the Agricultural Sector Reorientation project. Although efforts to reform agricultural policy will be continued by IDB and World Bank assistance to the Ministry of Agriculture, and possibly Fundación IDEA, INCAE and Fundación Ecuador will consider promoting agricultural policy reforms in their economic reform activities. The principal institutions involved in this amended project (INCAE and Fundación Ecuador) will coordinate closely with sectoral policy reform institutions, for example CEPAR in health and

Fundación IDEA in agriculture.

Project Components

As noted in the Strategy section, this Project Paper Amendment brings under its umbrella four distinct, but inter-related elements of the Mission's policy dialogue and reform strategy to promote social policy reform, strengthen democracy and support sustainable growth. These components, along with evaluations, audits and contingencies make up the total of \$7.4 million of dollar appropriated funding in the amendment. (LOP total is \$ 11.0 million). These funds will be provided during FY 1994 through FY 1998.

- (1) Cooperative Agreement with INCAE (Amendment funding of \$2.7 million). A new CA with INCAE will be executed by August 31, 1994. The CA will continue INCAE's proven methodology for promoting policy dialogue and analysis through networking, small workshops, and other consensus-building mechanisms for policy and opinion makers. The CA will expand INCAE's activities, beyond economic stabilization and economic policy reform, to social policy dialogue and reforms (assisting the GOE to prepare for a comprehensive policy dialogue and sectoral programs with international donors) and democratic strengthening (building consensus on the major constitutional and political issues affecting the economic and social reform process in the country). The order of priority for these activities will be social policy reform, democratic strengthening and continuing economic reform, with emphasis on expanding opportunities for the poor.
- (2) Cooperative Agreement with the Fundación Ecuador (Amendment funding of \$2.7 million). Funding under the Trade and Investment Project for the Fundación will terminate by the end of 1994. Accordingly, the Mission will sign a new Cooperative Agreement with the Fundación under the Policy Dialogue and Implementation Project. This new CA will run through September 30, 1998. The Fundación will continue its policy dialogue and advocacy agenda, which to date has focused on a number of key policy issues. The Fundación will dedicate major efforts to the social sectors, both in consciousness-raising/education of major issues and problems, as well as dialogue and advocacy of specific issues (e.g., social security, education reform, decentralization).
- (3) Technical Support (Life of Project Funding \$1.2 million). This component, to be managed by USAID/Ecuador, will provide direct assistance to the GOE or other entities (in coordination with other donors) in the implementation of policy-related initiatives. In the social sectors, technical assistance financed under this component may assist the GOE with implementation of education, social security, housing, and water policy reforms. To support economic policy reform, the Mission will continue to assist the GOE in strengthening its National Modernization Council (CONAM), as it has done so far by a separate technical assistance contract financed by other USAID projects. Short-term assistance may also be provided in areas such as education/training related to NAFTA accession and intellectual property rights agreement implementation. Implementing mechanisms will include buy-ins to USAID IQC contracts or execution of direct USAID contracts.

(4) *Training (Life of Project Funding \$500,000)*. Through a buy-in into the Mission's Training for Development Project (TDP), this project will provide long and short-term training to develop a cadre of Ecuadorian leaders in selected policy reform areas such as social policy formulation, international economics, microenterprise development, trade negotiations, NAFTA, and privatization among other areas.

(5) *Support for Local Non-Governmental Organizations*. (Currently Unfunded). Through the Project, assistance may be provided in the future to Non-Governmental Organizations (NGOs) that are promoting policy dialogue and reform in areas supporting sustainable growth. This could include organizations working in the strengthening of democracy, social sectors, agricultural and environmental policy, municipal development, and trade and investment-related policy reforms. Although this component is unfunded at this time, it is included to provide a strategic framework to the Project, ensuring that it will remain the Mission's comprehensive effort to promote sustainable growth policy reform, even if the policy dialogue agenda is modified in the future to include other NGOs .

As noted in the description of the Project's strategy, coordination of activities will be an integral element in Project implementation. INCAE/Fundación Ecuador coordination will be assured through annual Policy Action Plans which will specify exactly what and how the activities will be implemented through support policy reforms. Each institution will outline in these plans how its activities correspond to those of the other. In addition, INCAE and Fundación Ecuador will take into consideration the work of other USAID-supported institutions undertaking policy initiatives in relating areas (e.g., Fundación IDEA in agricultural policy reform, Fundación OIKOS in the case of environmental issues and CEPAR for health policy reform), including future activities financed under component Number Four, Support for Indigenous Organizations.

Activities under Component Three, Technical Support, will also complement and be coordinated with INCAE and Fundación Ecuador. For example, assistance may be provided under that component to assist the GOE in privatization transactions. This important reform area will be incorporated into INCAE seminars and Fundación Ecuador workshops (e.g., providing information/greater transparency to specific privatization actions).

Project Budget

The Policy Dialogue and Implementation Project (No. 518-0089) will be implemented over a period of approximately 4 years (PACD of 09/30/98), beginning September 1, 1994. The Project Amendment will have an LOP funding level of \$9.9 million, comprised of dollar appropriated funding totalling \$7.4 million (75 percent) and counterpart contributions of \$2.5 million (25 percent). The dollar appropriated obligations schedule provides for \$1.2 million in FY 94, \$1.6 million in FY 95, \$1.8 million in FY 96, \$1.6 million in FY 97, and \$1.2 million in FY 98. Prior to FY 94, \$3.6 million had been obligated under the original Policy Dialogue Support project, therefore the dollar appropriated total of the amended project is \$11.0 million.

A summary budget in thousands of U.S. dollars, including cash disbursements by recipients and counterpart in-kind contributions, is as follows:

POLICY DIALOGUE AND IMPLEMENTATION AMENDMENT SUMMARY BUDGET (U.S. \$000)

	USAID	COUNTERPART	TOTAL
INCAE CA.	2,700	900	3,600
FE CA	2,700 *	900	3,600
TECH. SUPPORT	1,200	400	1,600
TRAINING	500	170	670
EVALUATIONS	100	33	133
AUDIT	30	10	40
CONTINGENCIES	170	87	257
T O T A L	7,400	2,500	9,900

* includes \$200,000 contingencies

II. PROJECT AMENDMENT BACKGROUND AND RATIONALE

A. Background

1. *The Economic and Socio-Political Environment*

In the recent past, Ecuador's exports have been mostly dependent on a few products: bananas, shrimp and petroleum-with bananas and shrimp (included in a broad definition of agriculture) ranging between 40%-45%, and oil exports usually between 40%-45%. The remainder of exports are minor traditional exports (coffee and cocoa) non-traditional agricultural exports (largely flowers) and manufactured goods. Oil is clearly the single largest export product, and both GDP and exports are significantly affected by the ups and downs of international oil prices. During the 1980s, Ecuador experienced a sharp economic decline due to falling international oil prices and the economy's dependence on petroleum as a source of public revenues and foreign exchange. Total exports actually declined in real terms -- from \$2.5 billion in 1980 to \$2.0 billion in 1989 (the year in which the GDP rate of growth for oil fell by 9.7%). GDP grew at a modest 2.1 percent, less than the population growth rate of 2.9 percent. The 1992 per capita income of \$1,100 was nearly 40 percent lower than it had been in 1980, less than half of the World Bank's estimate of the \$2,130 per capita average for Latin America and the Caribbean. For the majority of Ecuadorians, the economic downturn resulted in increased poverty. Wages, for example, decreased by 60 percent.

Although, oil is the most important single product in terms of exports and the GOE's budget, the sectoral origin of GDP paints a different picture. Agriculture averages in the upper-teens (18% in 1992) as does manufacturing (averaging 18%). Petroleum and mining, fluctuates more-sometimes as high as 19% (1979 and 1982) and other times as low as 7% (1987). Services (including tourism, commerce and government) averages over 50%. As a sectoral share of the labor force, agriculture has averaged 35% in recent years (36% in 1992), with commerce and services together also averaging around 35%. Industry averages about 11%-13%. Other sectors each are at less than 5%, with petroleum at 1% to 2%. Income distribution seems to be one of the worst in Latin America. While data collection is not consistent, the percentage share of national household income received by the poorest 40% of households seems to run at less than half the rate for Ecuador as for other lower middle income countries (5% vs. 13% for Colombia and Peru and 14% for Guatemala and Jamaica). On the other hand the percentage of national household income received by the richest 20% of households is around 70% for Ecuador and 50% for the other countries mentioned.

As noted in the USAID/Ecuador FYs 95-96 Action Plan, the prevalence of poverty in Ecuador is revealed in a number of studies, but all estimate that between 50 and 60 percent of the population falls under the poverty line. One USAID study estimated that 20 to 25 percent of Ecuadorians live in "critical poverty" (without enough income to purchase even a minimally nutritious diet), and that another 20 to 35 percent are in "relative poverty" with income for basic food, but not enough to meet other basic necessities (Whitaker 1990). Another major study (UNICEF 1993) has concluded that approximately 40 percent of the population had a per capita income of \$508 in 1990. This is roughly comparable with low income African countries. Without a current comprehensive poverty study (one will be undertaken by the World Bank this year) it is difficult to pinpoint the urban/rural composition of poverty. Presumably, the poor are mostly rural and earn their income from agriculture. However,

approximately 56% of the population is considered to be urban which may indicate that poverty is widespread, even though it is concentrated in rural, agricultural areas.

a. Economic Reforms

Beginning with the second half of the Borja administration, and particularly during the current administration of Sixto Durán Ballén (which took office in 1992), the Government of Ecuador (GOE) has taken important measures to put the country's economy back on track. The Durán Ballén administration significantly reduced costly and inefficient subsidies for petroleum products, as well as for ineffective government programs. The most important accomplishments of the Government have included: slashing the consolidated public sector deficit to less than one percent of the GDP for 1993; reducing a bloated public payroll by 20,000 employees; cutting inflation by half, from 62 percent in 1992, to approximately 31 percent in 1993; increasing the merchandise trade surplus, which through the third quarter of 1993 increased to \$666 million; and, increasing international reserves to \$1.25 billion. In addition, the GOE took steps that will serve to enhance its standing among the international economic community, including settling of a long-standing investment dispute and an acceleration of Ecuador's international debt negotiations. More recently, the GOE weathered a serious political challenge after it increased gasoline prices 71 percent to meet fallen revenues (after the Congress rejected a proposed hike of the value added tax). The Administration's actions paved the way for the International Monetary Fund's approval, in May 1994, of a stand-by credit for Ecuador equivalent to \$184 million to support the GOE's economic program through March 1996. Another very positive recent development was that the GOE, after many years of stalemated negotiations, was able to reach a Brady plan-type agreement with U.S. commercial banks.

On the other hand, anti-inflationary and stabilization measures produced a meek 1.7 percent growth rate for 1993 and contributed to an increase in unemployment and underemployment estimated at 12 percent and 50 percent, respectively. Anti-inflationary measures also produced a 15 percent real increase in the value of the *sucre*, which as of January 1994 was estimated to be overvalued by approximately 25 percent. This over valuation of the currency acts as a significant disincentive to further increase the growth of nontraditional exports, which had been increasing at annual growth rates of 15 to 50 percent during the last three years.

There is an appreciation that the traditional products are no longer able to carry the economy, given restrictions on banana imports by the EEC, rising competition from other countries in shrimp production and stagnant petroleum and declining oil reserves. Growth in nontraditional exports comprised by mostly tourism, industry and non-traditional agricultural exports (i.e. exports except petroleum, shrimp, cocoa, bananas, and coffee) have witnessed significant increases in recent years, climbing from \$174 million in 1985 to \$400 million in 1993. Still, they represent only 14 percent of overall exports. Likewise, foreign investment, badly needed to generate the productive capacity that domestic savings and investment cannot alone provide, has only increased from \$62 million in 1985 to \$100 million in 1993. The Inter-American Development Bank (IDB), the World Bank, and other international lending agencies, as well as USAID, recognize that without a major restructuring/liberalization of the economy which significantly increases Ecuador's trade in the world economy, Ecuador's economic and social future looks bleak, and future growth will not permit the

acceleration of social and equity enhancement programs that the country requires.

The current administration began its term with much promise for redefining the role of the state in the country's economic and social affairs and undertaking market-oriented reforms. It has taken several important steps in this direction. It liberalized the economy considerably, opening it to international trade by consolidating free trade agreements with Venezuela, Colombia, and Bolivia (where it argued for lower common external tariffs). The GOE recently signed with the U.S. an Intellectual Property Rights (IPR) agreement and a Bilateral Investment Treaty. It has also passed a number of reform-minded laws in the areas of tariff, capital markets, monetary and financial regimes, and also, although greatly watered-down by the Congress, a major law governing privatization and modernization of the state.

Due to divisions within the Government and considerable political opposition, however, the government has been less successful than hoped in promoting higher levels of sustainable economic growth and in carrying further reforms. Several of its reform initiatives, such as the Modernization (privatization) law, have been damaged by political opposition in Congress. Nevertheless, the GOE recently appointed prominent, effective private sector leaders to the positions of President and Executive Director of CONAM, and the privatization process is moving forward. Other significant measures such as social security reform and decentralization efforts face an uncertain future at this moment. Also, despite positive signs such as substantial increases in non-traditional agricultural exports, Ecuador is not fully utilizing existing trade arrangements, such as the Andean Trade Preference Act (ATPA). High level meetings between the GOE, private sector and USTR officials have revealed a lack of knowledge of NAFTA provisions and benefits which contrast markedly with progress towards NAFTA demonstrated by other South American countries. Finally, the relevancy of GOE economic policies to providing opportunities to the poor and to promoting broad-based development is not clear. For example, there are a number of policies, which work against the growth of microenterprises, including the financial institutions law which limits savings mobilization and several regulations which inhibit the formation of associations by poor, indigenous groups.

b. Reform in the Context of Current Political Development

The less-than-successful reform programs by successive GOE democratic governments transcend the individual predicaments of any one administration. Much of the problem can be attributed to the socio-political environment in which the economic and social reform process takes place. Ecuador today remains politically, socially, and economically fractionalized. On the political side, a large number of small parties fostering narrow ideologies and interests compete in elections at the expense of national consensus on major political and economic issues. For example, fifteen parties participated in the 1992 Congressional elections, of which twelve received representation in the Congress. Since 1978, no party has accounted for more than 31 percent of seats in the Congress. The majority party has held an average of 19 to 25 percent of the seats during that time. Beyond the number of parties, all are institutionally weak and party loyalty is rare; common practice involves the trading of votes for support on other narrow issues that benefits the legislators (not necessarily their constituents).

Governments in Ecuador are inherently weakened under such an environment. It is easier to destroy or attack government programs in the Congress than to build a consensus on necessary reforms. **To the extent that a consensus emerges, it is usually the lowest common denominator between competing ideas, i.e., "reforms" that ensure that entrenched interests on the right and the left are not significantly threatened.** This is specially the case when parliamentary rules facilitate the status quo. For example, current rules permit the Congress to use the interpellation process to regularly threaten Government Ministers with impeachment or other forms of legal action, thus protecting entrenched interests or getting stuck in political "gridlock". Likewise, the constant formation of party blocs on any one issue permits small minority parties to exert significant influence in the legislative and economic reform process. **In this environment, it becomes extremely difficult, and at times impossible, for Ecuadorian governments to sustain an economic/social reform agenda.** This is further complicated by another serious obstacle affecting social and economic reform--the statist, paternalistic, and highly centralized institutional setting that has characterized Ecuadorian society and perpetuated poverty for decades.

The resulting frustrations not only threaten the process of economic and social reform, but the democratic process as well. Simply put by many Ecuadorians, the slow progress in implementing concrete actions that promote economic growth and alleviate poverty increases the attractiveness of non-democratic solutions for addressing the major issues facing the country.

c. Status of Social Sector Development in Ecuador

Social sector development is such that approximately 55 percent of the Ecuadorian population is considered to be below the poverty line in terms of income, while 25 percent of the population lacks basic needs-in housing, education and health. Such poverty is perpetuated by the GOE's misdirected policies and poor administration of social sector programs. Health, education, housing, and other social programs are inefficiently and unevenly administered by the Central government. According to analyses by the National Statistical Institute (INEC), some areas receive barely 1 percent coverage of what is considered to be basic social services, while other areas benefit from as much as 83 percent coverage. Further, in a cross-territorial analysis of coverage in potable water, sewerage, health, housing and education, INEC found that public expenditures in some areas of the country are three to four times higher than in other areas. According to a recent World Bank report, existing social programs often do not reach the poor. Only about one-third of the population is reached by public health programs, one-half is not covered by public or private health services, one-fourth of the population lacks access to potable water, and one-third lacks household sanitation. The problem is not simply one of inadequate resources being devoted to social programs. Equally damaging are the inefficient ways that resources are used, with little targeting to ensure that social programs indeed reach the poor.

This dire situation is caused by a number of factors: inefficient and wasteful centralized administration, lack of targeting benefits at the poor, lack of involvement of private voluntary organizations and other private entities in social program delivery, and the absence of policies or norms for social programs. While economic reforms move forward and begin to show results, reforms in the social arena are haphazard, lack coherency and vary from sector to sector. Sustainable economic growth is impossible without social development for the broad base of the population. Economic reform

may be possible on a piece-meal basis in the short-term, i.e. stabilization, privatization, removal of trade restrictions, capital markets development can be achieved separately and show results as long as there continues to be forward movement. The problems in making social reform, however, are systemic. The factors mentioned above are characteristic of all of the social sectors.

International donors are ready to assist Ecuador in making economic reform with large amounts of resources and in the donor community, with a renewed emphasis on the importance of social reform. What is missing is a coherent strategy to address the systemic problems which afflict social development. Without such a GOE strategy, the effectiveness of donor assistance will be undermined.

B. Rationale for Project Amendment

The five reasons for the appropriateness of amending the project are stated above, in the Executive Summary. In addition, **the basic rationale for the project is to address the problems in formulating and implementing social, democratic and economic policy discussed in the Background section in a comprehensive way.** The problems and causes for the problems are summarized in the chart in the Executive Summary. Succinctly put, the problems are that: social programs are not reaching the poor; the democratic process in Ecuador impedes the timely and effective formulation, issuance and implementation of policy; and economic reforms are incomplete-they are holding Ecuador back from participating in the growing world economy and from more fully providing opportunities to the poor.

The causes of the problems are briefly as follows (also as reflected in the chart in the Executive Summary: Social-Inefficient centralized GOE bureaucracies, vested interests, lack of private sector involvement, and lack of targeting; democratic-lack of confidence in the party system, political gridlock in congress, lack of consensus within the GOE administration, and too much emphasis on the written law and not enough on policy implementation; and economic-lack of commitment in moving forward with privatization, lack of knowledge of NAFTA and other free trade arrangements, a legal framework which impedes both participation by microenterprises and movement of business activities from the informal to the formal sectors. These causes are all interrelated.

As described in other sections, the project takes a comprehensive, integrated approach of addressing the social, democratic and economic problems, because the causes for such problems are interrelated. It is the political party system which impedes all types of reform, whether targeting of social programs or privatization. The same concentration of social programs in major urban areas and centralized decision-making affects education, health delivery, as well as microenterprise programs.

III. PROJECT DESCRIPTION AND STRATEGY

A. Goal and Purpose of the Project

The name of the project is being modified from *Policy Dialogue Support* to *Policy Dialogue and Implementation* to reflect the approach of the amended project of managing policy reform as a *comprehensive process* leading to actual implementation of policy reforms. The original project goal was to improve income distribution and productive employment opportunities through broad, based, self-sustaining growth. The goal of the redesigned project is being rephrased to as follows: *to increase sustainable economic growth for a broad base of the population, through improved social, democratic and economic policies*. The purpose of the original project was to establish a process and a mechanism of informed macroeconomic policy dialogue and discussion, based on the implications and advantages of outward and market-oriented policy reform in the medium to long term. That purpose remains essentially the same, except that, in the amended project, greater emphasis will be placed on a more complete and sequential dialogue process for both economic and related social and democratic reforms. Social reform is being included because the international donor community has concluded that sustainable economic development benefitting a broad base of the population is more likely to occur when social, democratic and economic reforms are accomplished together. This seems to be true of recent experience under Ecuador's Durán Ballén administration: what has been lacking in achieving sustainable development in Ecuador has been the absence of effective social investment. Therefore, the purpose of the project is rephrased as follows: *to strengthen the Ecuadorian capacity to formulate and implement improved social, democratic and economic policy reforms*.

End of Project Status

End-of-Project conditions which, when evaluated qualitatively, will indicate that the project has been successful in achieving its purpose will be centered on social, democratic and economic policy reforms, as follows:

Social Policy Reform: Development and initial implementation of a coherent social policy reform agenda including in education, health, nutrition, social security, municipal development and decentralization. Five of the elements to be applied in the agenda are:

- Targeting of government subsidies and expenditures on the poor;
- Cost recovery and greater efficiency in the application of social sector expenditures;
- Rationalizing the respective roles of the public and private sectors, with the public sector practicing a more normative role;
- Decentralization of the administration and provision of social services; and,

-Privatization, i.e. increased reliance on private for-profit and not-for profit entities for the delivery of services.

Democratic Reform: Achievement of Ecuadorian consensus on measures and strategy for strengthening democratic processes, in order to address the political fractionalization which has impeded progress in social and economic development.

Economic Reform: Achievement of significant progress in implementing major privatization, and in preparing Ecuador's policy and legal framework for accession to NAFTA or other hemispheric open trade arrangements. Special emphasis will be placed on the achievement of policy and institutional reforms to benefit the formation and growth of microenterprises, such as legal reform to permit savings mobilization.

B. Beneficiaries and Target Group

Accomplishment of Project outputs leading to a better policy reform environment in both economic and social sectors will benefit the Ecuadorian population in general. As noted above, Ecuador faces a tremendous economic challenge as it approaches the twenty first century. Without a renewed economic base, and without efficient use of Ecuador's limited resources (including those destined for social programs), subsequent governments will be unable to generate the employment or tackle the many social ills facing the country. In terms of beneficiaries, emphasis will be placed in creating an "enabling environment" for a modern democratic state and a healthy growing economy, with benefits widely distributed. In addition, the Project's social sector policy agenda will set the stage for the efficient delivery of social services to the poor and that large segment of the Ecuadorian population which currently does not receive those benefits.

C. Project Strategy

The strategy of this Amended Project will continue USAID efforts to help Ecuador accelerate and deepen its social, democratic and economic reform process so as to better prepare the country to meet the challenges of the 21st Century. This will be achieved by continuing efforts to develop and support private sector "think tanks" and advocacy groups that can raise Ecuadorian consciousness on the need for policy reform and then lobby for accelerated implementation of key reforms. The Project is based on a strategy whereby NGO "think tanks" such as INCAE, Fundación Ecuador and other similar groups better orient and educate Ecuadorian private sector and public leaders on the need for reforms and then help support their quick adoption and implementation. Complementary technical assistance and training resources are also provided to help the public sector especially the Modernization Commission (CONAM) and other ministries and agencies better and more rapidly respond to these private sector advocacy groups. The strategy of this project is directly tied to the strategy of the program presented in the FY 95-96 Action Plan, i.e., by working with local NGOs and other donors together. The Mission emphasizes local participation in the development process by supporting non-governmental groups. Through a combination of activities (service delivery, policy analysis and

advocacy, training, workshops, seminars, publications) Mission-assisted NGOs are playing lead roles, raising public awareness and stimulating debate, advocating reform, promoting policies for sustainable development and providing services to unserved populations. In turn, these pioneering efforts prepare the groundwork and increase absorptive capacity so that other donors can more quickly develop and implement their larger programs.

Over the past 15 years, USAID has been unique among donors in Ecuador in helping to develop and strengthen NGO policy advocacy groups that better address critical Ecuadorian development problems. The USAID supported Centro de Estudios de Población (CEPAR) has successfully lobbied for a National Population Policy and improved family planning programs. The Fundación NATURA has raised consciousness and better educated the Ecuadorian public on the country's growing environmental problems and measures needed to address them. The Fundación IDEA has pioneered proposals for reforming and modernizing the agricultural sector. During the period 1990-94, INCAE and Fundación Ecuador with USAID support have helped accelerate the formulation and implementation of historic GOE economic stabilization and structural reforms. And the USAID assisted NGO Corporación Latinoamericana de Desarrollo (CLD) is playing a similar role advocating judicial reforms and other actions to improve the administration of justice. The Amended Project proposed herein will continue to support this highly successfully USAID strategy carefully targeted at key NGOs that have a proven track record in helping Ecuador bring about the adoption and implementation of urgently needed reforms.

The Amend Project will also bring together under one umbrella a number of the discrete but linked activities that will give clearer focus to the Mission's efforts to enhance the environment for social, democratic and economic policy reform. The Project will also ensure that the strengths of the whole are greater than the sum of the individual components by combining INCAE's proven methodology for promoting policy dialogue; the Fundación Ecuador's access to government and private sector leaders and its nascent abilities to reach to other sectors of Ecuadorian society. These activities will be complemented further by targeted technical assistance to selected GOE agencies to implement its reform activities such as social sector reforms, privatization, modernization of the state and reforms that improve the macroeconomic policy matrix. Individual Project components will come together to ensure that all facets of the policy reform process are covered: from reaching consensus on the definition of the problem and alternative solutions through dialogue, to advocacy of specific reforms, to technical assistance to ensure that reforms are implemented efficiently.

The underlying premise of the Project is that policy reform is, in varying degrees, a sequential *process* consisting of: (1) initial analysis of problems and needed reforms to address them; (2) consciousness-raising with target or influential groups; (3) consensus-building on options for reforms and drafting of the reform; (4) promotion of the reform; (5) building a national consensus for acceptance of the reform; (6) formal approval/passage of legislation, regulation, or policy; and, (7) implementation. For the purposes of this Project, the major actors in this process are NGO "think tanks", such as INCAE or Fundación Ecuador, sectoral "think tanks" such as CEPAR, other private sector institutions, and the GOE.

The table below lays out the three policy areas, problems and causes, objectives, interventions, implementation mechanisms, and end of project status. Linkages are evident especially under the project interventions and implementation mechanisms. Democratic strengthening efforts will complement other reform areas by addressing the process of political consensus through democratic procedures. Other relationships can be seen across the board, e.g. the relationship of microenterprise development to social sector reform, in general.

Policy → Area →	Social Policy Reform	←←Democratic→→ ←←Strengthening→→	Economic Policy Reform
Problem Cluster	Poor and disadvantaged not effectively benefitting from social programs in education, health, housing and other services	Inability to achieve political consensus on social and economic reform, inability to pass implementable legislation for social and economic development	Little success in microenterprise development, no comprehensive privatization program, qualified success in diversifying exports and in implementing free trade
Principal Causes	Inefficient, centralized GOE bureaucracies, vested interests, lack of private sector involvement, inappropriate focus on curative in the case of health and on university education in the case of education	Proliferated and problematic party system, political gridlock in congress, lack of consensus within GOE administration, too much focus on the written law and not enough on implementation	Laws on financial inst. which constrict SME development, lack of political will in implementing major privatization and resistance from vested interests, lack of knowledge of ATPA and NAFTA
Project Objective	Development and initial implementation of a coherent social policy reform agenda	Recognition of the problem by private sector, political parties, GOE, congress; general agreement on necessary reforms	Consolidation of the economic reform process and bringing it into line with more progressive Andean neighbor countries
Project Interventions	Analysis of social sectors, consciousness-raising, consensus building, promotion of reform, building national consensus, formal approval of reform	Initial analysis of democratic process, consciousness-raising, consensus building, promotion of reform, building national consensus	Analysis of progress in economic reform sectors, consciousness-raising, consensus building, promotion of reform, building national consensus, formal approval of reform
Implementation Mechanisms	-CA with INCAE -CA with Fundación Ecuador -Technical Assistance -Other Ecuadorian NGOs -Coordination w/RHUDO activities	-CA with INCAE -Technical Assistance -Coordination with FE -Coordination w/other NGOs, including CLD	-CA with INCAE -CA with FE -Technical Assistance -Coordination w/other NGOs
End of Project Status	Development and initial implementation of a coherent social policy reform agenda	Agreement on necessary reforms and some evidence of and initial steps towards improvements in national approval of policies and/or legislation	-Implementation of specific reforms to benefit SME, consolidate privatization, and bringing Ecuador closer to qualifying NAFTA accession

D. Relationship of Project to Other Donor Assistance

USAID policy reform activities in Ecuador have already been successful in mobilizing other donor resources in Ecuador. For example, based on USAID-provided technical assistance to the Superintendency of Companies, the IDB will provide additional assistance to the GOE for restructuring the Ecuadorian stock market. In addition, USAID's pivotal role in making progress with CONAM and technical assistance to carry out model privatization transactions will lead to IDB and World Bank support for major privatization in telecommunications, ports, transportation and other sectors.

In social sector policy reform, USAID is playing the same catalytic role it played in privatization and capital market development. The World Bank and IDB is utilizing the same social policy experts, whom USAID is introducing to Ecuador. It is likely that USAID assistance will provide the initial expertise to build consensus and set policy agendas. Other donor assistance will provide the major resources necessary for implementing the reforms once they are agreed upon. This is already occurring in the health sector, where the World Bank's FASBASE project can provide the large resources for implementing the reforms which USAID assistance is helping to put into place. Since the major international donors are increasing emphasis on social sector development (50% of all future assistance from IDB will be for the social sector), it is probable that USAID's initial efforts in education reform will be followed by other donor assistance.

Given that the poor in Ecuador are mostly rural and earn their incomes from agriculture, agricultural policy reform is extremely important. As in other areas, USAID played a catalytic role which is now leading to major assistance from the IDB and World Bank. Through the Agricultural Sector Reorientation Project (authorized July, 1985), USAID assistance established an effective policy analysis capability both in the Ministry of Agriculture and in the Fundación IDEA. The MAG Policy Analysis Division and IDEA have together addressed policies related to the functioning of land markets, price liberalization, eliminating non-tariff barriers to open up the economy, and activities to increase knowledge and public awareness of economic and trade issues. The World Bank and IDB are both preparing projects to continue such activities with major assistance. USAID assumes that such efforts will benefit the rural poor and will complement USAID efforts to reform social service delivery to that beneficiary group.

In summary, USAID strategy inherent in all of efforts described above has been too mobilize major donor resources through well targeted assistance directed at policy reform in key areas. To date this strategy has been successful and appears hopeful in social sector reform.

E. Project Description

As noted in the Strategy section, the Project Amendment brings under its umbrella four distinct, but inter-related elements of the Mission's policy dialogue and reform strategy to promote social policy reform, strengthen democracy and support sustainable growth. These components, along with evaluations, audits and contingencies make up the total of \$7.4 million of dollar

appropriated funding in the amendment. (LOP total is \$ 11.0 million).

- (1) Cooperative Agreement with INCAE (Additional funding of \$2.7 million, for a total LOP of \$6.1 million). The current Cooperative Agreement (CA) with INCAE, terminates in September 1995 and will be followed by a new CA to be executed by August 31, 1994. The CA will continue INCAE's proven methodology for promoting policy dialogue and analysis through networking, small workshops, and other consensus-building mechanisms for policy and opinion makers. The CA will expand INCAE's activities, beyond economic stabilization and economic policy reform, to social policy dialogue and reforms (assisting the GOE to prepare for a comprehensive policy dialogue and sectoral programs with international donors) and democratic strengthening (building consensus on the major constitutional and political issues affecting the economic and social reform process in the country). The order of priority for these activities will be social policy reform, democratic strengthening and continuing economic reform, with emphasis on expanding opportunities for the poor.
- (2) Cooperative Agreement with the Fundación Ecuador (Funding of \$2.7 million under new CA). Funding under the Trade and Investment Project for the Fundación will terminate by the end of 1994. Accordingly, the Mission will sign a new Cooperative Agreement Amendment with the Fundación under the Policy Dialogue and Implementation Project. This new CA will run through September 30, 1998. The Fundación will continue its policy dialogue and advocacy agenda, which to date has focused on a number of key policy issues. The Fundación will dedicate major efforts to the social sectors, both in consciousness-raising/education of major issues and problems, as well as dialogue and advocacy of specific issues (e.g., social security, education reform, decentralization).
- (3) Technical Support (Life of Project Funding \$1.2 million). This component, to be managed by USAID/Ecuador, will provide direct assistance to the GOE or other entities (in coordination with other donors) in the implementation of policy-related initiatives. In the social sectors, technical assistance financed under this component may assist the GOE with implementation of education, social security, housing, and other reforms. To support economic policy reform, the Mission will continue to assist the GOE in strengthening its National Modernization Council (CONAM), as it has done so far by a separate technical assistance contract financed by other USAID projects. Short-term assistance may also be provided in areas such as education/training related to NAFTA accession and intellectual property rights agreement implementation. Implementing mechanisms will include buy-ins to USAID IQC contracts or execution of direct USAID contracts.
- (4) Training (Life of Project Funding \$500,000). Through a buy-in into the Mission's Training for Development Project (TDP), this project will provide long and short-term training to develop a cadre of Ecuadorian leaders in certain policy reform areas such as

social policy formulation, labor economics, microenterprise development, trade relations, NAFTA, and privatization among other areas.

(5) *Support for Local Non-Governmental Organizations*. (Currently Unfunded). Through the Project, assistance may be provided in the future to Non-Governmental Organizations (NGOs) that are promoting policy dialogue and reform in areas supporting sustainable growth. This could include organizations working in the strengthening of democracy, social sectors, agricultural and environmental policy, municipal development, and trade and investment-related policy reforms. Although this component is unfunded at this time, it is included to provide a strategic framework to the Project, ensuring that it will remain the Mission's comprehensive effort to promote sustainable growth policy reform, even if the policy dialogue agenda is modified in the future to include other NGOs .

As noted in the description of the Project's strategy, coordination of activities will be an integral element in Project implementation. INCAE/Fundación Ecuador coordination will be assured through annual Policy Action Plans which will specify exactly what and how the activities will be implemented through support policy reforms. Each institution will outline in these plans how its activities correspond to those of the other. In addition, INCAE and Fundación Ecuador will take into consideration the work of other USAID-supported institutions undertaking policy initiatives in relating areas (e.g., Fundación IDEA in agricultural policy reform, Fundación OIKOS in the case of environmental issues and CEPAR for health policy reform), including future activities financed under component Number Four, Support for Indigenous Organizations.

Activities under Component Three, Technical Support, will also complement and be coordinated with INCAE and Fundación Ecuador. For example, assistance may be provided under that component to assist the GOE in privatization transactions. This important reform area will be incorporated into INCAE seminars and Fundación Ecuador workshops (e.g., providing information/greater transparency to specific privatization actions).

The following table is illustrative of ways in which the first three Project components and activities will be mutually reinforcing.

Illustrative Cooperation Between Project Components and Activities

Comp./Activity	INCAE	Fundación	Tech.Support
<i>Social Reforms</i>			
Assist in the establishment of social policy agenda	Networking with Frente Social and other policy makers, NGOs, etc.	Together w/INCAE conduct study on efficiency of social spending by GOE; seminars	Contract leading international experts to expand dialogue process
Social Security Reform	Seminar on alternative private sector approaches	Joint seminar with INCAE; advocacy	TA for actual implementation of reforms
<i>Democratic Strengthening</i>			
Achieve consensus on nature of problems	Conduct sessions with Congress, others	In coordination with INCAE, present message to private sector	Contract TA to review specific constitutional reforms
<i>Economic Modernization</i>			
Consciousness-raising (general pop.)	Assist FE in developing long-term strategy and methodology	Implement strategy w/ INCAE advice; through media; special promotions	Mission provides TA to GOE to assist it in promotion of reform programs
Implement Privatization Program	Conducts case studies on international experience	Supports international speakers; studies; Advocacy	TA to CONAM; assistance for specific transactions

1. Cooperative Agreement with INCAE

The Cooperative Agreement represents the second phase of Mission efforts to utilize INCAE's experience and skills in promoting effective inter-sectorial dialogues to build consensus on major economic and, now, social reform issues. Through its Center for the Policy Analysis and Sustainable Development, INCAE has developed a unique methodology over the years for bringing together politically and socially diverse groups, and through small "networking" meetings, workshops, and conferences, for generating dialogue and an understanding of major economic policy issues. Proven in the extremely sensitive political environments such as El Salvador and Nicaragua (where INCAE has brought together individuals from all sides of the political spectrum), this methodology has also been successful in the Ecuadorian context over the last three years.

Without dictating what "appropriate" policies may be, the exchanges and participatory case study methodology conducted by INCAE is geared to generating a participatory definition of development obstacles and to forging a consensus on the need for market-oriented, democratic solutions to these problems. Although the exact format depends on a number of variables (e.g., the type of policy issue being addressed, the leading players, the degree of consensus that exists), the participatory methodology, in general terms, consists of the following:

- A diagnostic study is prepared by INCAE, identifying the major issues and groups that play and could potentially play a role in policy reform(s) or which are affected by them. These groups, whether key members of the executive branch, the congress, labor unions, or community and/or regional groups, are invited to participate in subsequent workshops.
- INCAE holds “networking” sessions with individual groups of approximately 15 persons (e.g., a session with labor leaders, a different session with policy makers at the level of the Executive). These sessions, include a presentation of diagnostic findings, articulation of the major issues and problems, and a discussion on the international experience (i.e., how different countries have addressed the problem).
- Seminars are then held that bring together the major groups that participated in individual networking sessions. Approximately 40 individuals participate in these sessions. Typically, one session is dedicated to a review of the issues and problems and case studies, and is led by an INCAE professor. In another session, all participants are divided into small groups which attempt to formulate solutions to the problems identified. At a minimum, consensus will be reached on the nature and the causes of the problems. Ideally, there will consensus on locally-generated policy solutions. Policy makers are at this point in a better position to move forward on the actual drafting of laws and regulations and to advocate specific reforms.

Depending on each case, INCAE complements these dialogue-oriented workshops with short term (2-3 days) training seminars where more specialized instruction may be necessary to understand the problem (e.g., issues related to the measurement of the fiscal deficit) and longer-term training (2-3 weeks) in cases where the issues may be more complex (e.g., the process of democratic reform). These longer term workshops are often undertaken with international organizations or top U.S. universities. Most of the broad thematic areas that INCAE covers are also addressed through a major conference conducted by leading international expert(s) in the specific field. Follow-up to the conference includes exchanges between these experts and GOE policy makers.

INCAE’s efforts to date (through a grant financed under the Policy Dialogue Support Project) focused on macroeconomic and economic stabilization issues. INCAE’s work in this area is generally credited, Government and GOE officials, and representatives of Ecuador’s private sector, with contributing to greater consensus and understanding of major economic issues affecting the country. Its work to date, according to evaluation findings, has also increased its prestige as a neutral, highly qualified policy dialogue interlocutor.

Through this grant, INCAE’s policy dialogue agenda will be expanded to focus on three key areas of significant importance to Ecuador’s future, all of which support USAID’s new directions as outlined in the *Strategies for Sustainable Development*. These include continued efforts to develop a social policy agenda; strengthen democracy, and promote sustainable economic growth and modernization of the state;

A broader (yet more focused agenda in terms of how INCAE will select subjects and coordinate interventions with other USAID-financed organizations) will also require an expansion of INCAE's participants by including more political and social policy and opinion makers (Congress, labor groups, the military, the press, regional and community groups, NGOs) than was possibly required when the emphasis was on economic stabilization.

a. **Developing a Social Policy Agenda and Decentralization**

There will be two activities under this sub-component: the first will concentrate on actually developing the agenda; the second will be focussed on policy issues related to decentralization and municipal development.

(1) **Social Policy Agenda**

Although themes like "reducing poverty" or public works programs such as the Fondo de Inversión Social Ecuatoriano (FISE) are often cited as an agenda or social "policy," there is in fact no consensus in Ecuador about what a social policy should be, what it entails, nor do the mechanisms currently exist to generate a reform agenda. While the *Frente Económico* (a sub-cabinet composed of the Ministries of Agriculture, Commerce and Industry, and Finance, and the Central Bank) plays a major role in economic policy, the *Frente Social* (Ministers of Public Health, Education, Labor) does not operate as a cohesive body. Over 15 "social funds" provide some form of social services with little coordination.

The fundamental problem facing Ecuador's social services delivery systems is that growing fiscal constraints will put increasingly greater burdens on what are already thin social programs. These programs, in turn, are not adequately targeted and do not, therefore, reach the poorest and most disadvantaged groups in society. There is growing recognition by the GOE, the private sector, and international donors that this problem could put considerable pressure on Ecuador's social and political fabric. To address this issue, the major international donors (World Bank, IDB) are contemplating major social sector programs over the next five years. Yet, due to the lack of consensus and understanding of the issues involved, Ecuador is ill-prepared to engage in a meaningful dialogue that will result in comprehensive social programs by these donors.

Under the Cooperative Agreement, INCAE will use its dialogue/consensus-building methodology, in coordination with other USAID funded efforts (again, the Fundación Ecuador, but also NGOs and technical assistance under the Mission's Child Survival II and other Mission projects) to generate a better understanding of social service delivery. The key points to be addressed are a better understanding of the effectiveness (or lack of it) of current programs; prioritization of interventions; how to deliver social services to the poor with limited resources (e.g., effective targeting); and the role of the state (and other sectors such as private enterprise, NGOs, community organizations and universities) in the delivery of social services. INCAE will work with members of the *Frente Social*, as well as all other institutions and groups involved in social service delivery to reach this consensus. INCAE will also provide direct technical assistance in areas such as strategic planning and administration to social sector institutions implementing reforms.

Among the first activities to be undertaken under the amended Project will be a joint study with the Fundación Ecuador on the effectiveness of social programs in Ecuador. This study will be undertaken by a leading Latin American expert on this subject (the study will attempt to quantify the level of social spending that actually reaches the poor, serving as an entry into a broader discussion of related social issues). It will form the basis for INCAE's diagnostic and will lead to a series of workshops and seminars in line with INCAE's methodology.

Following this study, INCAE seminars will focus on more specific social policy issues. In the area of education, for example, INCAE studies and subsequent seminars may focus on Ecuador's consistent pattern of educational expenditure: university-level resource allocation which favor primarily the urban well-to-do at the expense of primary-level support -- through which a much wider target group could be reached, including the rural and urban poor. The experience of other countries in privatization of universities and other innovative reform measures will also be analyzed. Likewise, in the area of health and nutrition, the focus of INCAE activities would be on analyzing the effectiveness of urban-based hospital support, at the expense of primary health care coverage, as is the predominant case in Ecuador. Housing is another area where the role of the state and the private sector and NGOs will be carefully analyzed, leading participants to develop consensus on the most effective means of addressing the country's housing shortage.

What is needed to help all sectors and to provide for consistency in promoting social welfare is a comprehensive GOE social development strategy and consciousness-raising on the importance of that strategy, to gain widespread support for its implementation. Therefore, the EOPS-related "product" and overall output of this activity will be a coherent social policy agenda for most of the social areas, accepted by the public and private sectors. The strategy will be based on successful models, especially the Chilean model, adapted to the Ecuadorian context.

Among the basic elements to be included in the social development strategy are:

- Targeting of government subsidies and expenditures on the poor;
- Cost recovery and greater efficiency in the application of social sector expenditures;
- Rationalizing the respective roles of the public and private sectors, with the public sector practicing a more normative role;
- Decentralization of the administration and provision of social services; and,
- Privatization, i.e. increased reliance on private for-profit and not-for profit entities for the delivery of services.

(2) *Municipal Development and Decentralization*

INCAE will place special emphasis on the issue of and decentralization in Ecuador, with the objective of promoting a more equitable allocation of resources throughout the country (from the central government to regions and municipalities) and more participation by local groups in decisions affecting

their economic well-being. Together with the Fundación Ecuador, INCAE will support greater analysis and dialogue on the decentralization issues, and in particular on existing draft legislation. INCAE will also provide direct technical assistance to GOE and entities that will have responsibilities for implementing these laws such as the National Council for Modernization (CONAM), and the Ecuadorian Municipalities Association (AME). A more detailed description of INCAE and FE illustrative activities in Municipal Development Decentralization is contained in Annex E (RHUDO memorandum). Several of illustrative areas in which INCAE may be involved are described below.

(a) Information Gathering and Consensus Building on the Nature of urban Management Problem in Secondary Cities: More information is needed on the types of problems secondary cities are facing in order to help shape the policy and program recommendations on decentralization. Without some sort of systematized approach of gathering this information, proposed solutions will be too heavily weighted towards the needs and perspectives of Guayaquil and Quito, given their predominance in the national dialogue process. The approach should be to work in clusters of cities within the principal geographic zones, such as north, central, and south littoral and sierra. Within each region, INCAE could apply its normal methodology involving diagnostic studies and consensus building through workshops, etc. This could be followed-up by a national level publication and workshop to improve the awareness and consensus on the types of problems being faced by municipalities outside of Quito and Guayaquil.

(b) Improvement of the Resource Transfer Mechanism from Central to Local Governments: The mechanism for transferring central budget resources to the municipal governments must be improved through needs and performance based criteria, transparency, and equity considerations. Political processes must be minimized in favor of more technical approaches. Greater citizen awareness of the process must be generated. The INCAE methodology will be very appropriate for studying and building consensus on how to incorporate the needed improvements. The Ministry of Finance will be an important counterpart, but a number of other entities, such as AME, the Congress, regional organizations, etc. will also have to be involved.

(c) Citizen Participation, Transparency, and Accountability in Local Government: As appropriate, the project will be used to introduce these themes as a necessary part of Ecuador's modernization process. Unless local governments become more responsible, decentralization in Ecuador would be self defeating. If resources permit, several regional events, topped off with a national conference would be a useful component. Both INCAE and the Fundación Ecuador will address these themes.

As noted above, it is the aim of the Project to expand and deepen the understanding of social sector policies and related issues such as decentralization to a level where Ecuadorians are in a position to carry a meaningful dialogue with the major international lending institutions on these issues, leading in turn to increased financing for Project-generated reforms and programs. In addition, activities undertaken under the Cooperative Agreement will produce a social agenda for the new administration that will assume the government in August 1996, including a major conference on the subject before the new President takes power.

Under the Social Policy Agenda and Decentralization Component INCAE intends to hold a total of approximately 30 events (conferences, seminars, and workshops) serving about 900 participants.

b. Democratic Strengthening

As noted above, one of the major problems affecting the economic and social reform process in Ecuador -- and indeed the course of democracy in the country -- is the obstacle posed by weak legislative and democratic processes, particularly consensus-building among different political groups and parties. The Mission is aware of the difficulties of promoting substantive political and procedural reforms that will address this problem. INCAE, however, is uniquely poised to address this issue, building on its extensive Central American experience.

INCAE's work in this area will center on structural, constitutional, and institutional constraints affecting the political side of the reform equation, particularly issues related to the major political parties. Like the social sector reform agenda under the Cooperative Agreement, INCAE activities will be geared to developing a national consensus on major political reforms that the country requires.

Under the economic modernization and social policy agenda components described above, special emphasis will be placed on working individually and collectively with political party representatives. The strategy will be to first develop a stronger sense by the parties on the need for structural economic and social reforms and awareness of the serious problems facing the country. Secondly, the Cooperative Agreement will aim to enhance consensus *between* political blocs on these major economic and social reform issues. Finally, INCAE activities will set the stage for significant constitutional and political reforms that may expedite the social and economic reform process.

Many of INCAE's consensus-building activities will be undertaken under the rubric of the two aforementioned sub-components (i.e., participation by political representatives in policy dialogue initiatives in the economic modernization and social policy agenda areas). At the same time, INCAE will hold special conferences and workshops on political/legislative reform, utilizing their international case study methodology. Special emphasis will be placed on the role of coalition and consensus-building in multi-party political systems. Also, INCAE will address as a special issue the Political Parties Law and other reform initiatives that are currently before Congress.

The Mission is aware that necessarily cautious interventions will not produce immediate political openings or reforms. At the same time, it is optimistic that activities under the grant, in coordination with the Mission's other initiatives to strengthen the democratic process, can play a major role in initiating a long-term process of political dialogue and reform and enhance the ability of future Ecuadorian administrations to present, discuss, and implement structural reforms. Therefore the output of this component will not be a specific law or reform per se, but consensus on the need for improving democratic processes and initial steps in decreasing political gridlock. The latter will be reflected in improved formulation, legislation and implementation of social and economic reforms.

For this sub-component, INCAE would conduct approximately 10 events involving approximately 300 participants.

c. Sustainable Economic Growth and Modernization

There is a continuing need to assist the GOE in the formulation of a sound macroeconomic policy environment and in continuing policy dialogue in the area of economic stabilization. This is particularly true in light of a growing school in Latin American intellectual thinking that argues that stabilization programs have weakened Latin American economies and, in particular, have hurt the poor. Quite the contrary, as in other Latin American countries, one USAID-contracted study (Sigma One 1991) demonstrated that stabilization and liberalization programs in Ecuador tend to assist in income distribution by shifting income away from entrenched elites to consumers, workers, and entrepreneurs, including small-scale business.

The INCAE Cooperative Agreement will continue dialogue with numerous groups on macroeconomic issues. For the most part, however, it is in the area of structural economic reforms where the GOE will require most assistance and where INCAE efforts will be focused in this sub-component. Efforts will be concentrated in three areas, which are not necessarily sector specific and will benefit the economy as a whole: (1) privatization; (2) a rubric of structural economic reforms under the broad heading of modernization of the state i.e., increasing the efficiency of state by using market forces and enhancing the roles of individuals, the private sector, and NGOs; and, (3) NAFTA accession: advantages and requirements.

In very close coordination with the Fundación Ecuador, INCAE will undertake a series of workshops and seminars that will generate a better understanding among key groups and individuals of the privatization process. For example, INCAE will use its dialogue methodology using the case approach (i.e., cases on company-specific privatizations in Latin America) to discuss the broad range of issues that arose in each of these privatizations and how they were handled by policy makers in that country (e.g., how does one value a money-losing company). At the same time, INCAE will assist the Fundación Ecuador in planning a broader consciousness-raising program to support the GOE's privatization program.

Modernization as a GOE development theme also applies to the social sector development, which is discussed above. Examples of contemplated topics and reforms include improvements in the investment climate; security of private property (including analysis of how it affects microenterprises and new business formation); customs reform; and privatization of key sectors such as telecommunications. While Ecuador has made some initial progress in both the areas (as evidenced by the passage of recent laws) there is still much misunderstanding about the privatization program and modernization in general. Other illustrative areas of participation by INCAE under modernization include financial sector reform (including a workshop/conference on international capital flows), labor reform, and improvement and consensus on policies promoting investment and nontraditional exports.

Recent meetings between U.S. Trade Representative (USTR) officers and GOE officials and Ecuadorian revealed little knowledge and interest in NAFTA provisions and benefits. Accordingly, seminars on NAFTA will be geared to raising awareness about NAFTA, i.e. to reviewing the provisions and requirements of NAFTA, implementation and impact of NAFTA in Mexico, efforts of other

countries to access NAFTA, and possible advantages/disadvantages of NAFTA accession for Ecuador.

In total, INCAE will hold approximately fourteen events (workshops and seminars) in the sustainable economic growth areas described above, including approximately 420 participants.

d. Other Support Activities

INCAE will also undertake a number of activities that will directly support the sub-components described above, as well as other Mission efforts in the area of economic and social policy reform. For example, it will hold a major "Sustainable Development" conference that will bring together all three areas above, outlining the linkages between economic, social, and democratic/legislative reform. The principal effort will be to reach consensus on the major economic, social, and political issues facing Ecuador in the next decade.

Under the grant, INCAE will also publish a bi-annual journal, "Cuadernos de Economía" which will serve as one of the principal Project vehicles for diffusion of findings and recommendations of workshops under the aforementioned mentioned components, including diagnostic findings. INCAE will also publish a number of Ecuador-specific publications, in areas such as financial reform, privatization case studies of particular relevance to the Ecuador experience, political management of economic reform, and good governance and democratic reform. Finally, INCAE will formally and informally assist other USAID-financed institutions that are undertaking policy dialogue and reform initiatives in the preparation of strategies, assistance in technical issues, etc.

2. *Cooperative Agreement with the Fundación Ecuador*

With USAID funding under the Trade and Investment Project (518-0094), the Fundación Ecuador began operations in August 1992 to promote foreign investment and policy dialogue on major economic reform issues. Its establishment by the Ecuadorian private sector and USAID aimed to address a problematic institutional gap: there did not exist in Ecuador a non-interest group organization that, on a national level, was responsible for both investment promotion and for policy analysis and policy dialogue with the Ecuadorian government. With the phasing out of USAID-supported investment promotion programs in line with U.S. legislation and USAID policy, the Fundación will now focus its activities in the area of policy analysis, dialogue, and advocacy of reforms. Its ability to access government and the private sector, and its growing recognition as a key representative of the Ecuadorian private sector (by both the GOE and other private sector institutions) make its inclusion into the Policy Dialogue and Implementation Project strategically optimal. In collaboration with INCAE and other NGOs that may come under the Project's umbrella in the future, the Fundación will make a major contribution to the economic reform process in Ecuador by expanding and deepening policy dialogue, by assisting the GOE in policy reform initiatives, and by complementing the consensus-building strengths of INCAE with its strong advocacy role. In addition, while social policy issues were included in its original mandate, the Fundación will expand its efforts in this area. This expansion will also complement INCAE's activities in social sectors.

To date, the Fundación Ecuador has played an important role in promoting and advocating the

GOE's reform agenda (e.g., drafting the Capital Markets and Concessions Law, providing technical assistance for the Modernization Law and Revised Investment Decree). Furthermore, the Fundación served as an important vehicle through which to channel assistance to the incoming administration in 1992 and assist it in the preparation of its *Agenda for the 1990s* program which served as the framework for the governments early reform agenda, and a stimulus for a number of the reforms under consideration.

Funding for the Fundación under the Trade and Investment Project will terminate by the end of 1994 (the first quarter of FY 95). From that time, all funding will be provided under the Policy Dialogue and Implementation Project. Cooperative Agreement activities and funding will focus on three key areas: (a) long-term consciousness-raising/education; (b) policy reform and advocacy; and, (c) institution-building. In many cases the distinction between the first two sub-components is somewhat blurry. They are categorized as separate activities, however, to give greater focus to Fundación activities in each area, as well as to make a distinction between areas where specific policy reforms are expected from those where education is the objective.

a. Education/Consciousness-Raising

The Fundación Ecuador, in coordination with INCAE, will be the Mission's primary vehicle for initiating a long-term education/consciousness raising program on economic and social policy reform. The Fundación has undertaken many of the activities of this nature during the past eighteen months of operation, including financing and facilitating site visits by journalists to third countries to observe specific reforms undertaken there; newspaper articles, conferences, workshops, and similar interventions geared to educating the public and key individuals on economic reform issues. To date, however, these activities have been undertaken in an *ad hoc* fashion, and as a response to opportunities whenever they presented themselves.

With the assistance of INCAE, and short-term technical assistance under the Project, the Fundación will develop a long-term strategy to implement a coherent, focused consciousness-raising/education program. The plan will identify target groups which will fall into four general areas: (1) the population at large; (2) the Executive, including policy makers and GOE officials responsible for the formulation and implementation of economic policy; (3) the Congress, including members of select committees dealing with economic reform issues; and, (4) opinion makers, including the press, and members of other relevant organizations such as labor unions.

The long-term consciousness-raising/education strategy and implementation plan presented by the Fundación to USAID (which will be incorporated into their annual Policy Action Plan") will be prepared in coordination with INCAE and will delineate major responsibilities between the two institutions. The strategy will outline the means of dissemination to be used by the Fundación (e.g. publications, television, and other vehicles) to reach a wide target audience.

Through a baseline attitudinal public opinion survey targeted at those groups above (to be undertaken in the fall of 1994) and subsequent follow-up, the Fundación will have an important

mechanism for measuring the progress of its public education efforts.¹

To date, the Fundación has focused its efforts on economic reform issues. While economic reform will continue to be an area of concentration, as part of its consciousness-raising efforts it will emphasize issues of social policy on its agenda, e.g., a major study on the efficiency of social spending by the public sector that it will undertake in conjunction with INCAE.

In sum, it is anticipated that the Fundación will undertake the following activities to promote a better understanding of economic reform issues:

- *public opinion surveys and studies, including a comprehensive study on microenterprises.*
- *workshops* (e.g., privatization workshop geared to Congress, labor leaders on international privatization experience, looking specifically at privatization issues such as revenue generation, employment; efficiency)
- *publications* (newspapers, magazines, -- publications will be targeted to specific audiences, including innovative ways to create interest in subjects such as contests in magazines as is currently being planned by the Pichincha Chamber of Commerce)
- *other methods of public dissemination*, including television and radio programs, and information commercials on specific reform measures.

Policy Dialogue and Advocacy

Beyond long-term education efforts, the Fundación will identify in its Policy Action Plans a select group of policy issues where its interventions can produce results over the near term, in policy reforms defined in a broad context (e.g., drafting and passage of new laws; passage of implementing regulations; assisting in the implementation of concrete actions that create incentives and precedent for further reforms.) Examples are: assisting the GOE in the formulation and public dissemination of a Social Policy agenda; analysis of alternatives for private sector participation in Ecuador's social security system and pension law reforms; dialogue and advocacy of the Decentralization Law; development of implementing regulations for the Modernization Law; drafting of Capital Markets regulations; shepherding the Concessions Law through the Congress and development of subsequent implementing regulations; drafting, dialogue, and presentation to the Congress of a Labor Reform Law; ports reform, including privatization; and development of a revised Commercial Code.

The Fundación has an evolving methodology to implement its dialogue/advocacy program that includes some or all of the following steps: a generalized study of an issue (prepared by a consultant

¹ Of course, a host of other institutions and events impact on public opinion and, as such, the surveys cannot serve as the sole indicators by which to measure the Fundación's success. Nonetheless, they will make an invaluable contribution to measurement of overall Project progress, including INCAE activities.

to the Fundación); a dialogue/debate on the issue between the consultant, the Fundación, and leading Ecuadorian experts on the specific field); broader workshops involving the Government and other groups, including specialized meetings for different interest and power groups (e.g., a luncheon for labor leaders, separate meetings with the Congress); drafting of laws and regulations (again, by a consultant); and advocacy. To advocate for specific policies, the Fundación has assigned individual Fundación Directors to be in charge of a specific group to which the individual Director has access. Under the Cooperative Agreement, the Fundación will develop a more comprehensive advocacy process. A preliminary process is illustrated by the following chart:

**FUNDACION ECUADOR
POLICY DIALOGUE AND ADVOCACY**

<p><u>BASIC ECONOMIC ANALYSIS (BEA)</u></p> <p><u>CONSCIOUSNESS RAISING DIALOGUE (CRD)</u> Networking sessions Round tables with target groups</p> <p><u>REFORMS CONSENSUS AND DRAFTING (RCD)</u> Scope of Work Consultants Profile Contracting Consultant's proposal evaluation</p> <p><u>PROMOTION OF POLICY REFORM (PPR)</u> Newspaper short articles Public TV dialogue programs Publications Seminars with policy decision makers International site visits</p> <p><u>BUILDING NATIONAL CONSENSUS (BNC)</u> Working lunches with: - Interest groups - Labor leaders - Congress Leaders</p> <p><u>IMPLEMENTATION OF POLICIES (IMP)</u> Supporting Congress Approval Working sessions with GOE for regulatory base</p>	<p><u>DIAGNOSTIC STUDY PAPER</u></p> <p>Number of sessions Number of round tables and groups participation</p> <p>Scope of Work approved Consultant selected Contract signed Committee final report</p> <p>Number of articles published Number of TV programs Number of publications Number of seminars and policy decision makers Number of site visits and selected participants</p> <p>Number of working lunches and key participants</p> <p>Number of meetings with congress key people Number of meetings and minutes</p>
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An example of how the Fundación has advocated reforms is its work on the Concessions Law, currently before the Congress. The Modernization Law weakly referred to the possibility of concessions contracts (i.e., public services provided by the private sector either through direct equity participation or management) in two of its articles. On their own initiative, the Fundación contracted two Ecuadorian consultants to briefly analyze the international experience with concessions contracts, primarily in Argentina and Chile. Their findings were discussed both formally and informally with key individuals involved in the provision of public services in Ecuador. Following these discussions (August 1993), the two consultants drafted the terms of a Concessions Law, which Fundación directors began discussing with the Executive and the Congress. Their initial findings were that the law should not be introduced to Congress by the Executive since this was likely to meet with the same fate as the politically charged Modernization Law (which had languished in Congress for some time). The Concessions Law was introduced instead by Ecuador's Consortium of Provincial Councils (CONCOPE), regional councils which took a special interest in private sector concessions when they understood that it might be a mechanism to go forward with public works for which the central and regional governments lacked funds. The law was introduced in the Congress by CONCOPE in late 1993; passage is expected shortly. The Fundación's consultants will soon begin the process of drafting implementing regulations. In addition, they are developing an inventory of public service projects that lend themselves to a concessions-type arrangement, as well as draft contracts, based on those used by other countries. It is noteworthy that the vast majority of firms in a position to undertake these projects are foreign (reportedly most are from the U.S.). Apparently, an active concessions program will also serve to generate foreign investment in the country.

Under the new Cooperative Agreement, the Fundación will initiate policy reform activities in the social sectors. The topic of social security reform will be a new Fundación initiative for which considerable interests exist in the private sector and the GOE. The Fundación will present alternative private sector models of social security reform, educate policy makers and the public at large on the importance of these efforts, and work with the GOE towards final passage of a revised social security and/or pension system that includes active private sector participation. In addition, the Fundación will sponsor a series of seminars on educational reform, with the participation of international experts.

The Fundación will also undertake a number of programs related to decentralization, the first being a workshop providing an overview of the major issues and problems, also to be coordinated with INCAE. Two specific areas in which the Fundación may be involved are described below.

(1) Citizen Participation, Transparency, and Accountability in Local Government: As appropriate the project will be used to introduce these themes as a necessary part of Ecuador's modernization process. Unless local governments become more responsible, decentralization in Ecuador would be self-defeating. If resources permit, several regional events, topped off with a national conference would be a useful component. Both INCAE and the Fundación Ecuador will address these themes.

(2) Modernization of Municipal Finance Administration: Fundación Ecuador will work with municipal governments in about four secondary cities to implement modern methods and

practices for achieving cost efficiencies, generating local revenues, and improving financial decision making. It would coordinate closely with the IDB Municipal Development Project PDM and the GTZ technical assistance. The results will be disseminated through publications, workshops, and other media. The idea is to generate confidence that improvements can be made in secondary city administration through local initiatives and without major investment. Further, through such improvements access to the investment resources of the PDM will be facilitated. In the process, the capacity of a small team of consultants linked to Fundación Ecuador would be proven, thereby permitting the Fundación to replicate the activity by selling its services to additional municipal governments in secondary cities.

c. **Institution-Building/Fundación Ecuador**

An important objective of the Cooperative Agreement will be to consolidate the Fundación Ecuador as the leading private sector policy reform advocacy organization in the country. To accomplish this objective, the Fundación will use USAID funds to strengthen its technical capacity; activate its Directors and membership, and aggressively seek non-USAID sources of funding. Institution-building activities will ensure that the Fundación operates efficiently and is able to respond to the policy reform needs of the private sector and the GOE during the grant period. While financial self-sufficiency and long-run continuation of the Fundación is desirable and actions on this behalf will be pursued, the long-term sustainability of the Fundación will be the responsibility of its private sector stakeholders.

Self-Sufficiency

USAID will support the Fundación's efforts to become sustainable by funding Fundación salaries and operational costs for the life of the project (\$1,400,000), on a declining basis. This financial support will allow the Fundación the opportunity to strengthen its staff and technical capacity while actively pursuing alternative sources of funding. To that end, the Fundación is already pursuing a number of initiatives with the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) and the Corporación Andina de Fomento (CAF) that it anticipates could generate approximately \$300,000 in overhead in 1994. Other revenue-generating activities include, *inter alia*, fees for seminars, membership, and, publications. The Fundación will also be generating a modest amount of funds from its oversight of the Ecuadorian part of the Bolivar Program, a Latin America technology transfer program funded by the Government of Venezuela and the IDB. It will also explore other fee-for-service options.

Despite these efforts, the organization's position as a provider of a public good makes it difficult that the Fundación will reach a significant level of financial sustainability through the sale of its services. However, despite the problematical nature of attribution in policy dialogue and reform activities, the Fundación's lead role in various policy reforms should facilitate its acceptance as a viable think tank and advocacy institution, eligible for international donor financing. Furthermore, USAID/Ecuador management will closely monitor and evaluate the Fundación's performance which may serve as an effective means for the Fundación to attract alternative future sources of funding.

Under the Project, the Fundación will have almost four full years to enhance its operations, prestige, and to be in a position to finance its activities through product-specific assignments (e.g., carrying out studies and workshops for other international donors, with overhead covering recurring expenses). The Fundación will also have ample time to “sell” itself to the Ecuadorian private sector and make a case for their continued financial support after the Cooperative Agreement is concluded.

Staffing and Technical Expertise

The Fundación currently has a staff of twenty-four employees of which approximately fifteen are professionals and the rest are administrative and support staff. Positions dealing with administrative and financial controls have been filled, and administration and controls required under the Cooperative Agreement have been implemented. After substantial delays due to uncertainty about Fundación staffing following changes in U.S. legislation related to USAID investment promotion activities, the hiring of an economist staff (up to three Ecuadorian economists) has begun.

With its limited financial resources, it is not feasible for the Fundación to build a full in-house capacity to do studies directly. Accordingly, the FE economists will manage a portfolio of Ecuadorian and international consultants that will undertake studies, draft laws, etc. The in-house technical staff will dialogue with the consultants, provide quality control, and advise management on the conceptualization and implementation of the long-term education campaign and policy reform initiatives. In addition, the Fundación is building a core group of internationally known, highly respected Latin Americans that will advise it on an ongoing basis through short term consultancies. All of these consultants have implemented and led reforms in their own countries and/or are highly experienced in the economic and social reform process of several countries. The Fundación is also considering establishing a formal relationship with some of Ecuador’s leading economists to serve as a panel of advisors to its studies.

Board of Directors

The Fundación has appointed 24 directors and has expanded the General Assembly, from which directors are to be chosen, to 54 members (100 are contemplated in the Cooperative Agreement). The Board of Directors are selected as individuals, and not as part of the sectors that they represent. A number of Board members have made valuable in-kind and financial contributions to the Fundación over the past year. Board participation in the Fundación’s strategic decisions will be increased through the strengthening of the Executive Committee, comprised of four Board members and principal officers (Executive Director and his Deputy). The Fundación will establish a clearer delineation of responsibilities for the Executive Committee, including holding a meeting immediately before each full Board meeting and providing a brief report on its deliberations.

General Assembly membership will be increased by 46 throughout 1994 and 1995 through which, *inter alia*, new members may be recruited to the Board that can make a greater commitment to the Fundación. These additional members will be recruited from beyond the business community (e.g., top economist, journalist, social scientist; NGO leaders) to reflect the Fundación’s broader (but more focused) policy agenda.

3. *Technical Support*

The Project will reserve funds to permit the Mission to assist the GOE's policy reform process in areas that will not be covered by either INCAE, the Fundación, or other NGOs, or where the Mission opts to finance technical assistance directly. It will also provide the Mission with the flexibility to respond to urgent GOE technical assistance requests regarding specific reforms. Types of technical assistance to be provided according to area, i.e., social reform, housing policy, privatization, NAFTA, and democratic reform are discussed below.

(a) Social Reform: In the social areas, the component will finance implementation of social security and pension fund reforms for which INCAE and the Fundación Ecuador will address in the coming year. The Mission will also provide assistance to the GOE to assist it in implementing many of the social reforms that will be generated by the INCAE-Fundación Ecuador social policy reform agendas.

(b) Housing Policy: Technical assistance will also be provided to the GOE to further improve housing policies. For example, policy reform support is needed by the Ministry of Urban Development and Housing to continue efforts to transform the governmental housing financing institutions. In addition, technical assistance is needed in several specific areas such as establishment of a mortgage titling system, organizing the national housing subsidy system, and locating alternative housing financing resources. A more detailed description of illustrative TA for housing policy is contained in Annex E to this Project Paper Amendment, RHUDO memorandum on TA needs.

(c) Privatization: Continued long-term and specialized short-term technical assistance to the National Modernization Council (CONAM) will be financed. Such technical assistance has been crucial to the privatization process and has generated considerable other donor support. Mission technical assistance during the past year also made it possible to convert the Superintendency of Companies into a Security and Exchange Commission-type regulatory body. This is being followed-up by assistance from the IDB. Likewise, technical assistance provided by USAID/Ecuador made it possible for the GOE to privatize FERTISA, a previously highly subsidized and loss-producing GOE state-owned enterprise.

(d) NAFTA: While INCAE/Fundación Ecuador seminars will educate policy and opinion makers on NAFTA-related issues, this component is expected to assist the GOE in implementation of many of the NAFTA-accession reforms that will have to be undertaken (e.g., assistance in conforming national laws and regulations to the recent Intellectual Property Rights Agreement signed with the U.S.).

(e) Democratic Reform: The Mission will consider bringing in limited amounts of technical assistance for seminars, workshops to increase awareness in good governance and transparency in government. As appropriate, such TA will be coordinated with INCAE and Fundación Ecuador.

As all of the demands in the above areas exceed available funding, shortly after authorization of the project, the project committee will meet to prioritize technical assistance needs. However, most of the \$1.2 million budgeted for this component will be used for privatization and housing activities,

since expertise for both NAFTA and Social Reform, will be provided under the INCAE and Fundación Ecuador components.

The Mission will use a variety of mechanisms to provide technical assistance under this component. This will include direct Mission contracts with individuals and institutions, tapping into USAID Indefinite Quantity Contracts (IQCs) and centrally funded projects with buy-in provisions, including the LAC Bureau's NAFTA-related IQC, and possibly the development of a Mission IQC for policy reform support.

4. *Training*

The project will fund both long-term and short-term training in support of SO 1: Increase Sustainable Economic Growth for a Broad Base of the Population, in areas related to the social and economic reform activities of the project. The training will be administered through a buy-in mechanism first to the Ecuadorian Development Scholarship Program (CLASP II) Project 518-0091 in FYs 94 and 95 and then to the Training for Development project 518-0118, once that project is authorized and begins implementation in late FY 1995 or 1996.

Long term training in the U.S. will include one Ph.D. Economist with emphasis on social sectors; one Ph.D. Agricultural Economist; and four Master's level in Trade Specialists/Negotiators and two in labor economics. Short-term training, also in the U.S., will be conducted in the following areas, involving approximately sixteen participants, in total: NAFTA/Free Trade Arrangements, International Trade and Investment Promotion, Intellectual Property Rights, Worker Rights/Labor Economics, Privatization, Social Sector Policy Reform, and Municipal Administration.

5. *Support for Local Institutions*

Through the Project, assistance may be provided in the future to other local non-governmental organizations (NGOs), (including assistance to them through U.S. organizations), that are promoting policy dialogue and reform in areas supporting sustainable growth. This could include organizations working in the strengthening of democracy, social sectors, agriculture, and the environment, and trade and investment-related policy reforms. Although this component is unfunded at this time, it is included to provide a strategic framework to the Project, ensuring that the project will remain the Mission's comprehensive effort to promote sustainable growth policy reform, even if our policy dialogue agenda is expanded in the future. Assistance under this component will be provided to finance longer-term policy reform efforts as well as to assist NGOs in shorter-term efforts (e.g., technical assistance for a specific issue). As an example, the IDB and World Bank will provide major amounts of assistance to the GOE and perhaps IDEA for agricultural policy reform. However, it may be necessary for USAID to "fill the gap" when a given specific issue is not being addressed if the issue is relevant to the social and economic policy process described above.

IV. FINANCIAL PLAN

A. Project Budget

The Policy Dialogue and Implementation Project (No. 518-0089) will be implemented over a period of approximately 3 years and five months (PACD of 09/30/98), beginning September 1, 1994. The Project Amendment will have an LOP funding level of \$9.9 million, comprised of dollar appropriated funding totalling \$7.4 million (75 percent) and counterpart contributions of \$2.5 million (25 percent). The dollar appropriated obligations schedule provides for \$1.2 million in FY 94, \$1.6 million in FY 95, \$1.8 million in FY 96 \$1.6 million in FY 97, and \$1.2 million in FY 98. Prior to FY 94, \$3.6 million had been obligated under the original Policy Dialogue Support project, therefore the dollar appropriated total of the amended project is \$11.0 million.

A summary budget in thousands of U.S. dollars, including cash disbursements by recipients and counterpart in-kind contributions, is as follows:

POLICY DIALOGUE AND IMPLEMENTATION AMENDMENT SUMMARY BUDGET (U.S. \$000)

	USAID	COUNTERPART	TOTAL
INCAE CA.	2,700	900	3,600
FE CA	2,700*	900	3,600
TECH. SUPPORT	1,200	400	1,600
TRAINING	500	170	670
EVALUATIONS	100	33	133
AUDIT	30	10	40
CONTINGENCIES	170	87	257
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T O T A L	7,400	2,500	9,900

*includes contingencies of 200

Detailed budget line items by fiscal years, institutions involved, functional accounts and project components are presented in Annex B of this paper.

B. Pre-Award Surveys

No Pre-award surveys will be carried out for the recipients of project-funded Cooperative Agreements, INCAE and Fundación Ecuador. Both institutions presently are recipients of Cooperative Agreements and the Mission has concluded that both have the administrative and financial capability to account properly for USAID funds.

In addition, the Controller's Office will continue to conduct periodic in-house reviews of INCAE and FE, in order to evaluate the use of funds. When in-house reviews result in identified weaknesses and require corrective actions, the respective recipients will have a fixed period of time (to be agreed upon in consultation with USAID) in which to address the material recommendations to the satisfaction of USAID.

In the case of INCAE, the Regional Contracting Office with the assistance of the Controller's Office will conduct a review to determine an appropriate overhead rate.

C. Audit Requirements

Beginning in project year two, annual financial and compliance audits will be contracted by the grantees with a U.S. affiliated independent audit firm under the recipient audit program. 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/SJ.

D. Self-Sustainability and Counterpart Contributions

The potential counterpart contribution for the LOP is estimated to reach \$2.1 million, including sales revenues, cash contributions by other donors and members of the Fundación Ecuador and in-kind contributions.

As INCAE is an international educational institution, supported by other donors and its own fees and revenues, USAID is not concerned with its self-sustainability.

USAID is concerned with the self-sustainability of the FE and will address that concern under the Institution Building component, described above. FE has received modest grants from both the Inter-American Development Bank (IDB) and the Andean Development Corporation (CAF). As FE becomes more capable of developing and implementing programs and proposal writing, such assistance from other donors should increase. FE also receives membership dues of approximately \$2,000 per member and as membership increases so will the total annual dues received. As appropriate, FE plans to recuperate costs by charging for participation in seminars and for FE publications. It is too early to comment on the likelihood of self-sustainability. However, this is a theme that will be monitored constantly throughout the life of the CA with FE. The FE detailed budget in Annex B reflects declining appropriated dollar support and increasing counterpart support for salaries of FE personnel.

E. Methods of Implementation and Financing

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

COMPONENT	METHOD OF IMPLEMENTATION	METHOD OF FINANCING	ESTIMATED AMOUNT U.S. \$000
INCAE	Coop. Agreement	Dir. Reim. w/AID advances	2,700
FE	Coop. Agreement	Dir. Reim. w/AID advances	2,700
TECH SUPP.	Buy-in and Direct Procurement	Direct Payment	1,200
TRAINING	Buy-in to Mission Training for Dev. Project.	Direct Payment	500
EVALUATIONS	Direct AID procure.	Direct Payment	100
AUDITS	Cooperative Agreement	Dir. Reim. w/advances	30
CONTINGENCIES			170
TOTAL			<u>7,400</u>

V. PROJECT IMPLEMENTATION ARRANGEMENTS

A. Cooperative Agreements and Contracting Requirements

1. *Cooperative Agreements with Fundación Ecuador and INCAE*

The Cooperative Agreement with the Fundación Ecuador, under the Trade and Investment project (518-0094), contains sufficient funding until December 31, 1994 and its Program Description is consistent with the component described in this Project Paper. However, it may be necessary to modify the Program Description to include some of the proposed FE activities in social policy reform. A new Cooperative Agreement, to be effective January 1, 1995, will be executed with the FE, to continue activities described in this project paper. Since coordination with INCAE is extremely important, the Cooperative Agreement will contain a description of such coordination and a requirement that the two institutions sign an agreement stipulating steps for coordination.

The Cooperative Agreement with INCAE under the Policy Dialogue project contains enough funding to finance activities until August 31, 1994. A new Cooperative Agreement, effective September 1, 1994 will be written and negotiated during August 1994. That new Cooperative Agreement will also require an agreement with the Fundación Ecuador, regarding coordination.

2. *Negotiation Status and Special Provisions*

INCAE has presented a proposal on which parts of the Project Description of this paper are based, although changes will have to be made in the Program Description of the CA to be negotiated and signed with INCAE. There has been some progress in economic reform (e.g. steps in privatization under CONAM) which should be taken into account. The growing interest in social reform expressed by the Minister of Social Welfare and certain NGOs (in educational reform) also should be reflected in the Program Description.

It is recommended that, in the case of FE, USAID not require presentation of a proposal. It will be more practical and expeditious if USAID/Ecuador staff work directly with FE staff to prepare the Program Description of the new CA.

One requirement (in effect a condition-but not prior to disbursement) which will have to be included in the CAs with INCAE and FE will be the requirement to formally coordinate activities, since the rationale for this project argues that policy reform is a *process*. The arrangements for coordination should be outlined in the Program Description of each CA, and each CA, either as a Special Provision in the Schedule of the CA, or in the Program Description, should include a requirement that INCAE and FE sign an inter-institutional agreement on coordination. This requirement will have to be carefully negotiated by USAID as both the Fundación and INCAE may have institutional concerns that are not currently apparent. Potential issues will be pinpointed and addressed in the technical negotiations with these institutions.

In the case of FE, USAID may include, in the Program Description of the new CA, the

requirement to carry out institutional strengthening activities to improve financial and contracting management.

As stated in the in **IV. Financial Plan** the Regional Contracting Office, with the support of the Controller's Office, will decide on an appropriate INCAE overhead rate.

Finally, as funds are running out in the current CA with INCAE, USAID will consider provide "bridge" financing in the current CA to allow sufficient time to develop the new CA and Program Description.

3. *Coordination*

External coordination between Project institutions will be ensured in two ways. First, both the Fundación and INCAE, in their annual Policy Action Plans presentations to USAID will outline in detail how activities will be coordinated. This coordination will extend beyond "consultations," requiring both institutions to take into consideration the activities of the other, particularly in areas of common interest. This system will ensure that synergy exists between the two programs. To the extent that it is efficient, the Fundación and INCAE will pursue complementary programs (e.g., privatization related activities will have joint planning. For illustrative purposes, this might entail INCAE undertaking a general, "case study" seminar, prior to the Fundación undertaking specific workshops and advocacy efforts on the privatization of a specific company or sector (ports). Joint undertakings will be strongly encouraged by the Mission.

Second, the Mission will chair a Policy Reform Steering Committee consisting of INCAE, the Fundación and any other USAID-funded institution undertaking activities relevant to the policy issues to be addressed by the Committee (e.g., IDEA, CEPAR). The focus of this Steering Committee will be to ensure that activities are integrated, and that there is adequate support for USAID-financed activities in the entire policy reform process. The Mission's internal Policy Reform team (the Project Committee of this Project) will also make coordination of all policy initiatives a central theme of its operations.

For illustrative purposes, the following table highlights just some of the areas of potential coordination between the Fundación and INCAE under the Project.

Illustrative Areas of Cooperation: Fundación Ecuador and INCAE

ACTIVITY	FUNDACION ROLE	INCAE ROLE
<i>Consciousness-raising/ Education (gen. population)</i>	Placement of newspaper articles; t.v. program; promotional contests at schools, markets.	Assist FE in developing strategy; draft articles; s.t. training for univ. prof. & stud.
<i>Consciousness-raising/Education (target audiences)</i>	Int. visits by target group; Luncheons w/guest speakers; workshops	Assist FE w/ guest speakers, workshops; own networking methodology.
<i>Promote Better Understanding of Modernization Law and Privatization</i>	International speakers; travel to visit inter'l. experience; Assistance in specific studies (e.g. ports); Draft implementing regulations.	Specialized workshops on international experience using case methodology, following up on FE general workshops.
<i>Enhance Congressional Understanding of Policy Reforms and Policy Reform Process</i>	Luncheons with Congressmen on select issues.	Networking/workshops on strengthening democratic consensus-building. Short-term training.
<i>University Level Outreach</i>	Publications; inviting prof. & select students to events.	Short-term training/courses for prof./ students.
<i>Passage of Concessions Law (privatization public services)</i>	Meetings with Congress/ Executive; media promotion; drafting of law, regulations.	Workshop/Articles on inter'l. experience.
<i>Social Security Reform</i>	Studies on models; advocacy of model selected by Executive.	Work with FE on workshop to review alternative private sector approaches.
<i>Labor Reform Law</i>	Undertake studies; draft law; meet with key individuals (Exe., Labor, Cong. leaders)	Using INCAE methodology, bring together groups in workshops/country case studies.
<i>Laying the Basis for Social Sector Reform</i>	Undertake study on efficiency of current social sector spending; workshops, publications.	Present study/workshops together with FE; Networking with Exe. on social priorities.

4. Technical Assistance

As described above, this component will enable USAID to respond to GOE technical assistance needs directly, or will allow USAID itself to contract technical assistance when appropriate, for example, in order to arrange for technical assistance which would leverage other donor assistance complimentary to USAID's priorities in policy reform. Although the policy areas can be generally described as being social security reform, social policy reform, municipal development, privatization, NAFTA and democratic reform some flexibility will be required to respond to technical assistance needs on a year-to-year basis. Therefore, under this component, buy-ins to USAID/W Centrally funded policy projects and IQCs, will be prioritized at the beginning of every year and obligated each year. Accordingly, approximately \$400,000 worth of technical assistance will be procured directly by USAID annually. This may include accessing experts from other USG agencies for certain themes, e.g. NAFTA and Intellectual Property Rights. The following is an illustrative list of centrally-funded projects to which the Mission would buy in, under this component:

- Trade and Investment Development (LAC)
- Financial Sector Development (G-PRE)
- Privatization and Development (G-PRE)
- Post-NAFTA Free Trade (Proposed LAC)
- Financial Sector Reform for Small and Microenterprises (Proposed LAC)
- Human Rights Initiative
- Accountability and Financial Management (good governance)
- Education, Human Resources and Training (EHRTS) project

5. Training

As described above, the project will fund both long-term and short-term training. Rather than establishing separate mechanisms for training under individual projects and overburdening USAID staff with multiple training requests, the Mission has decided to implement all future training in the U.S. under the Training for Development Project, 518-0118, which will begin implementation in late FY 1995 or early FY 96. Administrative tasks for training will be located in a contracted training institution, which will result both in cost savings and reduction of required paperwork. Long-term training requirements are specifically identified above, but short-term training will be planned on an annual basis, with a certain number of person months provided for each year. At the beginning of each year, the two USAID project managers of this project, the GDO CLASP/TDP project manager and the contracted training institution will identify the most appropriate training institutions in the U.S., according to subject.

6. Unfunded Activities

As described above, the purpose of this component is to provide a framework for assisting other local non-governmental organizations in the future, in economic, social or democratic policy reform. At this time, this component is not funded, and whether or not USAID chooses to assist other NGOs

will depend on the importance of the policy area, whether it can be accommodated under the CAs with FE or INCAE, and the availability of funding. If the Mission chooses to proceed with a another, local NGO, a brief project paper amendment will be completed and the Mission will likely execute a Cooperative Agreement with the additional NGO.

B. Project Management, Monitoring and Evaluation

1. The USAID Project Committee

This Project will directly support three of USAID's four Strategic Objectives, involving Mission offices as noted: (1) Increase Sustainable Economic Growth for a Broad Base of the Population (Sustainable Economic Growth Office (SEGO), Program and Project Development Office (PPD) and Agriculture and Natural Resources Office (ANRO)); (2) Increase Use, Effectiveness and Sustainability of Family Planning and Selected Health Services (General Development Office (GDO)); and, (3) Improve Responsiveness of Selected Democratic Institutions with Greater Citizen Participation (GDO) and the Regional Housing and Urban Development Office (RHUDO). As described below, the overall management of the project will be the responsibility of PPD, with the chief of the Program Division serving as overall project manager. That person will head the Project Committee (PC). The PC will be comprised of subcommittees formed by PPD and the offices concerned with the Strategic Objective. The nature of the subcommittee and the relationship between PPD and the other office(s) will depend on each component. The SEGO will be directly responsible for managing the Cooperative Agreement with the Fundación Ecuador, a component under this project. PPD will be responsible for the overall management of the other components and in the case of Technical Support, technical offices will manage assistance pertinent to their offices directly, for example, SEGO will manage technical assistance as it relates to CONAM and other GOE initiatives, while RHUDO will manage TA in housing policy.

The reason for the above arrangement is that, while SEGO is already implementing activities with the Fundación Ecuador primarily directed at social and economic policy reform, other components, especially the activities to be undertaken by INCAE, are new and distinct from, but complementary to ongoing efforts under the SOs. For example, INCAE activities on Democratic Strengthening will be completely distinct from GDO activities in justice sector reform. Yet the INCAE activities will complement GDO and other office projects. The same may be said of INCAE seminars on municipal development and RHUDO.

The full project committee will meet once a month, while subcommittees will meet more frequently, as needed.

2. Project Management

The chief of the Program Division of PPD will be the overall project manager. PPD will request the contracting of an assistant project manager, using project funds (out of the Technical Support component). There will also be a project manager for the Fundación Ecuador component also funded under the Technical Support component of the project. This is because the project is too broad and

complicated for one person to directly manage all of the components. The FE component warrants a project manager by itself (this is proven by management of the current CA). The FE project manager will continue to be part of the SEGO office, for purposes of continuity and to ensure the full involvement of both PPD and SEGO in the policy reform process.

As discussed above, although PPD has responsibility for overall coordination for the Technical Support Component, technical offices will carry out implementation. For example, once additional technical assistance for CONAM in privatization are defined, SEGO will directly manage contracting, implementation, etc. The same applies for TA identified for continuing RHUDO activities in housing policy.

3. *Project Monitoring and Evaluation*

USAID's world-wide experience has demonstrated that quantifying the impact of policy reform programs is extremely difficult, and in many cases impossible, other than by subjective means. This is especially the case in non-ESF programs where a cause and effect relationship is illusive. Despite the efforts to be undertaken, it may still not prove possible at the end of the Project to adequately measure project-generated changes in attitudes.

Project impact and indicators of success will be measured in a number of ways, none completely adequate in and of itself, but in combination, serving to provide a good picture of project impact. First, some input oriented indicators must necessarily be adopted. Number of workshops and seminars, number of people trained and participating in these programs (both Fundación and INCAE activities) will be analyzed, including impressions of the programs by participants. Another set of indicators will measure impact in terms of laws and regulations adopted, and reforms actually undertaken. Finally, the Project will aim to assess attitudinal changes generated by the Project and related efforts. The surveys will be geared to obtaining a better understanding of public attitudes on general economic reform issues (e.g., stabilization, privatization), as well as understanding of more specific subjects of particular relevance to Ecuador (e.g., the Law on Modernization of the State, the Concessions Law, social spending in Ecuador and how programs reach the poor). Based on the results of this survey(s), the Fundación will develop a plan of concrete activities designed to educate and provide a better understanding of these issues. Opinion soundings will be undertaken periodically by the Fundación to determine how its education/consciousness-raising efforts are faring. The quantification of project impact beyond inputs will be incorporated into the Policy Action Plans.

Finally, in line with USAID policy, the Project will assess, in a mid-term evaluation and a final evaluation, the impact that its activities and related reforms have had on the poor. A comprehensive evaluation will be undertaken in the spring of 1995, and a "impact on poverty" will be undertaken later on in the year. Ongoing attitudinal surveys will also provide constant feedback on impact to implementing institutions and USAID.

A draft M&E plan for SO 1 is an unattached annex to this Project Paper Amendment. It will be applied to the M&E process of this project.

C. Project Implementation Schedule

Certain Major events according to general, initial steps and by components (up to the first year) are listed below. One of the early tasks of the Project Committee will be to lay out all of the events in detail and to closely focus on start-up actions in the first few meetings of the PC.

General

- July 16, 1994: Completion of final draft of PP
- July 30, 1994: Authorization of Project
- July 11-August 15, 1994: Drafting and negotiation of Cooperative Agreements with INCAE
- August 15, 1994: Hiring of project-funded USAID Project Assistant Manager (Separate contract). Funding will come from the Technical Support component
- September 30, 1994: Execution of interinstitutional agreements on coordination
- Ongoing: Meeting of Project Committee once a month beginning August 1994
- Ongoing: Meeting of Policy Reform Steering Committee consisting of INCAE, FE, USAID and other representatives once every two months, beginning August 1994
- Ongoing: Meeting of Project Sub-Committees at least once a month, beginning late August 1994

INCAE

- June 30, 1994: Definition of bridge-funding activities, to take place July, August, and September 1994, with emphasis on Diagnostic Study of social sector development
- August 31, 1994: Execution of new Cooperative Agreement with INCAE
- September 1-December 31, 1994: Carrying out of Diagnostic Studies for Economic/Modernization and Democratic sub-components
- January-June 1995: Beginning of Networking sessions based on Diagnostic studies in all areas
- June 1995: Beginning of Dialogue Sessions, and short-term training seminars
- September 1995: Beginning of longer seminars (2 wks.)

Fundación Ecuador

- June 1994: Institutional analysis and recommendations by U.S. contractor
- September-October 1994: Drafting of new CA to reflect FE component under this amended project
- September 1994: Beginning implementation of institutional development recommendations
- September 1994: Completion of partial year workplan to describe FE activities through 12/31/94, incorporating semi-annual Policy Action Plan through December 94. (Policy Action Plan will be done in consultation with INCAE)
- October 1994: Hiring of all required professional personnel under CA
- November-December 1994: In coordination with INCAE, begin study on efficiency of social spending by GOE
- December 1994: Execution of new CA with FE
- January 1995: Presentation of 1995 FE Workplan to USAID
- January-February 1995: Carrying-out of baseline attitudinal, public survey on several reform issues, including privatization, and consequent design of public information campaign
- June 1995: Expansion of FE membership to full complement of 100 members

Technical Support

- September 1994: Detailed prioritization of TA needs by USAID Project Committee.
- January-March 1995: Execution of first buy-ins to TA

Training (Buy-in to CLASP and TDP)

- November 1994: Beginning of identification of short-term areas and candidates to leave for training in January 1995 (cycle begins every four to five months)
- June 1995: Beginning of process to identify, select candidates for LT training to begin in January 96 (after initiation of Training for Development Project)

D. Procurement Plan

The elements of the Procurement Plan are contained in the chart on Methods of Implementation and Financing. The Mission will negotiate CAs with INCAE and the Fundación Ecuador, which, in turn, will be responsible for procuring mostly technical assistance for their activities. Once the project is authorized, the Project Committee will complete a detailed Procurement Plan for the Technical Support Component, including identification of buy-in projects and scopes-of-work for Mission-executed contracts, as well as schedules for competing such contracts. Training will be procured via the CLASP and Training for Development projects.

VI. PROJECT FEASIBILITY

A. Introduction

The analyses presented below are limited to and focussed on the *feasibility* of accomplishing the project purpose and outputs, i.e. the feasibility of the design and set of components proposed, and the likelihood of the major institutions accomplishing what is set out for them in the project design.

Economic and Social Soundness Analyses were not attempted for this strictly *policy reform* project. Although the estimated economic costs of the project could be derived from the Project Financial Plan, the benefits would be impossible to gauge. The major results of the project, improved economic and social policies, would have an impact on the economy as a whole, the social welfare of all Ecuadorians, especially the poor, and eventually income distribution. Many other factors, far beyond the control of this project, would affect those areas. Also, the project is too broad in scope to apply a social soundness analyses, whether one defines the beneficiaries as the public at large, opinion and decision makers, or the poor.

For both the economic and social areas, the impact of the project can be measured by attribution and assessing whether reforms are being made, whether the reform process is improving, and whether (based on project surveys) the project can be credited with improvements in the process. On the other hand, technical and institutional feasibility discussions are applicable to this project. Policy reform is viewed as a process and the project proposes a system to improve the process. Will the system work? The system is based primarily on two institutions, INCAE and FE-Can these institutions carry out project activities and have a significant impact on effecting policy reform? Since the Mission is already implementing successful projects with both institutions, full-blown institutional analysis or assessments are not necessary.

B. Technical Feasibility

The Project Strategy prescribes viewing policy reform as a process, more or less consisting of the following phases: (1) initial analysis of the reform area and problems; (2) consciousness-raising with target or influential groups; (3) consensus-building on options for reforms and drafting of the reform; (4) promotion of the reform; (5) building a national consensus for acceptance of the reform; (6) formal approval/passage of legislation, regulation or policy; and, (7) implementation. These are the steps that should be taken to reach actual implementation or application of a reform. It may be that one or more of these steps are conditions which already exist. For example, because of efforts in the past, consensus on a particular option may be clearly present.

Nevertheless, the approach of viewing reform as a process with certain steps provides a checklist and means of identifying more exactly what needs to be done to achieve any given reform, and who should do the necessary. This increases the likelihood of reaching adoption and implementation of the reform. Compared to this approach, USAID's economic policy reform efforts have been too separated. INCAE worked on consciousness raising in certain reforms, especially related to stabilization. FE took an interest in certain reforms and directly lobbied GOE Ministries or Congress for adoption of reforms.

Results were mixed. A good example of this non-systematic approach is the *Agenda for the 90s* attempted by the FE. This set of studies was supposed to lead to policy recommendations for the incoming administration. The initial list of studies was far too long. Even after the list was reduced, not all of the studies were completed. Of the completed studies, several did lead to policy recommendations, and there was limited follow up on the recommendations.

The project will approach policy reform comprehensively through the institutions' joint identification of important social and economic reforms to be undertaken, followed by each institution's concentration on carrying out certain steps in the process. As a general rule, INCAE will work on the first several steps, while FE will concentrate on the last several steps, with other institutions involved as appropriate, and technical assistance from the Technical Support component applied wherever necessary. Follow-up, as well as monitoring and adjustment/correction, will be built into the process. The resulting increased likelihood of passage of selected reforms is the basis for arguing that the project design is feasible, or rather, more feasible than past efforts.

C. Institutional Feasibility

I. INCAE

This discussion is based on the evaluation of INCAE's role in the Policy Dialogue Support project, completed in November 1993. That evaluation consisted of two main approaches: review and analysis of project documents and in-depth interviews with key actors and participants in the project, as well as opinion leaders in Ecuador. Some of the positive, general findings of the evaluation were:

- There was substantial agreement that the project aided in the development of a "greater consensus" regarding Ecuador's economic model, and that INCAE's activities were very helpful in the consensus building process;
- INCAE achieved a very high degree of legitimacy and credibility as a facilitator among the diverse groups or target audiences, and gained the image of impartial facilitator or moderator, with impressive ability to attract or convoke participation;
- There was consensus on the extremely high quality on seminars and economic training provided by INCAE, and there was substantial agreement that INCAE needs to continue the process of both training and dialogue.

In contrast, some of the qualified findings were:

- While most interviewees agreed with INCAE's need for neutrality, most also argued that such neutrality would not be sacrificed by the introduction of more interest-sensitive issues;
- Most interviewees argued that because of its high status and prestige, INCAE could (and should) play a role in assisting the GOE in policy implementation; and,
- There are no policy reforms that can be directly attributed to either the policy dialogue or training activities carried out by INCAE.

Briefly, these findings demonstrate that the quality of INCAE activities-i.e. in instruction, seminar leadership, etc.- has been high, and INCAE has influenced the general policy reform process through its prestige and power to convoke. In some cases, INCAE has greatly assisted the reform process by bringing in the best international experts to explore policy options, e.g. options for reform of the social security system. However, INCAE insists on its neutrality to the point that it balks in advocating specific reform, and, as a result, the linkage between specific reforms and INCAE activities is tenuous. The project design takes these parameters into consideration and respects INCAE's definition of its role as a neutral, academic institution. Where INCAE is unable or unwilling to intervene, the Fundación Ecuador and other Ecuadorian institutions will. INCAE's coordination with other institutions will have to be carefully negotiated.

Since INCAE is located in Costa Rica, with an office in Ecuador, it will be very important to maintain frequent contact with INCAE's project manager in Costa Rica, and ascertain that INCAE presence in Ecuador is sufficient to have regular contact with the Fundación Ecuador in order to coordinate effectively.

The Mission judgement on whether INCAE can carry out the component described above must be made in light of USAID's relationship with INCAE. In effect the Mission is "buying a product" from INCAE. In the past, the product has been more than satisfactory. There is no reason to believe that this will change; especially in the context of a policy dialogue process (described above) which promises greater success.

2. *Fundación Ecuador*

This discussion on the feasibility of Fundación Ecuador implementing its component, as described in this Amendment, is brief because much of the relevant information is contained in the description of the Institution Building sub-component above.

An Assessment of Performance and Findings for Future Program Direction of the Fundación Ecuador was completed in March 1994 and is an unattached annex to this Project Paper Amendment. This discussion of feasibility is based on that assessment. Some of the important findings of that assessment were:

- The Fundación appears to have made a significant contribution to the policy reform process in Ecuador during the past year;
- In a relatively short time, the Fundación has engendered name recognition and legitimacy as a representative of the private sector;
- The Fundación's policy reform agenda may be overextended, but the Fundación needs to retain the flexibility to respond to GOE and private sector requests for policy-related assistance;
- There appears to be strong support within the Board of Directors for policy dialogue advocacy activities, including expansion into the social sectors.

Essentially these positive findings make the point the FE has made an important difference in promoting selected reforms in just two years of operation. It counts influential private sector figures

among its membership, it has the following strengths: access to high-level GOE officials, name recognition, ability to intervene successfully in targeted programs, lean staff with the confidence of the Board of Directors, and fills a vacuum in policy dialogue. The FE has in its short life already succeeded obtaining funds from the IDB and CAF.

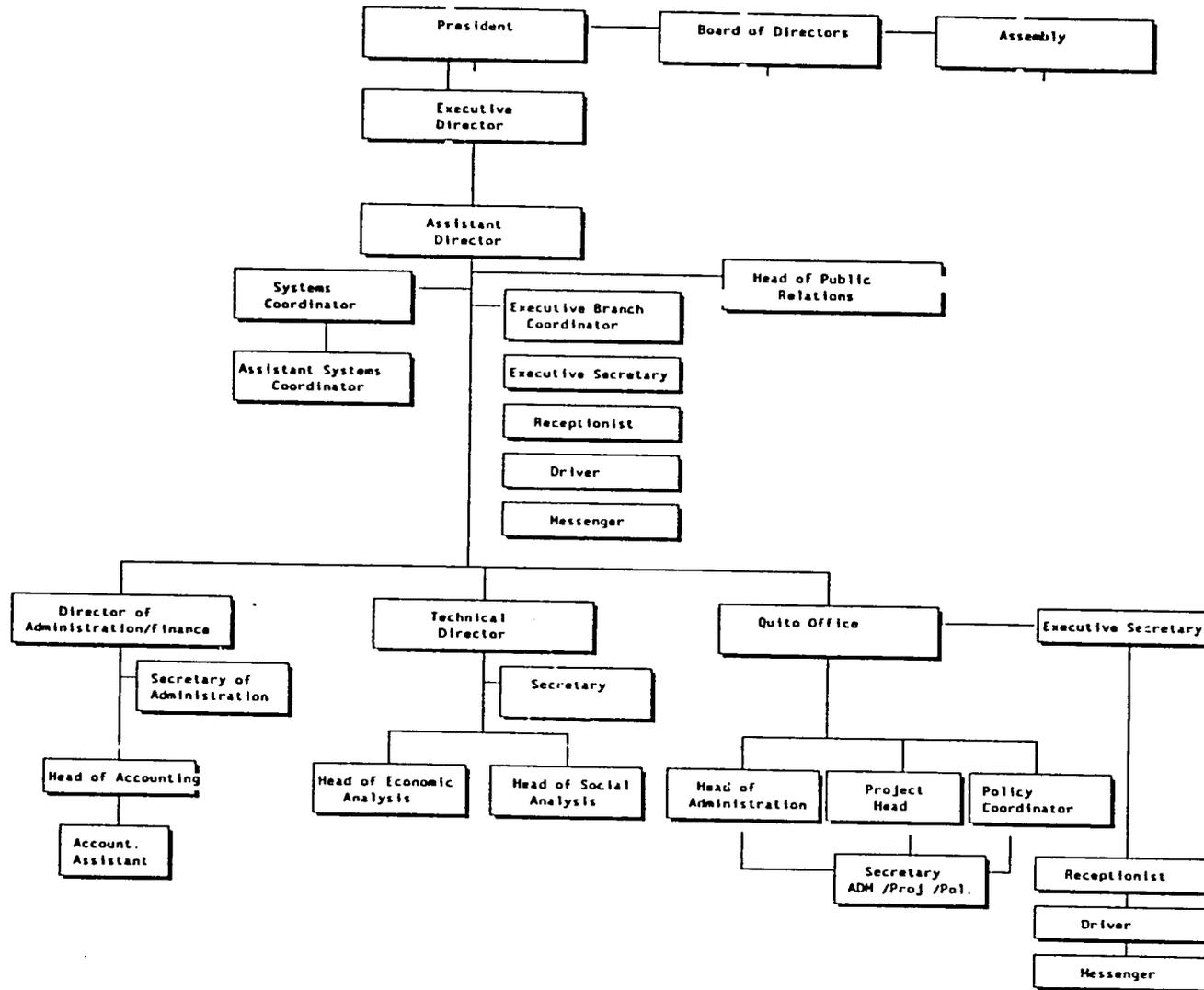
On the other hand the assessment identified certain institutional areas which need improvement: relatively inactive Board of Directors (understandable given the importance of many of the members), too much emphasis on image vs. actual accomplishments, unfocussed and unprioritized agenda, over-reliance on USAID funding, and overall internal management in need of improvement.

These areas will be addressed by the project. The first area will be the tricky process of prioritizing the policy reform agenda given limited resources, the need to coordinate with other institutions, and the need to be responsive to donor priorities. These factors have to be balanced with responsiveness to the membership and Board of Directors of FE and, relatedly, institutional independence. The other area concerns some of the weaknesses listed in the paragraph above. The institutional strengthening subcomponent of the Fundación component will address those weaknesses. The FE will receive technical assistance to help it institutionally respond to the need to prioritize activities and to improve internal management. It will build its staff of economists to manage the completion of studies, analyses, etc. The FE's Executive Committee will be strengthened to compensate for the inactivity of the full Board of Directors. The organizational chart of what the FE is to become in order to have the institutional capacity to implement the project is presented below.

Such project activities will enable the FE to better carry out some of the latter steps in the policy reform process, as described in the Technical Feasibility, above. The institutional strengthening activities will enable the FE to more broadly and consistently apply its strengths in advocacy to a well thought out policy agenda. With the Institution Building subcomponent, the benefits of coordination with INCAE, and complementary activities of the Technical Support Component, it is highly feasible that FE will succeed in implementing its component under the project.

In the end, USAID will assess FE performance based on policy outputs it achieves. Institution building (and self-sustainability) is a secondary, although important, objective.

ORGANIZATIONAL CHART OF FUNDACION ECUADOR



ANNEX A: LOGICAL FRAMEWORK

**LOGICAL FRAMEWORK
POLICY DIALOGUE AND IMPLEMENTATION PROJECT
518-0089**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>GOAL:</p> <p>Increase sustainable economic growth for a broad base of the population, through improved social, democratic and economic policies</p>	<p>1) GDP/CAP and changes in poverty indices.</p> <p>2) implementation of economic and social reform.</p> <p>3) Various social data indicators</p>	<p>Central Bank and INEC data</p> <p>Promulgation of legislation in GOE gazette; observation of implementation by public and private sectors</p> <p>INEC data, sectoral surveys</p>	<p>Other factors being equal, improved policies will lead to improvements in GDP and income dist.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>PURPOSE:</p> <p>Strengthen the Ecuadorian capacity to formulate and implement improved social, democratic and economic policy reforms in Ecuador.</p>	<p><u>EOPS</u></p> <p>1) Development and initial implementation of a coherent social policy agenda in education, health, nutrition, municipal development and decentralization.</p> <p>2) Achievement of Ecuadorian consensus on measures and strategy for strengthening democratic processes, in order to address the political fractionalization which has impeded progress in social and economic development.</p> <p>3) Sig. progress in privatization, steps towards NAFTA or other FTA, policy and inst. reforms for microenterprises.</p>	<p>Public opinion sampling; Surveys and interview of policy makers (Executive and Congress), opinion makers (press and leading economic figures), and the public at large.</p> <p>Degree of progress in implementing yearly Policy Action Plans.</p> <p>Signing of social sector and structural reform programs with international donors.</p>	<p>Policy makers are committed to making reforms.</p> <p>Donors are willing to coordinate programs</p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
OUTPUTS	OUTPUT INDICATORS		
1) Increased acceptance of the benefits of privatization by gov't officials, labor leaders, and the general public.	Public Opinion; GOE issues policies regarding privatization in key areas such as telecommun.; increasing number of privatizations including major privatizations	Surveys; Press coverage; Direct observation by AID consultants; announcement of public offerings.	Key leaders and officials in the priv. process remain in their positions. Other GOE entities provide adequate support.
2) Increased acceptance of open trade and advantages of NAFTA accession.	GOE and priv. sector take steps to implement IPR; New commercial code implemented.	Public Opinion surveys; passage of implementing regulations; publication of code and evidence of application.	USG continues to support open hemispheric trade and extension of NAFTA benefits to other countries.
3) a) GOE develops coherent social policy agenda; b) publication of social policy agenda; c) GOE presentation of a social sector reform agenda that can be supported by other donors.	Evidence on consensus on reforms; Policy enunciated; means of implementation spelled out; lead GOE entities identified.	Announcements by GOE; Meetings between AID and responsible GOE officials; Observation by private sector leaders.	Not too late in current GOE administration to take policy actions.
4) Political leaders in GOE and congress take initial steps to decrease political gridlock.	Improved presentation and congressional review of legislation; improved cooperation between pol. parties political parties	Observation of legislation process.	Willingness to address political issues.

NARRATIVE SUMMARY				OB. VERIFIABLE INDICATORS	MEANS OF VERIF.	IMPORT- TANT ASSUMP- TIONS
<u>Policy Dialogue and Imp.</u> <u>Summary Budget (US \$000)</u>						
	<u>AID</u>	<u>COUNT-</u> <u>ERPART</u>	<u>TOTAL</u>			
INCAE	2700	900	3600	Project audits, eval., CA reports, proj. records	SAME	Avail. of funds for obliga- tions.
FE CA	2700	900	3600			
TECH SUP	1200	400	1600			
TRAIN.	500	170	670			
EVAL.	100	33	133			
AUDITS	30	10	40			
CONTIN.	170	87	257			
<u>TOTALS</u>	<u>7400</u>	<u>2500</u>	<u>9900</u>			

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ANNEX B

Policy Dialogue and Implementation Project Budget by year

INCAE	9/94-9/95		9/95-9/96		9/96-12/31/97		TOTAL		Counter.co
	Forex	Local Currency	Forex	Local Currency	Forex	Local Currency	Forex	Local Currency	
A. Salaries and benefits									
A.1 Ecuador									
National Director	0	16,665	0	39,996	0	39,996	0	56,661	0
Accountant	0	2,083	0	5,040	0	5,040	0	7,123	0
Administrative Assistant	0	2,000	0	4,800	0	4,800	0	6,800	0
Receptionist	0	1,250	0	3,000	0	3,000	0	4,250	0
Messenger	0	1,000	0	2,400	0	2,400	0	3,400	0
Social benefits 65%	0	4,117	0	9,906	0	9,906	0	14,023	0
Social benefits 5%	0	833	0	2,000	0	2,000	0	2,833	0
A.1 Total Salary and Ben./Ec.	0	5,550	0	3,810	0	3,810	0	9,360	0
	0	33,498	0	70,952	0	70,952	0	104,450	0
A.2 Costa Rica									
Component 1 Coordinator	8,000	0	3,000	0	3,000	0	14,000	0	0
Component 2 Coordinator	8,000	0	3,000	0	3,000	0	14,000	0	0
Component 3 Coordinator	8,000	0	3,000	0	3,000	0	14,000	0	0
Assistant	2,000	0	4,800	0	4,800	0	11,600	0	0
Executive Secretary	2,500	0	6,000	0	6,000	0	14,500	0	0
Social benefits 41.37%	1,862	0	4,468	0	4,468	0	10,798	0	0
A.2 Total Salaries and Ben./C.R.	30,362	0	24,268	0	24,268	0	78,898	0	0
A.3 Contract pay									
Contracted Professors	73,050	73,050	47,750	47,750	35,000	35,000	155,800	155,800	0
Social benefits 5%	4,253	4,253	2,613	2,613	1,975	1,975	8,840	8,840	0
Short term TA	2,000	2,000	0	0	0	0	2,000	2,000	0
A.3 Total contract pay	79,303	79,303	50,363	50,363	36,975	36,975	166,640	166,640	0
A. Total Salary and Benefits	109,665	112,801	74,631	121,315	61,243	107,927	245,538	342,042	0

ANNEX B

	9/94-9/95		9/95-9/96		9/96-12/31/97		TOTAL		Counter.co
	Forex	Local Currency	Forex	Local Currency	Forex	Local Currency	Forex	Local Currency	
B. Training Costs									
B.1 Scholarships	231,000	0	150,000	0	0	0	381,000	0	0
B.2 Airline Tickets	87,125	0	51,000	0	29,500	0	167,625	0	0
B.3 Perdiem Costs	23,375	0	14,000	0	8,500	0	45,875	0	0
B.4 Other Training Costs									
National Conference	0	135,484	0	0	0	0	0	135,484	
Public Service Internships	0	0	0	0	0	0	0	0	
Investigations and Papers	71,500	0	20,000	0	10,000	0	101,500	0	
B.4 Tot. Other Training Costs	71,500	135,484	20,000	0	10,000	0	101,500	135,484	
B. Total Costs of Training	413,000	135,484	235,000	0	48,000	0	696,000	135,484	74,730
C. Fixed Office Costs									
Desks and Chairs	0	1,000	0	1,000	0	1,000	0	3,000	890
C. Total Fixed Office Costs	0	1,000	0	1,000	0	1,000	0	3,000	890
D. Other Costs									
D.1 Office Costs	0	15,250	0	35,540	0	33,540	0	84,330	
D.2 Hotel	0	80,959	0	41,500	0	25,500	0	147,959	
D.3 Travel in Ecuador	0	9,900	0	4,000	0	2,500	0	16,400	
D.4 Other Travel Costs	0	16,482	0	7,500	0	6,500	0	30,482	
D.5 Misc. Training Costs	0	182,770	0	90,000	0	62,000	0	334,770	
D.6 Books, Journals, Etc.	0	34,324	0	18,000	0	11,000	0	63,324	
D. Total Other Costs	0	339,685	0	196,540	0	141,040	0	677,265	667,232
TOTAL DIRECT COSTS	522,665	588,970	309,631	318,855	109,243	249,967	941,538	1,157,791	742,852
E. Overhead 30%	87,499	176,391	47,889	95,356	32,773	74,690	168,161	346,437	146,791
F. Final Evaluation	0	0	0	0	25,000	0	25,000	0	0
G. Auditing	10,000	0	10,000	0	10,000	0	30,000	0	0
GRAND TOTAL	620,164	765,360	367,520	414,211	177,016	324,657	1,164,699	1,504,228	889,643
							2,668,928		889,643

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ANNEX B

FUNDACION ECUADOR COMPONENT

PROGRAM COMPONENT	9/94-9/95			9/95-9/96			9/96-12/31/97			TOTAL			Counter.co
	Forex	Local	Currency	Forex	Local	Currency	Forex	Local	Currency	Forex	Local	Currency	
A.- POLICY REFORM AGENDA	84,000		321,000	84,000		311,000	24,000		276,000	192,000		908,000	366,667
A.1. REFORM FORMULATION	24,000		61,000	24,000		51,000	24,000		36,000	72,000		148,000	73,333
- Economic Consulting Group	0		15,000	0		15,000	0		0	0		30,000	10,000
- Contracting consultant	24,000		24,000	24,000		24,000	24,000		24,000	72,000		72,000	48,000
- Targeted round tables	0		12,000	0		12,000	0		12,000	0		36,000	12,000
- A Development Agenda	0		10,000	0		0	0		0	0		10,000	3,333
A.2 REFORM PROMOTION	60,000		86,000	60,000		66,000	0		66,000	120,000		218,000	112,667
- Press release articles	0		18,000	0		18,000	0		18,000	0		54,000	18,000
- Publications	0		18,000	0		18,000	0		18,000	0		54,000	18,000
- Policy leaders seminars	0		30,000	0		30,000	0		30,000	0		90,000	30,000
- International site visits	60,000		0	60,000		0	0		0	120,000		0	40,000
- A Development Agenda	0		20,000	0		0	0		0	0		20,000	6,667
A.3 CONSCIOUSNESS-RAISING	0		114,000	0		124,000	0		114,000	0		352,000	117,333
- Networking sessions	0		48,000	0		48,000	0		48,000	0		144,000	48,000
- Working luncheon	0		66,000	0		66,000	0		66,000	0		198,000	66,000
* Interest groups	0		0	0		0	0		0	0		0	0
* Government	0		0	0		0	0		0	0		0	0
* Congress	0		0	0		0	0		0	0		0	0
- A Development Agenda	0		0	0		10,000	0		0	0		10,000	3,333
A.4 POLICY IMPLEMENTATION	0		60,000	0		70,000	0		60,000	0		190,000	63,333
- Support to Congress	0		12,000	0		12,000	0		12,000	0		36,000	12,000
- Working meeting with GOE	0		18,000	0		18,000	0		18,000	0		54,000	18,000

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ANNEX B

	9/94-9/95		9/95-9/96		9/96-12/31/97		TOTAL		Counter.co
	Forex	Local Currency	Forex	Local Currency	Forex	Local Currency	Forex	Local Currency	
- Training for implementation	0	30,000	0	30,000	0	30,000	0	90,000	30,000
- A Development Agenda	0	0	0	10,000	0		0	10,000	3,333
B.- INSTITUTIONAL DEVELOPMENT	0	641,666	0	516,666	0	441,666	0	1,400,000	466,667
B.1 FE PERSONNEL SALARIES	0	350,000	0	300,000	0	225,000	0	875,000	291,667
B.2 OPERATING EXPENSES	0	225,000	0	150,000	0	150,000	0	525,000	175,000
B.3 CONTINGENCIES		66666		66666		66666		200000	
TOTAL	84,000	962,666	84,000	827,666	24,000	717,666	192,000	2,507,998	899,999
								2,699,998	899,999

TRAINING (Funded through 518-0091 and -0118)

TRAINING COMPONENT	No. of Participants	Cost/participant	Cost
A. Doctorate Degrees	2	50000	100,000
A.1 Economist (social sector)	1	50000	50,000
A.2 Agricultural Economist	1	50000	50,000
B. Master's Degrees	6	50000	300,000
B.1 MA in Trade/Negotiation	4	50000	200,000
B.2 MA in Labor Economics	2	50000	100,000
C. Short-term Training	16	7000	112,000
C.1 NAFTA/Free Trade	2	7000	14,000
C.2 International Trade/Inv. Promotion	2	7000	14,000
C.3 Intellectual Property Rights	2	7000	14,000
C.4 Worker Rights/Labor Econ.	2	7000	14,000
C.5 Privatization	2	7000	14,000
C.6 Social Sector Policy Reform	2	7000	14,000
C.7 Municipal Administration	2	7000	14,000
D. TOTAL	24		498,000

INITIAL ENVIRONMENTAL EXAMINATION, AMENDMENT
LAC-IEE-94-

BASIC PROJECT DATA:

PROJECT LOCATION: Ecuador

ORIGINAL TITLE: POLICY DIALOGUE SUPPORT PROJECT (amendment)
AMENDED TITLE: POLICY DIALOGUE AND IMPLEMENTATION PROJECT

PROJECT NUMBER: 518-0089

FUNDING (LOP): \$ 11.0 million
(\$7.4 million, addition this amendment)

LIFE OF PROJECT: FY90-FY94

IEE PREPARED BY: Howard L. Clark, Ph.D. 
Regional Environmental Advisor (REA/SA)

Ronald Ruybal 
Mission Environmental Officer
USAID/Ecuador
15 July 1994

RECOMMENDATION: Categorical Exclusion

Prior Initial Environmental Examinations for this Project are IEE91-23 (Categorical Exclusion), IEE92-57 (Categorical Exclusion), and IEE93-32 (Categorical Exclusion). Under LAC-IEE93-92, this Project (amended) qualified for Categorical Exclusion from further environmental examination, in accordance with Sec. 216.2(c)(1)(i) of the Foreign Assistance Act, for most Project activities, with a Deferred Environmental Threshold Decision for possible construction activities by INCAE. These construction activities never occurred, and are not being considered in the amended Project design.

As presently redesigned, this policy dialogue and implementation project does not include construction of facilities or any other activities physically affecting the environment. A Categorical Exclusion from further environmental review is recommended, with the inclusion of the oversight and review of the USAID/Ecuador Mission Environmental Officer (MEO), as discussed below, due to the significant change in LOP funding (\$3.6 million, now amended to \$11.0 million) and activities for this Project.

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If any Project activities are added during project implementation, which might have any direct environmental impacts, a new environmental examination, and possible Environmental Assessment, may be necessary, which will require the approval of the AID LAC Bureau Environmental Officer before funds can be disbursed for physical construction/remodeling activities or any use or recommendations involving pesticides. Oversight of the USAID/Ecuador Mission Environmental Officer will be required for any new Project activities during the LOP. All Project evaluations must examine the direct and indirect environmental impacts of policies recommended by, or resulting from, the Project. Environmental and economic policies will be part of this Project, all of which could have significant indirect environmental impacts (positive or negative).

CONCURRENCE:


John A. Sanbrailo
Mission Director, USAID/Ecuador

date:

8/26/94

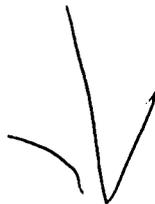
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ANNEX D

recognized human rights?
If so, has the President
found that the country
made such significant
improvement in its human
rights record that
furnishing such
assistance is in the U.S.
national interest?

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,

1. Policy Dialogue activities
will focus on liberalizing
economy through various
reforms that should help
Ecuador prepare for inclusion
in NAFTA. Labor Unions will
be strengthened by further
educating labor leaders by
including them in educational
seminars on various topics of
national interest.



and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

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).

3. Congressional Notification

a. General

requirement (FY 1994 Appropriations Act Sec. 515; 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 Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

b. Special notification

requirement (FY 1994 Appropriations Act Sec. 520): Are all activities proposed for obligation subject to prior congressional notification?

C. Notice of account transfer

(FY 1994 Appropriations Act Sec. 509): If funds are being

2. Dialogue that should lead to political, economic, social, and legal reform should facilitate, in the medium to long-run, U.S. trade and investment in Ecuador.

3.

a. NA

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 Committee and has such obligation been subject to regular notification procedures?

C. NA

C. Cash transfers and nonproject sector assistance (FY 1994 Appropriations Act Sec. 537(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 policy reforms to be promoted?

C. NA

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?

4. NA

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?

5. NA

G. Water Resources (FAA

6. NA

Sec. 611(b)): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

7. Cash

7. NA

Transfer/Nonproject Sector Assistance Requirements (FY 1994 Appropriations Act Sec. 537). If assistance is in the form of a cash transfer or nonproject sector assistance:

a. Separate account:

Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

b. Local currencies:

If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(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?

(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?

(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?

(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?

8. Capital Assistance

(FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

8. NA

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage

9. The Project should have a positive effect on all the aforementioned with possibly the exception of, (C) encourage development of and use of cooperatives, credit unions, and savings and loans associations.

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.

10. U.S. Private Trade (FAA Sec. 601(b)): Information and conclusions on how project 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).

10. Through meaningful dialogue and educational activities that involve a wide range of participants on various issues that constrain free trade and limit investment opportunities the reform process will be facilitated.

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.

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?

b. NA

12 Trade Restrictions

12. NA

a. surplus commodities (FY 1994 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the

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V.3

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?

b. Textiles
(Lautenberg

Amendment) (FY 1994 Appropriations Act Sec. 513(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807,11 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?

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3) (as referenced in section 532(d) of the FY 1993 Appropriations Act): 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?

13. NA

14. PVO Assistance 14.
- a. Auditing and registration a. Yes
(FY 1994 Appropriations Act Sec. 568): 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.?
- b. Funding sources b. NA
(FY 1994 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?
15. Project Agreement Documentation 15. Yes
(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).
16. Metric System 16. Yes
(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 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?

17. Abortions (FAA Sec. 104(f); FY 1994 Appropriations Act, Title II, under heading "Population, DA,11 and Sec. 518):

17. No/NA

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?

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?

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?

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? (As a legal matter, DA only.)

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? (As a legal matter, DA only.)

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?

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?

<p>18. 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?</p>	<p>18. No</p>
<p>19. U.S.-Owned Foreign currencies</p> <p style="padding-left: 40px;">a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1994 Appropriations Act Secs. 503, 505): Are steps being 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.</p> <p style="padding-left: 40px;">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?</p>	<p>19.</p> <p>a. Yes</p> <p>b. No</p>
<p>20. Procurement</p> <p style="padding-left: 40px;">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?</p> <p style="padding-left: 40px;">b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?</p> <p style="padding-left: 40px;">c. Marine insurance (FAA Sec. 604(d)): If the cooperating country</p>	<p>20.</p> <p>a. NA</p> <p>b. NA</p> <p>c. NA</p>

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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?

d. Non-U.S.

d. NA

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.)

e. Construction or engineering

e. NA

services (FAA Sec. 604(g)):

Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible 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

f. NA

(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?

g. Technical assistance g. Yes
(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?

h. U.S. air carriers h. Yes
(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?

i. Consulting services i. Yes
(FY 1994 Appropriations Act Sec. 567): 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)?

j. metric conversion j. Yes
(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?

k. Competitive Selection

k. Yes

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

1. Chemical Weapons

1. No

(FY 1994 Appropriations Act Sec. 569): Will the assistance be used to finance the procurement of chemicals that may be used for chemical weapons production?

21. construction

21. NA

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

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?

C. Large projects, congressional approval (FAA Sec. 620(k)): 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?

22. 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? 22. Yes

23. 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? 23. Yes

24. Narcotics 24.

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of a. Yes

cash payments, to persons whose illicit drug crops are eradicated?

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?

b. Yes

25. 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?

25. Yes

26. 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?

26. Yes

27. CIA Activities (FAA Sec: 662): Will assistance preclude use of financing for CIA activities?

27. Yes

28. Motor Vehicles (FAA Sec' 636(i)): Will assistance

28. Yes

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?

29. Export of Nuclear Resources (FY 1994 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance--except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology?

29. Yes

30. Publicity or Propaganda (FY 1994 Appropriations Act Sec. 557): Will assistance be used for publicity or propaganda 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 propaganda purposes not authorized by Congress?

30. No

31. Marine Insurance (FY 1994 Appropriations Act Sec. 531): 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?

31. Yes

32. Exchange for Prohibited Act (FY 1994 Appropriations Act Sec. 533): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States

32. No

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?

33. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

33. No

34. **Impact on U.S. Jobs** (FY 1994 Appropriations Act, Sec. 547):

34.

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

a. No

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

b. No

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the

c. No

recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture?

CRITERIA APPLICABLE TO
DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers) 1. NA

Amendment) (FY 1994 Appropriations Act Sec. 513(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?

2. Tied Aid Credits (FY 1994 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits? 2. No

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of 3. No

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)?

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.

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?

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

4. One of the goals of this Project is to assist in the development of a coherent social policy agenda for Ecuador which should be of greatest benefit to the economically disadvantaged. Furthermore, target groups for educational seminars, training, and policy dialogue activities will include individuals selected from indigenous groups, labor, etc.

5. Yes, this activity has excellent promise of contributing to the creation of an economic atmosphere that is much more conducive to sustainable growth and increasing equity.

6. It is very difficult to describe to what extent activities will have a positive effect in these areas as the project is predominantly dialogue oriented. This dialogue will be aimed at educating and thereby increasing the acceptance for reform in a variety of areas. Reforms achieved will be attributable to some extent to these dialogue activities. Furthermore, if TA is requested to facilitate the implementation of reform initiatives then attribution



MEMORANDUM

Regional Housing and Urban Development Office/South America
Local Governance and Municipal Development Project

DATE : June 30, 1994

REPLY TO
ATTN OF : Paul Fritz

SUBJECT : USAID/ECUADOR POLICY DIALOGUE AND SUPPORT PROJECT

TO : Mr. Chris Milligan, Acting Director, RHUDO/SA

In February, Marino Henao prepared a paper laying out a sensible strategy for promoting decentralization and local government strengthening in Ecuador. This document should serve as a basic point of reference for any of the implementing entities under the revised and expanded policy project. The key points of his paper, together with comments/editing, are highlighted below.

Setting:

- 1. There is a large number of institutional actors involved in decentralization and local government strengthening in Ecuador. At the same time there is no coherent policy of urban development.*
- 2. There have been recent significant policy decisions regarding the decentralization of potable water and basic sanitation to municipal authorities, but little support is being provided to implement the policy.*
- 3. Central Government transfers to municipalities generally do not correspond to performance or needs criteria, but are a process of political negotiation involving the administration, the Congress and others.*
- 4. Property tax collections for most municipalities are much below their potential because: municipalities are limited in their legal capacity to determine valuations; cadasters are outdated; and the lack of qualified professional and administrative staff. The result is that local political pressure unduly influence billings and collections with negative results for the municipality.*
- 5. Most municipalities do not take advantage of their existing autonomy in revenue generation capacities other than the property tax (e.g., user fees, licenses, charges for improvements, etc.) due to their dependence mentality on central government transfers, reflecting the old days of the oil boom.*

6. *Urban environmental management problems are threatening to overwhelm the capacity of all but the largest municipalities.*

7. *Social services such as education and health remain highly centralized, although the Ministry of Health is beginning to develop and pursue new policies that will require more decentralization.*

8. *Municipalities have not tapped local private sector resources for investment or management, such as use of concessions, contracting out of services, etc.*

Objectives:

Given Agency priorities and Ecuador's specific situation, USAID assistance to decentralization in Ecuador under the policy project should focus on the following purposes:

1. *Formulation of policies, strategies, and program designs (e.g., training) for strengthening or developing local government capacity in: (a) urban planning, including promotion of local development; (b) improved management and financial administration of urban services delivery; and (c) sound environmental use of local resources and pollution prevention.*

2. *Encouragement of policies and practices that enable municipalities to mobilize greater financial resources locally as well as to access management talent and financial resources from the private sector (e.g., concessions, contracts, etc.)*

3. *Improving the opportunity for increased citizen participation in decision making through bringing about better understanding by municipal authorities, NGO's, and community based organizations of the advantages of such collaboration as well as mechanisms for achieving it.*

(Note: We recommend that the project avoid any involvement in the policy formulation and design of the on-going GOE efforts, led by SENDA; to promote a new regionalization of the country.)

Key Actors:

1. *National Government - Ministry of Housing and Urban Development; Ministry of Finance; CONADE; CONAM; SENDA; and the Ministries of Health and Education.*

2. *Local Governments, including the Instituto de Capacitacion Municipal de Quito, and the autonomous water supply and sewage companies of the major cities.*

3. *National Congress.*

4. *The Municipal Development Program (PDM) of BEDE, including the ta from GTZ as well as the IFI's (IDB and IBRD).*

5. *The Ecuadorian Association of Municipalities (AME), regional universities, and selected NGO's.*

Desired Outcomes:

1. *Greater awareness and shared criteria through consensus building on: clarification of the roles of the national and local governments; the relative priorities of the problems to be addressed; the appropriate financing systems for local governments; improving accountability of municipalities to their constituents, including increased citizen participation; and use of private sector management and financial resources by municipalities to improve service delivery. The various institutions responsible for implementing decentralization would have coherent and consistent policies and programs.*
2. *Full implementation of GOE's new policy for potable water supply.*
3. *New laws and implementing regulations that rationalize the transfer of national budget resources to municipalities and give them greater flexibility in property tax administration and other local taxing and revenue generation mechanisms.*
4. *Significant field demonstrations of innovative urban service delivery and environmental management approaches based on greater accountability and mobilization of private sector capacities.*
5. *Improved local government capacity through better training systems and specific training and technical assistance interventions.*
6. *Sound decentralization policies and plans adopted in the Ministries of Health and Education.*
7. *Institutional mechanisms for increasing and improving citizen participation developed and field tested.*

- Attachments:*
1. *Illustrative Budget Needs For Shelter Sector and Urban Environmental Management.*
 2. *Illustrative Activities for Decentralization Component.*

RHUDO/SA TA Needs (illustrative)
Under the Policy Dialogue and Support Project

Two Year Needs

1. Establishment of mortgage titling system. We need to establish computer and training systems and experts in mortgage titling to design and establish the system.

Mortgage titling experts	60 days
Computer systems expert	40 days
Training	30 days
Total, this activity	\$65,000

2. Subsidy system organization. We need to establish computer and training systems and experts to organize, establish, and institutionalize the national housing subsidy system.

Subsidy experts	60 days
Computer experts	40 days
training experts	40 days
Total TA	\$70,000

computer equipment and models \$20,000

Total this activity \$90,000

3. Locate alternative housing financing resources.

Housing finance experts	60 days
Total this activity	\$30,000

4. Technical assistance to IFIs refinancing housing portfolios through access to the Housing Guaranty funds.

Buy-in to an NGO to provide TA and support and to work with Peace Corps. Work with NGOs to organize the demand for housing.

Total this activity \$60,000

5. Support to the Housing Refinancing Corporation

Financial consultant	60 days
Mortgage consultant	30 days
Stock Market Analyst	30 days
Total this activity	\$60,000

6. Policy reform support to the Ministry of Urban Development and Housing. To continue our efforts to transform the governmental housing financing institutions.

Financial consultant	30 days
Organizational consultant	60 days
Policy Advisor	40 days

Total this activity \$65,000

Total RHUDO Housing needs for years one and two of the Policy Dialogue and Support Project is \$370,000.

Infrastructure Needs

Water and Sanitation Policy Needs

1. Policy implementation support to the Subsecretaria de Sanamiento Ambiental. To continue our efforts to decentralize the provision and administration of water and sanitation infrastructure. The following activities could be performed through INCAE's efforts in consensus-building and coordination of efforts among the institutional actors on both national and local levels. The activities would be in accordance to Ecuador's modernization effort and would include the refining of government assistance to rural sector, refocussing the roles of central agencies and strengthening the role of municipal governments.

The following activities to fostering the implementation of policies decentralizing provision and management of water and sanitation infrastructure could be accomplished through Fundacion Ecuador primarily through encouragement of private sector involvement and the development of alternative (non-property tax) sources of capital financing. Also through direct work with Municipalities to increase revenue generation by tapping local private sector resources for investment or management.

2. Development of privatization models (two) for water and sanitation infrastructure. These efforts could be accomplished through Fundacion Ecuador and would consist of the following activities: Infrastructure appraisals, demand analysis, assistance in bid management. Appraisal and bid management work should be done with an internationally recognized firm.

Environmental Infrastructure Management Needs

Two Year Needs

1. Improved decision-making capability in municipal service provision in two cities in 1996 and 1997 according to Mission Action Plan. TA will consist of technical assistance and training to municipal water, sewer, and solid waste management enterprises to improve administrative capability of service provision through use of modern management information systems and rational decision-making.

Assessment of service deficiencies and needs	20 days
Administrative systems design	20 days
Staff training	44 days
Tariff structure	20 days
Socio-economic analysis of client base	20 days
Social marketing of tariff and administrative changes	20 days

Total technical assistance and training needs \$42,000

2. Improved solid waste collection systems in one city in 1996 and one city in 1997. Consisting of direct assistance to municipal governments to examine the feasibility of improving conventional systems, using alternative systems, and fostering private sector involvement to improve cost effectiveness and quality.

Assessment of service deficiencies and needs	20 days
Alternative systems design	50 days
Legal assistance for ordinance review	10 days
Contract systems for private sector involvement	20 days
Monitoring systems for contract compliance	30 days
Social marketing of changes in services	40 days

Total technical assistance and training needs \$38,000

Total RHUDO infrastructure needs for years one and two in \$80,000 in technical assistance and training in addition to assistance from Funadacion Ecuador and INCAE.

Total RHUDO TA Needs under this project \$450,000

ILLUSTRATIVE DECENTRALIZATION ACTIVITIES UNDER THE
POLICY DIALOGUE AND SUPPORT PROJECT

1. Information Gathering and Consensus Building on Nature of Urban Management Problem in Secondary Cities - More information is needed on the types of problems secondary cities are facing in order to help shape the policy and program recommendations on decentralization. Without some sort of systematized approach of gathering this information, proposed solutions will be too heavily weighted towards the needs and perspectives of Guayaquil and Quito, given their predominance in the national dialogue process. The approach should be to work in clusters of cities within the principal geographic zones, such as north, central, and south littoral and sierra. Within each region, INCAE could apply its normal methodology involving diagnostic studies and consensus building through workshops, etc. This could be followed-up by a national level publication and workshop to improve the awareness and consensus on the types of problems being faced by municipalities outside of Quito and Guayaquil.

2. Improvement of the Resource Transfer Mechanism from Central to Local Governments - The mechanism for transferring central budget resources to the municipal governments must be improved through needs and performance based criteria, transparency, and equity considerations. Political processes must be minimized in favor of more technical approaches. Greater citizen awareness of the process must be generated. The INCAE methodology could be very appropriate for studying and building consensus on how to incorporate the needed improvements. The Ministry of Finance would be an important counterpart, but a number of other entities, such as AME, the Congress, regional organizations, etc. would also have to be involved.

3. Decentralization of Primary Health Care and Education - A more studied approach is needed to design realistic programs for decentralizing to the municipalities greater responsibilities for managing health and education. The INCAE methodology could be applied to help think through options and build a consensus on the best approaches to use. The training component could be used to finance a tailored made short-term training program in Chile for government officials to focus on implementation problems and solutions.

4. Citizen Participation, Transparency, and Accountability in Local Government - The project could be used to introduce these themes as a necessary part of Ecuador's modernization process. Unless local governments become more responsible, decentralization in Ecuador would be self defeating. If resources permit, several regional events, topped off with a national conference would be a useful component. INCAE or Fundacion Ecuador would be potential implementors. An alternative possibility would be to give a grant to a local NGO, such as the Ecuadorian Chapter of Transparency International to manage the events.

5. Modernization of Municipal Finance Administration - Fundacion Ecuador would work with municipal governments in about four secondary cities (perhaps based on the studies described in 1 above) to implement modern methods and practices for achieving cost efficiencies, generating local revenues, and improving financial decision making. It would coordinate closely with the PDM and the GTZ technical assistance. The results would be disseminated through publications, workshops, and other media. The idea is to generate confidence that improvements can be made in secondary city administration through local initiatives and without major investment. Further, through such improvements access to the investment resources of the PDM will be facilitated. In the process, the capacity of a small team of consultants linked to Fundacion Ecuador would be proven, thereby permitting the Fundacion to replicate the activity by selling its services to additional municipal governments in secondary cities.

6. Improvement of Training Systems - ICAM-Quito has perhaps the best program in the country for training municipal employees. It is already reaching out to other cities as evidenced by its operating agreements with Cuenca. Under the technical assistance component, short-term expertise, ideally complemented by overseas training, could be provided to ICAM-Q to improve its outreach to other municipalities through developing distance training programs based on the Colombian experience. The training component should also be used to carry out several in-country training exercises to field test the methodology developed with the technical assistance as well as to train trainers in the new methodology.

MEMORANDUM

DATE: JULY 12, 1994
TO: PETER LAPERA, PPD
FROM: JIM WATSON, SEGO *JW*
SUBJECT: POLICY DIALOGUE SUPPORT AND IMPLEMENTATION PROJECT
TECHNICAL SUPPORT: PRIVATIZATION COMPONENT

The Mission is contemplating a buy-in contract through the USAID/Washington's Global Bureau.

We envision that the contract's scope of work may include the following:

1. Long Term Resident Advisor for Ecuador. This individual will provide technical services over an approximate eighteen (18) month period in Ecuador. He will be the principal advisor to the Government of Ecuador's National Council for the Modernization of the State (CONAM). It is intended that the advisor will provide technical assistance in the conception of privatization strategies and the execution of transactions. He will be the in-country coordinator of all Contractor activities and will assist the Government of Ecuador on practical financial issues related to modernization/privatization policies.

The statement of work (project activities) will focus on privatization processes. Areas of concentration shall include:

- * Valuations
- * Privatization Action Plans
- * Sales/Bid Documents
- * Criteria for Selection of Bidders
- * Review of Bids
- * Targeting of Potential Buyers.

2. The Contractor's staffing team structure is expected to include:

- * Technical/Industry Expert
- * Financial Analyst/Other Appraisal Experts
- * Local Technical Services
- * Home Office Task Manager
- * Home Office Support

3. The Contractor is expected to provide technical assistance with, at least, four privatization transactions. The anticipated outputs/deliverables are:

Preparation and presentation of:

- * Diagnostic Study and Valuation Report
- * Privatization Action Plan/Sales Strategy
- * Buyer List
- * Information Memorandum
- * Bid Documents
- * Criteria for Selection of Bidders

Technical Assistance in support of the Sales Process:

- * Setting up of Document Room
- * Due Diligence Process
- * Setting up competitive auction or sale through the Ecuadorian stock market
- * Award of the company to winning bidder or buyer in the stock market.

An illustrative budget for the foregoing technical assistance project activities may include the following:

<u>Category</u>	<u>Total Estimated Contract Cost</u>
Salaries	\$ 124,000
Fringe Benefits	9,500
Overhead	133,000
Consultants	19,000
Local Consultants	9,500
Supplies	2,000
Travel, Transportation	19,000
Per Diem	14,000
Other Direct Costs	66,000
G&A	<u>80,000</u>
 TOTAL ESTIMATED COSTS	 \$ 476,000
 Fixed Fee	 24,000
 TOTAL ESTIMATED COST PLUS FIXED FEE	 \$ 500,000

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ANNEX G

Table 1. ECUADOR: MAGNITUDE OF CRITICAL, AND RELATIVE POVERTY, 1975.
(Periods 1982 and 1988)

Class	URBAN			Rural	
	Barreiros- Teekens (1984)	World Bank (1979)	JUNAPLA (1977)	Synthesis d/ (1978)	MAG-ORSDTROM (1978)
1. Critical Poverty	(per capita)	(per family)	(per family)	(per family)	(per family)
Threshold (Basic Food Income) 1975 Prices	S/. 5,000	S/.23,170	S/.23,170	S/.18,900	S/.18,900
Share of Population Below Threshold a/	21 %	25%	25% +	13-16%	26-28%
2. Relative Poverty					
Threshold (Basic Food Income) 1975 Prices	S/.12,800	S/.59,410	S/.59,410	S/.48,461	S/.48,461
Share of Population in class b/	29%	35%	30%	19-25%	59-62%
Share of Population Below Threshold c/	50%	60% +	55% +	32-41%	85-87%

SOURCE: Morris D. Whitaker et al, The Role of Agriculture In Ecuador's
Economic Development, (USAID/Quito Draft, February 20.

a/ Those in a state of critical poverty.

b/ People with incomes above critical poverty, but below the threshold
of critical poverty, or in a state of relative poverty.

c/ All those below the threshold of poverty including those below the
threshold of critical poverty.

d/ Estimates by authors based on World Bank, Vos, and MAG-ORSTROM
sources.