

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 1981

ECUADOR

**DEPARTMENT
OF
STATE**

January 1979



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USAID/ECUADOR
COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS)
FY-1981/FY-1985

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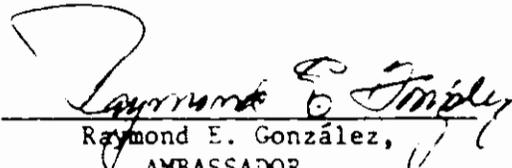
AMBASSADOR'S STATEMENT

The attached Country Development Strategy Statement (CDSS) has been reviewed and discussed by the Country Team. I believe the analysis contained in Part I clearly reflects the situation in Ecuador. The proposed strategy in Part II is sound and consistent with the analysis of Part I.

With the expected return to constitutionality in August, 1979, the new civilian administration will face a formidable array of economic, social, and administrative problems. Many of these have not been meaningfully addressed by the current or previous military governments. The USG, which has actively encouraged a return to civilian government, has a responsibility to be as helpful as possible in assisting the new government to examine and seek solutions for the most pressing economic and social problems of the country. An expanded AID program could help the new administration confront Ecuador's deep social malaise, and politically it would help the U.S. identify with the new administration and demonstrate solidarity with it.

I realize that the five-year program stated in the CDSS is broad and tentative; the uncertainties surrounding the transition to a new government make this imperative. Following the April 8, 1979 elections, we plan to discuss in depth with the newly elected officials the nature, extent, and limitations of an amplified AID program for Ecuador. Based on the discussions, we will strive to narrow the assistance efforts to those areas identified in the CDSS in which we have the capability to be most responsive to the new Ecuadorean administration. We expect that the FY 1981 ABS and other documentation appearing later this calendar year will reflect this more narrow focus.

Therefore, I recommend that AID/W approve this CDSS, recognizing its provisional nature.


Raymond E. González,
AMBASSADOR

January 24, 1979

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PART I: ANALYSIS

A. ANALYTICAL DESCRIPTION OF THE POOR

Ecuador has enjoyed remarkable economic growth during the last six years (1973-78), averaging 10.38% in real terms, with a high of 18.7% in 1973 and a low of 3.4% in 1975, both extremes linked to high and low petroleum revenues respectively. Per capita income in current dollars has increased from \$345 to an estimated \$795 by the end of 1978; in real terms this represents an increase of about \$200.

Ecuador has also achieved significant social progress in some areas in recent years. According to the National Planning Board (NPB), life expectancy at birth increased from 51 years in 1960 to 62.2 in 1976; infant mortality declined from 100/1000 in 1960 to 70/1000 in 1975, and child mortality (one to five years of age) declined from 22/1000 in 1960 to 15/1000 in 1975; enrollees in primary education as a percent of the age group 6-11 increased from 83 in 1960 to 96 in 1976; the percent of the population with electric service increased from 33 in 1972 to 46 in 1976; and the literacy rate among adults increased from 56% in 1950 to 75% in 1976. There has been great growth in infrastructure, such as electricity, water, and sewerage systems, health facilities, and roads.

Despite its economic and social progress, Ecuador remains a poor country. In terms of per capita income, in South America it remains close to Guyana, Colombia, and Paraguay, with only Bolivia having a significantly lower PCI. The infant mortality rate of 70/1000 is above that of most other countries in a similar level of development (e.g., Nicaragua, 46/1000; Dominican Republic, 43/1000). Of every 1,000 students begin-

ning first grade in the public system, only 379 finish the sixth. The nutritional intake of the population is low, with a 43% deficit in protein and 14% deficit in calories of the population as a whole. Lack of adequate housing is acute; the housing deficit is estimated at some 750,000 units.

Ecuador's wealth is highly concentrated among a small proportion of the population; its income distribution pattern remains one of the world's worst. Its Gini coefficient, which measures income distribution (figures closer to zero representing more equality) was .62 in 1975 (compared with Brazil at .58 and Colombia at .48, neither noted for their income equality). A World Bank study comparing income distribution in 66 countries showed Ecuador as the country in which the percent of national income received by the top 20% of the population was the highest of all 66. Indeed, over 60% of Ecuador's population lives under conditions of poverty, as explained below.

In general terms, there are distinct disparities between conditions in the urban and rural areas of the country, with the latter having received far fewer of the fruits of Ecuador's social and economic progress. For example, median rural income in 1974 was \$221 per worker, whereas median urban income was \$416. There is estimated to be only one physician for 10,000 rural people versus one per 2,110 for the country as a whole. Of every 1,000 students who enter first grade in rural public schools, only 272 complete the sixth, versus 611 for urban areas. Whereas 84.3% of urban dwellings have electricity, only 11.6% of rural dwellings do. Whereas 72.8% of urban dwellings provide for use of a toilet and 11.2% more for use of a latrine, 86.8% of rural dwellings have neither.

The percent of adult illiteracy is some four times higher in rural (35.2) than in urban (8.7) areas. In spite of these statistics, one finds significant poverty in urban as well as rural areas. Indeed, the slums of Guayaquil are well known as among the worst in Latin America. Since the conditions of urban and rural poverty vary considerably from each other, they are discussed separately in the following subsections.

In addition to urban-rural poverty distinctions, there are geographic distinctions. Two provinces, Guayas on the Coast and Pichincha in the Sierra, where some 39% of the population live, account for approximately 50% of the GDP, 79% of the jobs, 79% of the total value of goods manufactured in the country, and 76% of the credit from the banking system. Nonetheless, in both provinces there is significant urban poverty, and the two poorest Coast cantones (counties) are in Guayas. A succeeding subsection discusses the geographic location of poverty in Ecuador.

Finally, there are distinct social, cultural, and racial considerations which have a bearing on poverty in Ecuador. These will also be discussed in a separate subsection.

Urban Poverty

The NPB, through its National Institute of Statistics and Census (INEC), has developed a basic household basket of goods and services consisting of food, shelter, clothing, health care, transportation, and other essential goods and services. The minimum level of monthly income for an average household to cover this basket was established in 1978 at \$199.19. In order to use available 1975 income data, this figure can be deflated to reflect 1975 prices, resulting in a minimum monthly level of

expenditure in 1975 prices of \$139.10, equivalent to \$1,669 annually per household or \$307 annually per household member. In the absence of other criteria, this CDSS uses this income level to establish urban poverty guidelines.

In 1975, 55.3% of the urban labor force, some 491,500 workers, did not earn enough income to cover the cost of the basic family basket. 21.3% of the urban labor force, some 213,600 workers, fell far below the minimum level, earning \$55 or less per month. From these data it is difficult to determine exactly how many households fall below the poverty levels. With an average of some 1.6 household members in the work force, some of the above households will earn enough to cover their basic basket. Nevertheless, a reasonable estimate using income distribution data is that some 230,000 urban households (47% of the total), representing some 1,250,000 persons, do not earn enough to fulfill normal minimum needs, and some 145,000 of those households, with some 788,000 persons, earn grossly below that level and are in a state of extreme poverty.

The urban poor generally have their roots in rural areas or in smaller towns. Seeking better opportunities, better services, or simply the amenities of city life, they migrate to the city. They are generally unprepared for city life and face great difficulties in becoming part of the productive market; generally they become self-employed as peddlers, offer their services as unskilled construction workers, or become personal services workers (e.g., domestics, dishwashers), earning just enough for the most pressing food needs. In coastal cities they generally become squatters or renters in one of the settlements known as barrios marginados or barrios suburbanos, which are found in every coastal city. In the Sierra, they

usually crowd into a rented room with no sanitary services. Indeed, 34.6% of total urban housing units have three or more persons per room; 55.0% of the total have only one or two rooms; 59.1% are rented or obtained free. Such migrants generally live in abject poverty, with a sense of helplessness and in an atmosphere of crime and vice.

A recent NPB/CEPAL study on the largest barrio suburbano of Guayaquil, one of Latin America's most depressing slums, illustrates the situation of the urban poor in such an environment. The study found (1) almost all the workers frustrated and in a state of permanent underemployment, (2) an almost total lack of economic and social mobility, (3) 50% of the households headed by women, who have even less chance than men for decent paying, productive work, (4) 47.6% of the labor force having started working between the ages of 5 and 14 and thus locked into jobs paying from \$14 to \$40 per month, (5) 70% of the population leaving school before the secondary level, (6) housing which does not meet even minimal standards, mostly consisting of crowded one-room bamboo or wood units on stilts, with no water connections

or sanitary facilities, and (7) the neighborhood filled with open sewers, trash dumps, and other breeding grounds for transmissible disease.

Rural Poverty

Despite rapid urbanization, Ecuador's population is still predominantly rural. In 1978 the rural population is estimated at 4,471,000, or 57.2% of the country's total. (Urban is defined as the population of all provincial and county capitals, a total of 115 cities and towns.) Almost all of

literacy, school attendance, safe water supply, sanitary facilities, electricity, access to health services, malnutrition, and adequacy of housing show significant differences between rural and urban areas. This does not necessarily mean that rural poverty is worse than urban poverty, but poverty is certainly more widespread in rural areas and counts on fewer services available which might ameliorate it.

There are an estimated 834,000 rural households, of which some 75% are farm families owning land or working land under some sort of permanent arrangement. Using 1975 data, 28.1% of the farm families have less than one hectare of land and 38.8% have from one to five hectares. These families, or 66.9% of the total farm families, farm only 6.8% of the land utilized for farming and ranching. On the other extreme, 6.5% of the farm families farm or otherwise control units of 50 hectares or more; together they control 65.6% of the agricultural land.

Labor force data for the rural areas show that 63% of the rural labor force are minifundistas, 25% are landless laborers, and the other 12% are either owners and administrators of large farms, are nonagricultural employees, or are professionals (e.g., teachers). The mean income of the rural labor force was estimated in 1974 at \$647 dollars per year, while the median income was only \$221.

There are approximately 400,000 minifundio families in Ecuador farming up to 5 hectares. Some own their land, others are squatters, while many farm under some other more or less permanent sharecropping or land-for-labor arrangement despite a 1964 law enacted to eliminate "precarious systems and relationships of land tenure." About 73% of the minifundio

families are located in the Sierra, but there are significant areas of the Coast where small farmers are concentrated (e.g., the rice growing areas of Guayas).

Some 64,000 families (1976 figure) have been the beneficiaries of land reform, receiving an average of 13.3 hectares each. These have been primarily families who had been working land under traditional land-for-labor arrangements. In spite of this redistribution, land tenure patterns have remained basically unchanged. Also, data show that recipient families generally remain as poor as before. This can be attributed to the facts that mostly marginal and unproductive lands have been redistributed, and that there has been a lack of complementary services and inputs to the recipients, such as credit, extension services, TA, and storage facilities. Such lack of services and inputs, combined with social structures difficult to break, has caused many of these farmers to be dependent again on their former patrones for credit and marketing services.

In short, it can be estimated that some 450,000 farm families, all those with up to five hectares and some who have marginal lands above this amount, representing some 2,400,000 individuals, live in a state of perpetual poverty; some survive reasonably well and with some dignity, while many exist on the bare edge of survival. They farm their lands intensively, and indeed manage to get a higher per hectare return from them than larger landholders; but with lack of inputs and services, lack of organization, and their location on the more marginal lands, they are locked into a poverty situation.

The estimated 300,000 landless workers represent one of the most deprived groups in Ecuador and are prime candidates for urban migration. Some landless workers are members of minifundio families, for example the "excess" son who goes down to the Coast seasonally to seek employment on the large cash-crop farms. Others are families with no land of their own whose male members sell all of their labor to the large farm enterprises. With a few notable exceptions, these workers are low paid (\$3 per day on the Coast, considerably less in the Sierra) and exploited.

Geographic Location of Poverty

Ecuador has three main geographic zones: (1) the Sierra, composed of Andean valleys, plains, and slopes, heavily populated up to about 13,000 feet; (2) the semitropical and, in part, tropical Coast; and (3) the tropical Oriente, the lowlands lying to the east of the Sierra. (The Galápagos Islands make up a fourth geographic region.) The Sierra and the Coast share 97% of the country's population in an almost equal proportion, with the Oriente accounting for virtually all of the remaining 3%. Politically, Ecuador is divided into 20 provinces and 115 counties.

In order to get an indication of the greatest concentrations of rural poverty, USAID has ranked the 94 Sierra and Coast counties using eight variables which indicate poverty (e.g., illiteracy, infant mortality, availability of drinking water, size of land holdings). The eight poorest counties according to this analysis are located in the Sierra, six of them in its southern half. In all, of the 30 poorest counties, 20 are located in the Sierra, 12 of those in the four southernmost Sierra prov-

inces (Chimborazo, Cañar, Azuay, and Loja) and only four in the northernmost four Sierra provinces. Three of the four poorest are located in Chimborazo Province. Of the 10 Coast counties falling in the poorest 30, eight are located in Guayas Province north of Guayaquil and in the southern half of Manabí Province. In both are large concentrations of small farmers producing rice and subsistence crops.

In addition to the widespread rural poverty in the southern Sierra and concentrations of poverty on the Coast and elsewhere in the Sierra, there is severe poverty in the Oriente. Among the poorest people in Ecuador are 80,000 primitive Indians who are prime candidates for cultural or even physical extinction as colonization progresses in this part of the country.

Social, Cultural, and Racial Distinctions

Over 60% of the rural population in the Sierra are Indians in various degrees of integration with the Spanish speaking society. Indians are also found to a small degree in Sierra urban areas and on the Coast as landless laborers. There are also small groups of indigenous Coast and Oriente Indians. (Indian is defined here in the Ecuadorean context as an individual who retains his indigenous heritage in dress, language, and customs. In this sense a person of mixed blood may be Indian, while a person of all Indian blood who is culturally a part of the Spanish speaking society would not be.) There are also estimated to be some three hundred thousand Negro blacks, concentrated principally in Esmeraldas Province on the Coast and in one pocket in the northern Sierra, but also scattered throughout the country. These two ethnic groups face the most serious cultural and social problems for socio-economic mobility. (The role of women will be discussed

later in this CDSS.) Though a full discussion of the social complexities of Ecuadorean society would take many pages, the essential fact is that merely being a member of one of these ethnic groups places barriers which make it more difficult than otherwise to supersede the bounds of perpetual poverty.

B. THE CAUSES OF POVERTY

Poverty often feeds upon itself. For example, a malnourished child will typically do poorly in school due to weakened mental capacity; his resulting low educational level will cause him as an adult to have to obtain whatever unskilled work he can; and his ignorance and low income will cause his children likewise to be malnourished, continuing the cycle. Nonetheless, USAID believes there are six basic, interrelated, root causes of poverty in Ecuador:

(1) The highly skewed distribution of productive resources and income .

The most significant example of maldistribution of productive resources is in land, whereby 77.5% of the landholders hold only 11.6% of the productive land. On the other extreme, 2.1% of the holders control 47.8% of the productive land. This pattern, particularly in the Sierra, is a result of centuries-old social relationships under which campesinos were virtually the property of hacienda owners, creating a lifetime of forced dependency. Though such relationships have been formally terminated by law, they in fact continue to exist in various forms, even among the recipients of land reform. On the Coast, patterns of modernized, extensive production have emerged which concen-

trate large landholdings, sometimes in the hands of foreign corporations; though these holdings provide some jobs for landless workers, they tend to perpetuate the land distribution pattern and restrict the mobility of the poor. Furthermore, the large landholder in both regions has easy access to credit and technology; small farmers have virtually no access to them. In addition to land, concentration of productive resources occurs in agroindustry and marketing, other industry, finance, and other sectors. The resulting, highly unequal income distribution pattern was discussed earlier.

- (2) Job availability and employment creation. The Ecuadorean economy has been unable to create sufficient productive jobs for its workforce. A 1974 study by the Programa Regional del Empleo para América Latina y el Caribe (PREALC) estimated that underemployment affects between 50 and 60% of the labor force. In that year, 2,000,000 workers were sharing what was estimated to be 1,400,000 fully productive jobs. Underemployment is particularly prevalent in rural areas; a study by the NPB estimated that there are more than twice as many rural workers as would be needed if each were fully employed. It is also evident in urban areas by the large number of peddlers and other unskilled personal service workers.
- (3) Sociological and cultural constraints. Ecuador's traditional values impose serious constraints to the social and economic mobility of various disadvantaged groups. The patrón-peón relationship, which keeps campesinos in a position of dependency to a large landholder, was discussed above. The same paternalistic attitudes permeate all

aspects of rich-poor relationships. Racial and social prejudices against Indians and blacks bar these groups from easy mobility. A further constraint evidences itself with women, as separate male and female roles are well defined in the Equadorean society. This creates particular bars to finding productive employment for the large number of female heads of households in urban slum areas. In rural areas, men are considered the clear authorities in all matters pertaining to the home and community; yet in reality women are often the key decision makers regarding most of the everyday work, including planting and marketing. Social and cultural factors have prevented rural women from being adequately trained to carry out this de facto role.

- (4) Macro-economic policies. While Ecuador has followed macro-economic development policies designed primarily to achieve high growth rates, it has subordinated within those policies actions to stimulate jobs, reach the poor, and address the highly skewed income distribution pattern. These growth oriented policies (as distinct from growth with equity oriented policies), which have focused on import substitution and export encouragement (such as generous tariff concessions on imports of capital goods and raw materials), have stimulated capital intensive technology at the expense of investments which otherwise might have created more jobs. These policies have brought about an even greater level of concentration of assets, productive resources, and income than before.
- (5) Resource allocation policies. Ecuador has not allotted significant resources for immediate and direct benefit for the poor. It has

chosen, for example, to invest public resources into industry and infrastructure (particularly roads and recreation facilities) rather than into basic human needs areas. And even within individual basic needs sectors, as the sectoral analyses below show, public investments have often not benefited the most needy. However, even if Ecuador were to make a major turn and allocate a significant share of its resources to the needy, it would not have sufficient trained human resources to do so. There is a shortage of planning and implementation personnel at all levels.

- (6) Lack of participation. Despite certain GOE and non-GOE efforts to organize the poor (for example, the Agrarian Reform Agency has helped land recipients organize themselves into cooperatives), the poorer segments of the population remain largely unorganized and powerless. They are often illiterate, inarticulate, and ignorant about the processes and vehicles they could use to influence public policy and to obtain services and resources which might affect their socio-economic situation.

In addition, the high rate of population growth has served as a cause of more poverty than otherwise would be the case for much of the population. Though Ecuador could support its current population free of poverty were it not for the six factors listed above, the large size of the typical family, given these factors, has aggravated the poverty situation for many. The NPB has estimated an average of 6.7 children per woman and a gross birth rate of 44.7 per 1,000, one of the highest in the world.

C. PROGRESS AND COMMITMENT

Ecuador's progress and commitment to meeting the development needs of the poor has been determined largely by the country's power structure-- both political and economic. Political power has been held by governments which have been subject to intense pressures from individuals or groups having economic power, including the Agricultural Chamber (composed of large landholders), the Chamber of Commerce, the Chamber of Industries, and the Association of Private Banks. The pressures that these influential, articulate groups exert on government policies represent formidable obstacles against meaningful participation by the poor in the decision-making process. To a large extent, such pressures have reduced the expected impact of programs such as agrarian reform and the cooperative movement.

There is a view of the poor which is deeply imbedded in the minds of government leaders and other upper income classes in general, which tends to reinforce and perpetuate the traditional, paternalistic patrón-peón relationship existing between the upper and lower income classes. Further, the deep distrust by poorer population groups (which has developed over many years, as a result of real or perceived exploitation) about the motives behind public efforts to help them, makes real participation in the decision-making development process a difficult and painfully slow task. These factors have led therefore to a top-down development process.

Despite the negative pressures of the powerful groups, the lack of participation by the poor, and the largely top-down approach to development, there are some encouraging signs and indications of increased aware-

ness about the need to expand involvement by poorer groups and to facilitate their socio-economic mobility. The most recent example of this national awareness was the new constitution, approved by referendum in January, 1978 (to be effective August, 1979), which is heavily oriented toward social equity and popular participation in the development process. Of major significance, it gives illiterates the right to vote for the first time in Ecuadorean history.

Looking at the historical record, some sectors of government and the society have favored the disadvantaged more than have others. In order to simplify what could be a most complex and lengthy overview of the GOE's policies and resource allocations, this section will look at the GOE's overall plans and policies, will examine the use of various mechanisms other governments commonly use to redistribute resources toward the poor, and will take a brief sector by sector look at budget allocations and at what effect such allocations have had on addressing the needs of the poor. Finally, a look will be taken at the progress and commitment of the private sector toward the poor.

GOE Plan and Policies

The NPB is charged with guiding the country's development, and development during the past several years has been carried out under the 1973-1977 Development Plan. The Plan was quite progressive and was oriented toward growth with equity. Nonetheless, the policies formulated and actions taken by the GOE during the period to implement the Plan have had as their primary emphasis maximizing GNP growth with little regard toward equity. The vehicles to achieve such growth have been oriented toward activities such as industrialization, commercial agriculture, and other sophisticated, capital

intensive, high technology sectors. Some emphasis has been given to channeling resources into social development investments (e.g., health, education, sanitation). With the exception of land reform, little emphasis has been given to redistribution of assets. In short, the Plan's implementation can be characterized as "trickle-down." Oil revenues have been used to import considerable capital goods and raw materials, primarily for import substitution industries. Construction in the cities has boomed. Considerable public investment has occurred, but often concentrated in infrastructure of little developmental impact on the poorest segments of the population. Yet a few significant programs have emerged. In short, the country's new-found wealth has trickled down to some, has provided for future opportunities for others, but has essentially bypassed the majority of those who might otherwise have benefited.

Redistribution Mechanisms

Three mechanisms commonly used by governments to redistribute resources are taxation and its allocation, government controlled enterprises for redistributive ends, and land reform and distribution. In Ecuador, taxation has not been a strong force for redistribution of assets. The personal income tax has not been applied effectively, and it represents only 13% of the government's revenues. Land taxes have a number of loopholes through which the wealthy manage to escape. A recent OAS study of Ecuador's tax structure showed that while persons earning above minimum wage levels pay considerably higher taxes per capita than those earning below such levels, the former received back from the government in services the equivalent to their contributions.

Ecuador has been moderately aggressive in establishing public enterprises and in controlling (and in a couple of industries, nationalizing) foreign and other large enterprises. In most cases social ends have not been involved, but there are some examples of public enterprises being used to provide social equity. For example, the National Development Bank has channeled a certain amount of funds toward marginal sectors. Two GOE-owned chains of consumer grocery stores have been established to provide a control on retail food prices. The GOE has intervened in the production of cement and bricks to help control the prices of construction. Municipal services such as electricity are often priced lower in poorer areas of the cities. Also, the GOE claims that the main reason for keeping gasoline prices artificially low is to keep down the costs of transport for the poor and for the goods they produce and consume. Most significantly, in June, 1978 the GOE established on its own initiative the Fund for Development of Rural Marginal Groups (FODERUMA), through which the Central Bank is channeling financial resources and technical assistance to the rural disadvantaged. The guiding principles for FODERUMA's operations are self-help and local participation. The GOE's initial contribution to the Fund was about \$4.0 million which has since been augmented. USAID believes that FODERUMA represents a significant potential GOE commitment to equitable development.

Land reform and colonization were stressed in the 1973-1977 Development Plan, and land reform was probably the top priority given by the GOE toward assisting the poor. Though from 1964 through 1976 some 850,000 hectares were distributed to 63,757 families, a recent evaluation sponsored by the GOE admitted that the program has failed in many ways.

Distribution of marginal lands, plots which are too small, disregard of certain families occupying the land, failure to provide credit and TA, problems with giving titles, inefficient administration, disregard of social differences, imposition of cooperative structures on unprepared persons, and other problems have plagued the program. Colonization has provided some 1.15 million hectares of land to 28,000 families since 1964. The GOE has provided the land, but the process has been very much an individual one, as few complementary services have been provided.

GOE Budget

Budget expenditures have been mixed in respect to their impact on the poor. The biggest budget increases have been in the areas with probably the least impact; budget allocations for the Ministries of Government, Foreign Relations, and Defense, and for the upkeep of the Executive, Legislative, and Judicial branches have together raised their share of the total budget from 24% in 1972 to 32% in 1976. On the other hand, certain of the social development sectors have also fared well. The biggest share of budget expenditures, 24%, goes for education. This sector has significant potential for assisting marginal groups, as a large proportion of the more wealthy send their children to private schools. The performance of the sector in regard to the poor has been mixed. Substantial investments are being made in an innovative new program, nuclearization, which involves the participation of entire rural communities in their education. There has also been considerable investment in vocational and technical education. But much of the education in Ecuador continues to remain irrelevant for the majority of persons involved in it.

Health investments have also shown strength; the sector's share of the budget has risen from 3.2% in 1970 to 7.4% in 1976, and the sector has received significant other revenues from GOE development funds discussed below. A large share of the investments has gone to help eliminate the great urban-rural disparity in access to health care facilities.

Agriculture has a reasonable share of the public budget, 8.2% in 1978, but with the exception of the land reform program, most of its efforts are concentrated in programs of commercial scale production of export and other cash crops. Another problem is that programs in the agricultural sector rarely have a rural development focus; however, the GOE has initiated integrated rural development activities in several areas. These activities seek to increase rural productivity and production, provide basic infrastructure, provide basic services in education, health, and housing, and organize the rural population groups to increase their participation in the development process.

Some GOE resources have been directed toward low cost housing, through the Housing Bank (BEV) and the Social Security System. The BEV subsidizes interest rates (down to as low as 4%) for poor families. Yet the large majority of "low cost" housing built has really been for middle income working families, and little true commitment toward attacking the problems of slum housing has been shown.

One ministry with great potential for channeling TA and resources to the poor is the Ministry of Labor and Social Welfare. Its activities range from running orphanages and day care centers to social development projects in rural areas to providing assistance to cooperatives. Yet this ministry receives less than 2.2% of the national budget.

The Ministry of Public Works has concentrated on road building, with emphasis on main roads. Yet an increasing trend can be seen in construction of feeder roads, with that representing 25.5% of the Ministry's budget in 1976. The GOE's electric program, run by the Ecuadorean Electrification Institute (INECEL), a semi-autonomous agency, has received a large share of petroleum revenues (its 1977 budget was \$45 million dollars, exclusive of foreign loans; plus from 1974 through 1977, it received \$97.0 million more from the GOE's National Development Fund). Expenditures have been heavily concentrated, however, in increasing generating capacity and in distribution to industries. Rural electrification has consistently received less than 20% of the budget and almost none of the external funds.

Finally, there are the Ministry of Industry and Commerce and the Social Security System. The former has placed heavy emphasis on larger industry, though it does have some beneficial programs in small industry and handicrafts, which still represent the largest source of employment in the industrial sector. Its National Center for Small Industry and Handicraft Development (CENAPIA) has provided TA to several hundred small firms, and the Ministry has introduced legislation to establish a small industry and handicraft financial corporation. The Social Security system has the potential to be of great support to the poor workers, as it provides medical assistance, emergency loans, investment loans, and other important services to its members. Though domestic and some other categories of poor urban workers are covered, the vast majority of poor urban workers and all small farmers are ineligible for coverage, leaving the system basically middle-class oriented.

In addition to the general budget and to FODERUMA, there are four funds which the GOE has established to utilize various of the petroleum and other revenues for development purposes. These are the National Development Fund (FONADE), the National Participation Fund (FONAPAR), the National Pre-investment Fund (FONAPRE), and the Municipal Development Fund (FONDEM). All are administered by the Ministry of Finance and the NPB. FONAPAR was created in 1971 to replace a system under which specific shares of various revenues had been distributed to specific institutions. FONAPAR continues to distribute to the same institutions but under a more flexible system in which needs are determined on a yearly basis. FONAPAR's revenues are now about \$100 million per year. The largest share of its distributions goes to municipalities. FONADE was created in 1974 to finance development investments by public sector entities; its funds come strictly from petroleum revenues and from foreign credits. From 1974 through 1977, it made almost \$700 million available to various national and local governmental institutions. The allocations of FONADE resources have been concentrated in general GOE budget support (about 15%), land reform (14%), petroleum exploration (22%), feeder road building (7%), transfers to FONDEM (7%), direct support of provincial and municipal projects (7%), and support of secondary and higher education (7%). FONAPRE and FONDEM are both quite small. The former finances feasibility studies for high-priority investment projects carried out by either public or private sector entities. The latter finances municipal investment projects. All four of these funds have the potential to be excellent mechanisms to direct resources to the neediest sectors; to date their performance has been mixed in respect to commitment to the poor, just as the general budget has been.

Private Sector

There are a large number of private organizations which have shown various degrees of commitment to the neediest groups. The cooperative movement, for example, has made some attempts in certain areas to organize the rural poor. A variety of religious and secular charitable organizations conducts programs in preventive health, vocational education, child feeding, care of destitute children, and other such social endeavors. As its OPG program gets underway, USAID is just beginning to appreciate the number and variety of such institutions. Though complete statistics are not available on such groups, they show a commitment to development and the poor among certain elements of Ecuadorean society, which can be further built upon.

D. HOST COUNTRY DEVELOPMENT PLAN AND BUDGET

Ecuador is in the process of returning to a freely elected, constitutional government. At this writing, run-off elections between the top two candidates of the first round of voting are scheduled for April 8, 1979, and inauguration is scheduled for August 10. It is difficult to speculate at this point as to the commitment toward development the new government might have and the resources it will devote to development, as the parties to date have spoken only in generalities. Though USAID is hopeful that the new government will follow the social change orientation of the new constitution, a more accurate picture must await the formation of the new cabinet, proclamation of detailed policies, and the development of the new government's first budget. Since Ecuador will be operating with a Congress for the first time in some years, it also remains to be seen if the legislative and executive branches will be able to work together

to formulate and carry out effective developmental legislation.

Meanwhile the current Government is preparing guidelines which will be submitted to help the new government prepare a development plan for

the period 1980-1984. USAID has seen drafts of some of these guidelines and they have been taken into consideration in the preparation of this CDSS; however, it is important to keep in mind their tentative nature and, therefore, the tentative nature of this CDSS.

Likewise, an analysis at this time of the GOE's 1979 development budget as a proxy indicator of budget projections for the next five years would be meaningless. It should be mentioned, however, that the present Government has made commitments to invest in several large infrastructure projects which in the next five to ten years will impose a heavy burden on internal revenues and require substantial foreign borrowing.

In 1977 Ecuador's total outstanding debt, including undisbursed loans, amounted to \$1,633 million, which represents a 50% increase over the 1976 debt level. Increases have continued through 1978. Based on present maturities, Ecuador's debt service payments are expected to take a considerable share of its future budgets. The preliminary 1979 budget, for example, has allocated \$222.2 million for debt servicing, an amount which represents between 21 and 25% of the budget. Despite the growing debt, the World Bank projects that Ecuador will remain credit-worthy and that it will be able to obtain foreign financing for its infrastructure projects.

E. ABSORPTIVE CAPACITY

As in other developing countries, the lack of sufficient numbers of

socio-economic development activities, and a scarcity of financial resources are the two major constraints limiting Ecuador's capacity to effectively utilize external assistance and carry out development programs.

Human Resources Constraint

The key GOE agencies charged with the socio-economic development of the country do not have enough trained, experienced personnel with the planning, managerial, and technical skills to effectively plan and carry out relevant development activities. This government and society-wide deficiency at all levels clearly hinders the GOE's ability to establish clear, relevant, and realistic priorities among the various public sectors and thereby the efficient, effective allocation of scarce resources. The effects of this constraint include: (1) there is a lack of clear, consistent national priorities to guide planners, program developers, and implementors; (2) inter-sectoral and intra-sectoral coordination, necessary to facilitate the attainment of socio-economic goals, are nonexistent or at best difficult and erratic; and (3) resources, both human and financial, are underutilized and misallocated. Since priorities are not clear and there is poor coordination among agencies, resource allocation is often based on personalities and the relative power which each operating agency commands at a particular time.

This human resources limitation is amply recognized by the GOE and the donor agencies. The portfolios of IDB and IBRD, the major donors, now include technical assistance and training components at all levels. USAID's strategy, discussed under Part II, also focuses heavily on the need to increase the number of trained personnel at both program and national levels

to facilitate the development and implementation of programs directed to the poor.

Since the projects which USAID proposes to address the basic needs of the poor will be generally administration-intensive and difficult to implement in comparison to physical infrastructure types of projects, this human resources constraint will be perhaps the critical bottleneck to be faced in the USAID program. To alleviate it, in addition to providing TA and training, USAID will make a special effort to keep projects simple and to base each on a careful analysis of the human resource limitations.

Financial Resources Constraint

According to a February, 1978, IMF report, and to Central Bank figures, the Ecuadorean public sector recorded in 1973 and 1974 an overall surplus of over 1% of GDP. This surplus resulted from a substantial rise in petroleum production prices in 1973 and 1974. In 1975, 1976, and 1977, however, petroleum production lowered, causing a decrease in petroleum-generated revenues. This, coupled with stagnant revenues from non-petroleum sources, caused a marked deterioration in the public sector's performance. While revenues decreased, total expenditures grew rapidly, and since 1974 the public sector has recorded growing deficits, reaching 6.8% of GDP in 1977.

The declining revenues from petroleum and the uncertain prospects of additional oil discoveries present a special challenge to the GOE as it allocates its limited resources among many competing demands. USAID expects that the assistance program proposed in this CDSS will influence the GOE to shift resources and to allocate increased funds to activities reaching the poorer segments of the population. Presently, USAID is not able to

estimate the recurrent costs of the program proposed in this CDSS. It believes that the strategy proposed herein responds to GOE stated and expected goals, and that during the project negotiating process the GOE will shift resources accordingly. However, it realizes that the GOE will not over the long run have all the funds necessary to carry out the programs needed to address the poverty situation as well as carry out the infrastructure projects the GOE believes necessary for its development (e.g., the Paute Hydroelectric Project estimated to cost \$573 million, of which the IDB is financing 21.8%). Thus, USAID believes a certain amount of capital resources transfers will be necessary to assist the GOE in meeting its financial constraint.

F. OTHER DONORS

Presently the major sources of external development assistance for Ecuador are the Interamerican Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD). Limited development assistance also is being provided by the various United Nations agencies and other multi-lateral agencies (e.g., OAS). Bilaterally, Japan, Great Britain, and Belgium are the major donors.

IDB Assistance

IDB is by far the largest development lender in Ecuador. During the last six years (through 1977), the IDB provided credits to Ecuador totaling \$325.4 million, of which around 26% financed projects in agriculture and fishing and 29% financed energy development activities. In 1977, the IDB approved five loans totaling \$73 million: (1) a \$11.8 million loan

through the Ecuadorean Water Resources Institute for irrigation and agricultural activities in the Sierra regions around Latacunga, Salcedo, and Ambato; (2) a \$12.2 million loan through the Ecuadorean Institute of Sanitary Works to finance potable water projects in El Oro Province; (3) a \$19.9 million loan to the National Development Bank to provide credits for small and medium size agriculture and livestock farmers; (4) a \$17.7 million loan to the city of Guayaquil to finance an expansion of the city's sewer system; and (5) a \$12.2 million loan to expand Quito's sewer and potable water systems.

In 1978, the IDB approved five loans totaling \$94.3 million, comprised of (1) a \$16.9 million loan for an integrated rural development program expected to develop the agricultural potential of the Zamora and Nangaritza River Valleys in southeastern Ecuador; (2) a \$8.3 million loan to promote the development of sea fishing; (3) a \$50.0 million loan to help finance the construction and equipping of the 500,000 kilowatt Paute Hydroelectric plant; (4) a \$9.5 million loan for a preventive rural health project, concentrating on the construction of health centers and the purchase of vehicles and health equipment; and (5) a \$9.6 million telecommunications loan.

Generally, IDB projects are heavily oriented toward infrastructure development and are not especially directed toward reaching specific poor population groups. Some of them provide, however, a necessary complement to AID activities, which are expected to be more precisely focused on the poor. For example, the above IDB health project will provide the physical facilities to support the implementation of the proposed AID sponsored community based contraceptive distribution and basic rural health services programs.

IBRD Assistance

IBRD lending in Ecuador traditionally has been concentrated in the transportation and power sectors. Recently the Bank has begun to diversify its portfolio, which now includes projects in vocational education, seed development, development planning, development banking, and agricultural credit. According to the IBRD, future bank lending in Ecuador will assist in (1) the creation of a physical and social infrastructure base capable of fostering development, (2) the strengthening of agencies to implement projects effectively, and (3) the improvement of living conditions for the urban and rural poor. The Bank has recently approved an \$18.0 million rural development loan in Tungurahua Province which is expected to reach some 16,000 rural families through the provision of credit and other related agricultural inputs, irrigation works, rural roads, electrification, and water and health services. The Bank is also preparing industrial credit and petroleum exploitation projects, slum upgrading for Guayaquil, and a fishing port project.

UN Assistance

The UNDP administers most of the assistance provided to Ecuador by the various UN agencies--UNDP, FAO, UNESCO, WHO, and WFP. Their projects finance primarily technical assistance and training activities and consist of numerous small activities in many sectors (e.g., agro-industries, animal husbandry, forestry, agricultural statistics, fishing, irrigation, and appropriate technology). The UN's indicative planning figure for the period 1978-1982 is \$15.0 million, which the GOE has requested the UNDP to allocate among the following sectors: agriculture (26.7%); industry

and artisanry (14.0%); education and training (17.0%); science and technology (4.7%); rural development (11.0%); development planning (15.3%); and other consultants and contingency (11.3%).

Coordination

By law the NPB is charged with the responsibility of coordinating the development activities of all bilateral and multilateral donors in Ecuador. However, the NPB has not carried out this function and has not established a mechanism to achieve coordination. USAID has been engaged in periodic, informal dialogues with the various donors which have representatives in Ecuador, especially the IDB and the UNDP. Until an effective GOE mechanism is established, USAID will continue coordinating its activities with those of other donors through this informal process.

PART II: USAID STRATEGY

A. INTRODUCTION

Until the new government is in power and has indicated the development policies it intends to follow, USAID's strategy in Ecuador must be considered tentative. Further, said strategy could in no way attempt to cover the entire scope of the analysis of poverty contained in Part I; rather, what follows tries to build on some of the initiatives the GOE has already taken, to support what the ministries and other institutions say they would like to do in the future, and to anticipate what moves any new government will most likely make in the sphere of basic human needs development. Next year's CDSS and other future documentation will modify the strategy according to the new government's commitment and progress and will likely further narrow the project areas proposed below.

USAID expects to concentrate in the following sectors: (1) agriculture and rural development, because of the high concentration of poverty in rural areas, the current low levels of productivity in the sector, and the importance a healthy rural sector must play in any sound, equitable future development for Ecuador; (2) education, because, as discussed in Part I, human resources development is perhaps the weakest link in the developmental process in Ecuador; and (3) health and nutrition, because any significant development is impossible if a large proportion of the population is debilitated by hunger and disease, which is the case in Ecuador. Included within the latter sector, and in other sectors where possible, is a heavy programming emphasis on family planning, because a significant attack on Ecuador's poverty situation will be difficult if not impossible

unless the extremely high population growth rate of 3.4% is greatly lowered. Likewise, within the rural development sector there is a heavy emphasis on environmental protection, simply because unless the current environmental degradation--particularly soil erosion--is not stemmed, an adequate rate of rural development will be impossible to achieve. In addition to the above three sectors, USAID is exploring involvement in the shelter sector. If U.S. resources can help solve the constraints leading to the desperate situation of Ecuador's urban slums and to Ecuador's extreme housing shortage, USAID will enter the sector.

As indicated in Part I, in order to have growth with equity and address the poverty in which a majority of its people live, what Ecuador needs most are changes in priorities, changes in policies so public and private investments will be more effectively channeled, and development of the country's human resources. These items do not necessarily require large capital transfers, and indeed AID cannot expect to meet Ecuador's financial needs (in 1976, the GOE contracted for \$864.6 million in loans). Therefore, USAID proposes a program which combines (1) considerable TA and participant and in-country training--to develop Ecuador's human resources and to strengthen its institutional capacity to better serve the poor, and (2) a limited amount of capital transfers--to encourage the allocation of resources toward sound development. USAID's FY 1980 program, concentrating in rural development, human resource training, and family planning (each project described more fully below), also follows this strategy and sets the base for the FY 1981-85 program described herein.

The four sectors are treated separately below. When possible, project efforts will be limited to poorer geographic areas and/or groups and will

be integrated with one another within a target area. On the whole, USAID will initiate project efforts with small demonstration activities, moving on to projects in larger but still limited geographic areas, which can later be continued and replicated nationally by the GOE or by private groups with their own resources. As USAID undertakes each project, it will make an effort to encourage sound policies, sound attitudes, and a positive appreciation of the country's cultural diversity.

B. RURAL DEVELOPMENT AND ENVIRONMENTAL STRATEGY

USAID's agricultural, rural development, and environmental strategy is directed toward the following identified and interrelated problems: (1) stagnating agricultural production and productivity; (2) the inability of agricultural institutions to deal with the small farm subsector and the rural poor; (3) the lack of an effective human resource base within those institutions (particularly in research, extension, and education) which might serve small farmer needs; (4) the severe underemployment and lack of well-being existing in rural areas; and (5) lack of planning and enforcement in the area of natural resource use and preservation. Each problem is discussed briefly below.

- (1) Agricultural Production. Stagnation and declines in production and yields have been widespread throughout the sector. The situation has been particularly severe in basic grains. Domestic wheat production has been declining in absolute terms and now fills only 6.6% of Ecuador's total domestic demand; imports of around \$30 million per year must make up the deficit. Corn, barley, sorghum, and oats are

also imported. Ecuador was basically self-sufficient in rice through mid-1978, but imports are now taking place. In the areas of milk products and short-cycle oil crops, production has increased, but considerable and increasing imports are still necessary. Other traditional food crops, such as beans and potatoes, have stagnant production and low yields; potato yields, for example, are only 44% of those obtained in Chile and 35% of those of the GOE's experimental stations. Traditional export crops--bananas, sugar, coffee, cocoa--have fluctuated over the past several years but are basically stagnant. Animal production is also experiencing a period of little growth. Only fishing has shown favorable increases.

The reasons for the stagnation in agricultural production are several. There is no doubt that a prolonged period of below normal rainfall has adversely affected production. Factors discussed in the following subsections (e.g., inadequate attention to the small farmer, bad soil practices) have also contributed to the stagnation. But most important have been certain GOE policies which serve as disincentives to agricultural investment, and poor implementation of those other policies which might otherwise serve as incentives. These policies have varied over time and by crop, but have included fixed prices which do not always favor the producer, importation of foodstuffs at inappropriate times, significant export duties, the permitting of some of the most productive land to be idle or underused, and direction of credit toward import substitution industries rather than agriculture. Furthermore, there are serious inefficiencies in and lack of coordination among the various agricultural service institutions.

- (2) Small Farm Subsector. The GOE provides agricultural services in research, agricultural education, mechanization support, land reform and colonization, irrigation, marketing, improved seeds, credit, and cooperatives, plus integrated programs in a number of specific subsectors and crops (e.g., livestock, forestry, rice, cotton, bananas). These programs are mainly geared to and directed toward large and medium-sized landholders. The recent Baseline Study of Ecuador's Research, Education, and Extension System concluded that there was a highly significant positive correlation between the GOE's assistance efforts and the wealth of a region. Small farmers, despite their greater numbers and productivity per hectare, receive few services. The reasons for this are several. There is a predisposition among those in Ministry of Agriculture (MAG) agencies toward "modern" tractor-oriented technologies. Secondly, many MAG personnel feel that the future of Ecuadorean agriculture is in the hands of the large producers of export-oriented cash crops. Third, with limited resources, the agencies find it easier to reach the, say, 75,600 farmers with 20 or more hectares each, who control 81.5% of the productive land, than the approximately 400,000 small farmers who have up to five hectares each, who together control only some 7% of the land. Fourth, small farmers generally live in harder to reach areas. And fifth, there are cultural factors which make this group unattractive clients for the agencies, including language differences, racial and class distinctions, and less receptivity to change.
- (3) Public Sector Human Resource Base. The above two problem areas stem to a large degree from a lack of an effective human resource base in

the agricultural sector. As the Baseline Study documents, the technical schools and universities responsible for training in the agricultural sciences are severely deficient in curricula, laboratory facilities, and library resources, making it almost impossible to develop the types of professionals needed to serve a growing agricultural sector and to address small farmer needs. University training beyond the B.S. level is practically nonexistent. Academic training at all levels is theoretical and deficient in practical experience. Furthermore, the public sector does not offer adequate incentives and motivations for individuals to utilize in the field the training they do receive. These factors have led to "asphalt agronomists" and to individuals who do not have the depth of skills nor the motivation to deal effectively with the problems of agriculture and rural development.

- (4) Rural Poverty. The severeness of the rural poverty situation was documented earlier in this CDSS. Much of the problem stems from the large amount of underemployment in rural areas; given the land base, the use of land, and the small amount of nonagricultural employment, there simply are too few jobs adequately supporting the rural population. Land tenure is a major factor in this. Most of the best land in the country continues to remain in the hands of the largest farmers, generally underutilized and sometimes barely utilized, while small farmers remain relegated to marginal lands, often under sharecropping or land-for-work tenure systems. Though 43% of the land slated to be distributed in the agrarian reform program has been distributed or is in active process of being distributed since the program began some 15 years ago, that reform which has taken place generally has been on marginal lands divided into

small plots, with inadequate services provided the recipients and with many other problems as enumerated earlier.

There are two other factors which keep small farmers locked into a cycle of poverty. First, most small farmers are members of indigenous or other traditional groups which typically resist change. Survival of these groups to date has meant adherence to strict sets of agricultural and cultural practices. Secondly, there are a number of economic and social relationships which bind the small farmer to certain production, credit, and marketing arrangements. Though the traditional huasipungo serfdom system has been formally abolished by law, remnants of it remain strong in the form of sharecropping, debt arrangements, and forced marketing situations. Few small farmers have any other access to inputs and services; effective small farmer organizations which might supply inputs and services are rare.

- (5) Environment. Environmental degradation in Ecuador is well documented in a 1975 study commissioned by AID and in a number of more recent studies and articles. It is particularly severe in the Sierra, although rapid clearing of land in certain parts of the Coast and the Oriente is creating the potential for problems. The problems in the Sierra generally involve severe soil erosion and damage to watersheds caused by poor agricultural techniques (particularly in the cultivation of steep slopes), poor range management (particularly overgrazing), and the denuding of forests for firewood and lumber.

Proposed Response

USAID's proposed response will be in up to nine project areas, which may be further combined or divided into specific projects. The emphasis

in all areas will be on demonstration and limited capital transfers for specific ends, not on major national credit or large infrastructure programs. Specific projects will depend on what directions the new government takes in regard to the problem areas identified above. In all cases, USAID will attempt to influence the GOE to adopt sound agricultural, rural development, and environmental policies which encourage increased investments, production, income, and quality of life in the rural sector. In addition, USAID intends to encourage GOE and private institutions to appreciate the social and cultural diversity of the country and to foster these differences in positive ways. The nine project areas are:

- (1) Small Farm Technology Needs. USAID's initial project thrust, beginning with a FY 1980 project, will be to strengthen the linkages between the MAG service institutions and the small farm subsector. This will involve activities in several areas. One will be in developing an effective farmer advisory service, the lack of which the Baseline Study highlighted as a major constraint to small farmer development. A second will be in human resource training, discussed in more detail in (2) below. A third will be to make research more relevant for small farmer problems. USAID will assist the National Agricultural Research Institute (INIAP) in developing, and the farmer advisory service in disseminating, information modules acceptable and appropriate to small farmers. These may be in land use and soil conservation; traditional small scale, high altitude crop production (e.g., potatoes, beans, quinoa); new production possibilities for small farmers (e.g., in horticulture, in aquaculture); appropriate tools and machinery; alternative rural energy sources; appropriate technologies for rural women (hopefully coordinated

with a regional project on the same subject); and proper pesticide use. A fourth area of activity will be to assist MAG to expand and improve its agricultural statistical information service and to strengthen its planning and project implementation functions, particularly as related to the small farm subsector. A proposed AID regional project in remote sensing for agriculture will complement this effort nicely.

- (2) Human Resource Training. Though training will be a part of every project area, it is highlighted here because of the importance the Baseline Study placed on it and because it will likely be the subject of one or more separate USAID projects. Training will have to be given at the more advanced levels to persons planning and carrying out small farmer programs. In addition, and crucial to the success of any small farm effort in Ecuador, the extension staff will have to be well trained in the agronomic techniques, communications methods, sociological sensitivities, and organizational skills required to deal with the small farmer.
- (3) Nonagricultural Rural Employment. Many farm units in Ecuador are uneconomically small. Members of these families must now become landless farm laborers, migrate to a town or city, or remain severely underemployed. As the population grows and as large farms mechanize and need less labor, urban migration is often the only alternative, which usually means trading one form of poverty for a worse one and contributing to the severe social problems of Ecuador's cities. USAID will examine alternatives for increasing rural employment and expects to present one or more projects toward this end. Possibilities include

general small business development in rural areas (perhaps under a Productive Credit Guaranty Project), manufacture of appropriate technology tools, agroindustry credits, rural infrastructure using labor intensive appropriate technologies, and OPGs for handicraft development. A particularly promising new institution, which USAID anticipates working with, is FODERUMA.

- (4) Specific Subsector Opportunities. USAID will support specific product or subsector efforts which, if successful, could be replicated and provide substantial target group benefits. A proposed regional crop insurance project is one such example. As another example, USAID is currently considering an OPG with a union of rice growers' cooperatives which plans to establish storage and other marketing facilities and perhaps a mill. If successful, the project could serve as an example to other cooperatives and to farmers considering forming cooperatives. As other examples, specific projects in small farm soybean production, vegetable production, and animal production could bring substantial nutritional as well as economic benefits to the target group.

USAID expects that projects of this nature will normally be done using small farmer organizations of one form or another. USAID has had mixed success in the past in assisting cooperative organizations and does not intend to provide major project support to entire movements or federations. But USAID believes that small farmer organizations can play an important role in specific subsector activities and intends to provide appropriate support.

- (5) Integrated Rural Development. There are several COE, local governmental, semiautonomous, and private entities in Ecuador which have

undertaken or are undertaking integrated rural development activities, some with considerable success. USAID sees an opportunity to participate jointly with such institutions and/or other donors in such integrated programs; and perhaps once some of these earlier activities are evaluated, USAID will sponsor a new program in one or more of the poorest areas of the country. Since community needs vary, AID's participation might be in such diverse areas as irrigation, storage facilities, and rural roads. Such programs will be expected also to include inputs in health, family planning, education, and possibly other sectors, whether financed by AID or not. A main objective of AID participation in such programs will be to demonstrate the efficacy of local institutions' mounting such efforts and to interest GOE entities in participating when appropriate. USAID will also explore the possibility of carrying out such activities in agrarian reform areas in coordination with the Agrarian Reform Agency, serving as an incentive to carry out rational agrarian reform.

- (6) Environmental Data Collection. In order to focus the GOE on the severity of the environmental problems and to encourage it to set policies and provide enforcement measures, USAID expects to assist the GOE in establishing an environmental data base and reliable data collection. This will most probably involve remote sensing techniques. It will also likely involve TA to enable the GOE to formulate and enforce effective policies.
- (7) Land Use. Proper land use, particularly soil conservation and water use practices, is expected to be part of the information modules to be developed under the project efforts described in (1) above. Most

of these activities are expected to be in the Sierra. USAID also anticipates land use activities in the Coast and Oriente, centering on proper techniques and zones for land clearing, proper tropical agricultural practices to avoid soil depletion, rational utilization of wildlife, and other factors concerned with the ecological balance. This subject takes on particular significance when one realizes that the 80,000 Oriente Indians depend on this ecological balance for their existence and, unless timely measures are taken, are prime candidates for cultural or even physical extinction as colonization continues its pace.

In addition to the above land use project activities, USAID anticipates activities in range management and proper livestock control, particularly in the areas of the Sierra above 10,000 feet. These zones are severely overgrazed, particularly now after two years of drought. Such activities can be part of or in addition to a program of small farm animal production, as mentioned above.

- (8) Forestation. Not only does the GOE need encouragement to begin enforcing laws on cutting and replanting, but more research needs to be done on tree varieties appropriate for the different climatic zones of Ecuador, particularly on hardwoods. Most importantly, since with present production rates and prices at least one softwood variety is more profitable than most traditional crops in the Sierra, USAID anticipates a project effort in forestry as a cash crop for small farmers. This will require unique credit and TA arrangements which will have to be carefully studied. USAID also expects that any project in forestry will be done in connection with efforts in alternative rural energy sources.

- (9) Other Environmental Activities. USAID expects to support smaller efforts, normally funded through OPGs or other grants, in specific areas when opportunities to solve specific severe environmental problems present themselves. Possible examples are (a) establishing a curriculum for teaching environmental protection in schools, (b) creating an appropriate technology for clearing land with less environmental damage than the bulldozer, (c) ridding the Galápagos Islands of introduced feral species of plants and animals, (d) assessing the land use potential of Ecuador's arid areas (e.g., southern Chimborazo Province, Santa Elena Peninsula), (e) establishing environmentally controlled zones (i.e., national parks) in important watershed areas, (f) establishing wildlife protection and control in various ecological zones, and (g) formulating a water pollution policy.

C. EDUCATION SECTOR STRATEGY

Ecuador's Educational Development Plan for the period 1973-1977 stated that the GOE goal was to provide "more and better" education to the entire population, with emphasis on the poorest segments of society. Specific objectives included (1) the priority provision of basic education to the 6-11 year-old population group, (2) emphasis on basic education to population in rural areas, (3) a significant decrease in the illiteracy rate, (4) the creation of nonformal education programs to serve marginal population groups, and (5) improvement of both the quantity and quality of education at all levels. While these objectives are commendable, they are vague as to how much more education will be provided, to whom, in which regions or areas, and by when.

There have been definite quantitative improvements in the sector. For example, the literacy rate increased from 70.1% in 1972 to 75% in 1976. However, little attention has been given by the Ministry of Education (MOE) to conceptualizing strategies for qualitative improvements in the education system, especially regarding programs oriented toward improving productive skills and the health and nutrition of low income rural and small town families. There are vocational schools for teaching and improving productive skills, but these are mainly located in the principal cities and only serve limited needs. Little is being done in areas of health, nutrition, and sex education. In brief, despite generous GOE budget expenditures for education (about 24% of total), USAID believes that education programs, particularly those outside major cities, are characterized by a serious lack of relevance to current economic and social needs and realities. There is also a severe problem of persons entering the formal educational system with inadequate knowledge of Spanish.

USAID's strategy, which will become operational starting in FY 1981, expects to focus on nonformal education, vocational education, and nuclearization. The latter is a new organizational concept in Ecuador which seeks to make education more relevant to the needs of rural populations. USAID hopes to address the bilingual problem within the context of the nonformal and nuclearization programs. In addition, beginning in FY 1980, USAID expects to begin a training for development program.

Nonformal Education (NFE)

This subsector will focus on the generation of skills and knowledge outside the traditional classroom approach. It will include (1) activities

oriented toward improving the skills and knowledge of persons who already have employment, (2) activities oriented toward the preparation of persons, particularly youth, to obtain employment, and (3) activities aimed at the development of skills and knowledge which are nonwork related. Types of activities are expected to include agricultural extension, rural community development services, training of unionized workers, apprenticeship training for adults, development of handicraft skills, and provision of training in such areas as health, nutrition, family planning, basic household economy, and leadership. All such programs will have to be carried out in close coordination with, if not in part by, the Ministries of Agriculture and Health. USAID will pay special attention to how it might assist the GOE in expanding its existing nonformal education program which is presently serving 20 rural communities in four provinces.

Vocational Education (VE)

USAID expects to support public and private VE efforts among (1) urban and rural youths who have received some academic education but who lack sufficient skills to obtain productive employment, and (2) the less educated, more vulnerable residents of squatter settlements who are forced to seek any available marginal employment and who need programs to provide them with basic skills so they can find more permanent and productive jobs.

Experience with VE has pointed out certain difficulties. One is the tendency to develop large scale training in "modern" skills with limited market potential to the disregard of less glamorous skills which could provide productive employment to larger numbers of the poor. A second difficulty is in how the training is provided. Purely governmental programs seem not to be particularly effective, whereas large scale private enterprises, which do a

good job in training, are typically not interested in providing training to other than their own workers. To overcome these difficulties, USAID will help the MOE experiment with alternative VE approaches including (1) training through cooperatives or through consortia of small enterprises formed specifically for providing training, (2) training in which the services of skilled staff from existing larger enterprises are used to help achieve appropriate content and quality in training, and (3) paying larger-scale enterprises which already have their own training programs to provide training for the workers or potential workers of small enterprises which are potential subcontractors to the larger firms. In addition, USAID will continue its support, principally through OPGs, to the several private VE institutions in Ecuador which are doing a fine job in providing training to slum and other disadvantaged youth.

Nuclearization

USAID expects to support MOE efforts to implement the Nuclearization Program, initiated in 1976. This program seeks to involve communities in socio-economic activities conceived at the local level and carried out through "education centers for rural development." The key innovative elements of this concept are (1) an integrated, concerted approach among teachers, community groups, and students, and (2) the multi-disciplinary participation of the various GOE agencies concerned with rural development. As practiced, the MOE selects a target community, makes certain organizational efforts, enlists the participation of all schools and GOE agencies in the area (e.g., in health, in agriculture), and establishes a nuclear school where the activities will be coordinated. Together, the involved

parties undertake a concerted attack to address the socio-economic needs of the community--all under the direction of one "education committee for rural development" in which community members participate. The NPB reports that this effort is underway in 23 communities involving about 34,000 students, 360 schools, and 900 teachers. USAID believes that this approach holds great potential for increasing popular participation in the decision-making process throughout the country.

Training for Development

In addition to the need to provide a relevant education to the poor so that they can become productive members of the economy and thus escape the bounds of poverty, a crucial identified need in Ecuador is training for policy makers and managers so that they can set and manage sound policies which most effectively provide for equitable development. Except for a handful of individuals who have had the resources or good fortune to study abroad, the public sector does not count with top and mid-level personnel who understand the dynamics of development or who can effectively plan and manage the implementation of development programs. Therefore, in addition to participant training within individual sectoral projects, which will primarily be to increase the technical skills of those who implement programs, USAID expects to undertake, beginning in FY 1980, one or more training for development projects to train at advanced levels those mid and top level personnel who plan and develop the programs and guide their implementation.

D. HEALTH, POPULATION, AND NUTRITION STRATEGY

USAID intends, insofar as possible, to assist in the sectors of health, population, and nutrition through integrated programs combining the three sectors. The target group will be primarily the inhabitants of rural communities with from 500 to 1,500 population, areas with significant problems but where the Ministry of Health (MOH) is beginning to concentrate through the establishment of health posts. AID projects in health training, infant/maternal health, family planning, nutrition, and environmental sanitation will, in most cases, be structured through such health posts and will be carried out by trained paraprofessionals.

Ecuador is facing a demographic threat. GOE projections for the year 2000 indicate only a modest decline in the birth rate from 44 to 38 per 1,000, with the decline occurring toward the end of the period. This would mean a population increase of from approximately 7,800,000 in 1978 to almost 16,200,000 in 2000. This would signify an increase of 4,600,000 persons in the economically active population and an increase of 2,300,000 in the number of school children. Whether the country can create enough jobs, produce enough food, provide sufficient educational opportunities, and otherwise support adequately such a population is questionable.

Though, as will be explained below, USAID's family planning programs will be national in scope and may extend into urban as well as rural areas, USAID's health and nutrition efforts will basically be demonstrative and limited in area, permitting the GOE to continue and expand the activities if successful. Concentration will be on rural areas, both because the needs there are greater and because the GOE is just beginning to concentrate on the health and nutrition needs of the rural areas. Demonstrative programs could therefore have a significant developmental impact.

Health

In the rural health sector, the MOH has begun to establish minimal health posts in small population centers, staffed by paraprofessionals. By 1977 there were 200 such posts, and the MOH expects to have 1,000 established by the end of the next five years. Nonetheless, this will still serve only some 7% of the rural population. In addition to lack of health facilities, the rural population suffers from lack of basic environmental sanitation services. Only an estimated 13% have access to safe water; the 1974 Census showed that 86.8% do not have access to either a toilet or a latrine. As a result, the rural death rate, infant mortality rate, and birth rate are higher than those for urban areas.

The MOH has recently obtained a \$9.5 million loan from the IDB to permit extending the number of health posts to other communities. This will permit the MOH to extend its physical facilities, but USAID believes that gaps will remain in the preparation of the necessary human resources. USAID sees an opportunity to participate in the program in both the preparation of the technical personnel who organize, instruct in, administer, and evaluate the program and the training of the paraprofessionals themselves. The latter are members of the local communities who not only must be trained in health, nutrition, and family planning techniques but must be taught principles of community development and how to coordinate with other GOE entities (e.g., MOE, MAG). USAID also expects to work with the MOH on research to determine the most effective ways the health posts can deal with the major health problems of rural areas, including enteritis, bronchitis, and pneumonia.

In addition to supporting the MOH health post effort, USAID expects to work with other, generally private, institutions in community health

efforts which may have replicable aspects for the MOH. For example, USAID recently approved an OPC for a four-year community health project in several areas, which combines analysis of community health problems, preventive medicine, a certain level of curative health measures, and environmental sanitation. Though the project is to be carried out by a private entity, the MOH is involved in the project and intends to utilize in its programs the lessons learned.

USAID is also interested in environmental sanitation, as lack of safe water is probably the number one cause of infant and child health problems. USAID will study the best manner to proceed in this area. It is possible that an OPC or other grant project will be approved as early as late FY 1979, to test certain techniques and approaches before USAID develops a larger scale demonstration loan project with the MOH. The "AID pump" and simple latrine technologies will be candidates for testing.

Nutrition

The nutritional situation of the population is not good. A National Institute of Nutrition (NIN) study from 1976-77 indicates that 40% of the population under 5 years of age (some 550,000 children) are malnourished (75% of those suffering from first degree malnutrition, 23% second degree, and 2% third degree). In the total population some 16% (1,200,000 persons) are considered to be malnourished. As indicated earlier in this CDSS, there is a deficit of both protein (43%) and calories (14%) in the diet as a whole. Part of the problem stems from the fact that a significant proportion of the population does not generate sufficient disposable income to provide for an adequate diet.

USAID is already involved in the nutrition sector through PL-480 Title II feeding programs (CARE and CRS) designed to prevent children and mothers from impoverished families from falling into states of malnutrition, particularly into the second degree. USAID, however, realizing the transitory nature of such assistance, expects to go further in this sector. It anticipates working with the NIN and the MOH in a program of nutrition education for rural people through the health posts, teaching improvement in diet, food and water preparation, breast feeding, and child care. Any such programs will have to be coordinated closely with PL-480 Title II programs and with the MAG, since an important part of nutrition improvement should be the production of nutritionally rich foods for home consumption. Family planning education should also be an integral part of all PL-480 Title II and other nutrition programs.

Family Planning

The Ecuadorean Constitution proposes responsible parenthood and gives parents the right to have the number of children they can support and educate. In spite of this policy, practice is mixed; some officials seem less than supportive of family planning measures, while others are enthusiastic. Several GOE entities--the MOH, the Ministry of Defense, and the Social Security System--provide family planning services, but only on demand, with no active promotion. An estimated 84,000 persons are active participants in these family planning programs; an unknown but certainly smaller number obtain family planning services from private sources (doctors, pharmacies, private programs). The number of new users is estimated to have grown modestly each year, but the total number of users is still too low to have made a noticeable impact on the general level of fertility.

USAID expects to have a strong involvement in the family planning subsector, in support of both GOE and private efforts. USAID's policy is expected to be in five areas. First, it will work with the MOH to extend family planning programs into the rural health centers where such programs are sorely needed. It will initiate this effort with its FY 1980 Community Based Distribution of Contraceptives Project. Secondly, it will attempt to develop programs of family planning communications and education to promote the use of such services to those who have a potential demand for them and to make the country's leadership aware of the need for such services. Such programs could include family and sex education classes in schools. Third, it will provide TA to INEC and the MOH to (1) improve the system of data collection on births and deaths, (2) conduct demographic research, so that the population increase situation can be accurately and credibly demonstrated, and (3) encourage the GOE to formulate rational and well thought out demographic policies. Fourth, it will continue to work with and through intermediary institutions (e.g., Pathfinder Fund, Battelle, Planned Parenthood International) on programs which can have demonstrative effects or other significant impacts on the family planning situation. Finally fifth, USAID will attempt to integrate family planning activities into its other sectoral programs.

E. SHELTER SECTOR STRATEGY

The 1974 Census shows that Ecuador's urban population has been growing at a more rapid pace than the nation as a whole (67.4% versus 45.7% from 1962 to 1974). Urban housing stock has been growing at about the same pace (66.1% during the same period), but the vast majority of the growth has been in rudimentary units not meeting the most minimal standards. Data from the

1974 Census show that 55.0% of the urban housing consists of one or two-room units (with an average of 5.55 persons per unit), and 34.6% of the total units average three or more persons per room. Only 40.9% of urban units are owned by their inhabitants, the remainder being occupied under various forms of rental arrangements. Only 44.8% of urban units have water supply in the unit and only 42.5% have toilet facilities in the unit (16.0% have no access whatsoever to toilet facilities or a latrine); 83.5% have electric service and 64.4% sewerage services. In all, there is an estimated deficit of some 250,000 urban units. The rural situation is worse in all categories, with an estimated deficit (including replacement of units not meeting minimal standards) of over 500,000 units.

The Junta Nacional de la Vivienda (JNV) and the Banco Ecuatoriano de la Vivienda (BEV) are responsible for the production of housing for the poorer segments of the urban population. Though JNV/BEV programs are now producing over 5,000 units annually, the majority of the programs deal with the lower and middle strata of the urban middle class. The largest programs have prices beginning at \$4,615 and going to \$15,348 (versus an estimated top line of \$3,550 for what AID would consider a feasible low income program based on the capacity of low income persons to handle mortgage payments). BEV interest rates range from 4% to 12%, with most in the 8% to 10% range; BEV loans usually have 20-year terms.

In July, 1976 a Shelter Sector Assessment (SSA) was completed. Any new AID involvement in the shelter sector will be dependent upon a revision of this SSA in conjunction with the JNV, expected by mid-CY 1979. The revision will concentrate on whether a HIG, given current and expected interest rates, could effectively impact on the shelter needs of Ecuador. Only if U.S. re-

sources can make a significant impact on the institutional constraints which prevent minimally acceptable housing solutions from reaching the very poor will AID initiate a housing program in Ecuador.

If AID enters the sector, USAID anticipates the following elements to be part of that strategy, based on the 1976 SSA: To encourage concentration by the JNV/BEV at lower income levels, overlapping less at mid-levels with the S&L system; to assist the JNV/BEV in overcoming the real and perceived obstacles (administrative, greater credit risk, less political visibility) which now hold them back from greater participation in low cost programs; to support low cost housing programs in the secondary cities of Ecuador and perhaps in rural areas; to encourage greater coordination between municipalities and the JNV/BEV; and to support home rehabilitation and urban upgrading, particularly in the slum areas of Guayaquil. USAID will also encourage self-help measures where possible (e.g., the traditional minga).

PART III: PROPOSED ASSISTANCE PLANNING LEVELS

CATEGORIES	Fiscal Years (\$000)					TOTAL
	1981	1982	1983	1984	1985	
A. RURAL DEVELOPMENT (F&N)						
1. Loans	2,000	14,000	11,000	17,000	24,000	68,000
2. Project Grants						
a. Training*	600	700	700	600	600	3,200
b. Research	300	1,000	1,200	200	200	2,900
c. Production				1,000	1,000	2,000
d. Institution Building*	500	600	800	600	500	3,000
e. Nutrition		300	300	300		900
f. PD and S	200	200	100	200	200	900
g. OPGs	500	500	500	700	900	3,100
SUBTOTAL	4,100	17,300	14,600	20,600	27,400	84,000
B. HEALTH/POPULATION (HE/POP)						
1. Loans	4,000			7,000		11,000
2. Project Grants						
a. Training*	500	500	500		400	1,900
b. Institution Building*	300	300	300	200	100	1,200
c. Population	1,200	1,700	1,800	1,800	1,800	8,300
d. PD and S	100	100	100	100	100	500
e. OPGs	400	400	400	400	500	2,100
SUBTOTAL	6,500	3,000	3,100	9,500	2,900	25,000
C. EDUCATION (EH)						
1. Loans	7,000		10,000		6,000	23,000
2. Project Grants						
a. Training*	400	400	400	400		1,600
b. Nonformal Education		400	300	400		1,100
c. PD and S	100	100	100	100	100	500
d. OPGs	200	200	200	200	300	1,100
SUBTOTAL	7,700	1,100	11,000	1,100	6,400	27,300
D. SELECTED DEVELOPMENT PROBLEMS (SD)						
Grants						
a. Environment**			200	200	200	600
b. Land Tenure				200	200	400
c. PD and S	100	100	100	100	100	500
d. OPGs	200	200	200	200	200	1,000
SUBTOTAL	300	300	500	700	700	2,500
TOTAL	18,600	21,700	29,200	31,900	37,400	138,800

* In addition to training and institution building efforts under loans and other grant categories.

** Most environmental funding will fall under the F&N category.

Justification of Planning Levels

The Proposed Assistance Planning Levels (PAPLs) that are shown in the above table constitute the first package of developmentally meaningful programming after the near phase-out of USAID assistance to Ecuador in the mid-1970s. As such, it is important to the achievement of program objectives, as set forth earlier, to have a suitable minimum project funding magnitude which will permit desired changes to occur in the GOE priority assignment process and in the allocation of resources toward basic human needs sectors of involvement. As previously noted, Ecuador remains a poor country where almost two-thirds of the population are below the poverty line. Further, the end of the petroleum boomlet is near, which portends stagnation for this group unless the above mentioned changes in priorities and allocation of resources take place through the GOE's own initiative in concert with AID and other donor inputs.

With the upcoming return to a constitutional regime in 1979, the new administration of Ecuador will face a formidable array of economic, social, and administrative problems. The USG, which has actively encouraged the return to constitutionality, should be as helpful as possible in working toward solutions to perhaps the most crucial part of such problems, namely the socio-economic progress of the poor majority. This will hopefully contribute to the viability of the emerging democratic system and demonstrate the USG's solidarity with it.

The composition of the PAPLs, based on the analysis in Part I and the specific proposed activities discussed in Part II, is most heavily oriented toward the F&N category, because of the extreme complexity of addressing Ecuador's rural development and environmental problems. The sectoral allo-

cations are intended to enable AID and the GOE to undertake moderately sized development projects which will cover, in a comprehensive and integrated manner, the crucial social and economic development problems of the poorest segments of the society in the basic human needs sectors. The resulting development projects are intended to be primarily of a demonstrative nature, which while causing significant and direct changes in the lives of several thousand Ecuadoreans, will demonstrate the need, feasibility, and viability of continuing and expanding the activities on a national scale.

PL-480 Title II and HIG Programs

Ecuador currently has one of the highest rates of population growth in Latin America (3.4%). For 15 years the rate of agricultural production has consistently lagged behind population growth. As the GOE begins to undertake measures to encourage greater food production, particularly among small farmers, there is a need to encourage production of those crops which will have the greatest nutritional benefit for the population.

PL-480 Title II soy flour appears to have been an incentive to domestic soybean production in that from 1968 to 1978 soybean hectareage increased from 510 to 25,000 and production from 111 to 21,250 metric tons. Such production, however, is totally being absorbed by the edible oils industry, and the need appears to continue to import soy flour until it begins to be processed in Ecuador (unlikely for at least the next five years). Milk, whose demand has also been stimulated by the PL-480 program, remains in chronic short supply. At this time, domestic milk supply is significantly below demand, with urban areas having priority with producers. Oats have not been produced in quantity in Ecuador, and those that have been produced

have normally been utilized as animal feed. However, under an aggressive commercial marketing program, assisted by the MOH through its maternal and child health care programs, oats are becoming a popular food product. In short, modest PL-480 inputs can serve as incentives for production and consumption of nutritious foods among vulnerable groups and can provide needed commodities until supply begins to meet demand.

The products supplied under the PL-480 program are being distributed to groups unable to compete economically. If the donated food were not available, recipients would not be able to purchase a substitute. Medium range planning for food requirements in Ecuador demonstrates that a combination of strong efforts in domestic production and continued imports will be required to meet the demand of a growing population. The PL-480 input, although projected at modest levels, will contribute to the overall picture by serving as a food supplement and nutritional aid to the poorest segments of society. USAID expects the composition of PL-480 inputs to shift gradually to combinations which could eventually be filled by domestic production, with the ultimate objective that Ecuador will become self-sufficient in food supplement programs.

PL-480 Title II food aid requirements are planned at the following levels in US\$000:

1981	-	3,400	1984	-	4,000
1982	-	4,000	1985	-	3,000
1983	-	4,000			

The role of Housing Investment Guaranties over the planning period is fully discussed in Part II, Section E above. HIG levels are tentatively planned at US\$ 20.0 million in FY 1980 and US\$10.0 million in FY 1982.

Staffing Requirements

In order to successfully achieve the objectives of the program strategy at the PAPLs, the current on-board staffing situation (3 USDH, 14 FNDH) will have to be increased to more realistic levels. Even a modest program requires an adequate management, financial, and support services DH staff. If USAID/Ecuador is to gradually reach its FY-1985 PAPL, the following minimum staff levels will be required:

(In work years)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
1. USDH	10	10	12	12	14
2. FNDH	20	20	24	24	26
3. PD and S	6	6	5	5	5