

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



ECUADOR

**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 83

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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523**

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USAID/ECUADOR
UPDATE OF THE
COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS)
FY 1982 - FY 1987
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CDSS UPDATE

I. Introduction

The process of renewing the A.I.D. Development Program in Ecuador started in mid 1978, following a USG decision to support Ecuador's return to a democratic, constitutional government. There was also a growing recognition that Ecuador remained one of the least developed countries in South America despite the discovery and exploitation of oil reserves at the beginning of the 1970s.

The first CDSS for the Ecuador program was prepared in January, 1979, about six months before Ecuador's elected Government assumed office on August 10, 1979. That initial document contained a tentative, preliminary strategy intended to be modified following discussions with the newly elected Government. Shortly after August 10, 1979, the Mission initiated these discussions and submitted in January, 1980 the FY 1982-1986 CDSS which proposed assistance for several of the GOE's highest priority development programs, as outlined in its 1980-1984 Development Plan.

The 1982-86 CDSS reflected the specific areas for A.I.D. cooperation personally requested by Ecuador's elected President Jaime Roldós Aguilera, Vice-President Osvaldo Hurtado,* and key GOE Ministers. The strategy contained in this document opened the way for the design of the initial package of programs, which were approved and funded in FY 1980. To date,

* The Ecuador Vice-President is also President of the National Development Council (CONADE) and as such he is responsible for overall GOE development planning.

the FY 1982-86 strategy approved in January 1980 remains fundamentally unchanged. Therefore, this update briefly summarizes: (1) the development strategy contained in the FY 1982-86 CDSS and its current status; and (2) the GOE performance since the Roldós Administration assumed office in August, 1979. Based on a year's operation experience, it also revises the resources estimated as necessary to implement that strategy.

II. Ecuadorean Development Problems

Ecuador is one of the least developed countries in South America, although income from its small oil resources caused the country's per capita gross national product to increase to \$880 in 1978. Because of inequitable income distribution, over half of the population of 8.4 million is little affected by this economic growth and continues to live in absolute poverty. Growing development problems hinder Ecuador from meeting the basic human needs of large segments of its population.

With few exceptions, agricultural yields in Ecuador have not increased significantly during the last decade. Per capita food production, now one of the lowest in Latin America, has been declining since 1968. Despite increasing grain imports (now running at \$5 million monthly for wheat) there are widespread nutritional deficiencies. About 40 percent of children under five years of age are malnourished. Ecuador's ability to import food is diminishing. The volume of oil exports is declining and domestic consumption is rising rapidly. Oil exports would terminate by 1985 unless new petroleum exploration and production can be substantially in-

creased. Moreover, exports of some traditional crops have been declining in volume (e.g., bananas, sugar), and world prices falling (e.g., coffee, cacao).

Basic social services are inadequate. There are few doctors and nurses in rural areas; only 17 percent of rural Ecuadoreans have access to public water systems; the infant mortality rate of 66 per 1,000 is one of the highest among countries of similar levels of development; adult illiteracy in rural areas is 34 percent and over 70 percent of all rural children drop out of school by the fourth grade. There is a housing deficit of over 800,000 units which includes existing housing that does not meet minimum shelter standards. These problems are compounded by the rapid population growth rate of over 3 percent which is one of the highest in Latin America.

Deforestation, soil erosion, watershed damage, ecologically unsound encroachments on tropical rainforests, growing urban pollution and population pressures are serious threats to the environment. These problems greatly affect Ecuador's prospects for increasing agricultural production and incomes and for improving the socio-economic condition of large segments of its population.

Within the above context, the key causes of poverty identified by the USAID are:

- Agricultural stagnation and lack of development in the rural sector which contains 57 percent of Ecuador's population and over 50 percent of its labor force;

- Widespread underemployment and low productivity, with an estimated 40 to 60 percent of the labor force not earning enough income to meet its basic needs;
- National policies that have supported capital intensive industrialization and urban modernization while neglecting the rural sector and labor intensive smaller industries and agro-industries;
- A high population growth rate of over 3.0 percent which impedes socio-economic progress and strains GOE capacity to provide basic social services; and
- Institutional, managerial, and technological weaknesses which limit the Government's ability to plan and implement low-cost development programs effectively.

III. USAID Strategy and Current Status

The renewed A.I.D. program to support Ecuador's new democratic government is based on the premise that A.I.D. cannot attempt to eliminate the country's pervasive poverty situation nor to address all the country's development problems. The needs are too great for the limited A.I.D. resources available. However, the strategy seeks to make a vital contribution toward attacking Ecuador's key causes of poverty identified above by: (1) encouraging changes in policies and resource allocations through tailored support to permit Ecuadorean institutions to analyze com-

plex policy and planning issues; (2) supporting the creation of new or strengthened delivery systems based on low-cost technologies to increase Ecuador's capacity to meet the needs of its poor and address other key development problems; and (3) strengthening the progressive elements in Ecuador's public and private sectors so that they can address better the country's critical development constraints.

The strategy is based on the GOE's 1980-1984 Development Plan, the growth with equity objectives of which closely parallel A.I.D.'s policy of assisting programs that meet the basic human needs of low-income families. The strategy's main focus, as requested by Ecuador's President and Vice-President, is on integrated rural and urban development programs and models that can attack the multiple problems of the poor. Other activities being financed by A.I.D. are public sector management training, family planning, non-conventional energy/science and technology development, and the strengthening and expansion of activities implemented by private voluntary agencies.

All A.I.D. projects being implemented in Ecuador seek to transfer ideas, technical expertise and provide incentives for pioneering new approaches to key Ecuadorean development problems. They also seek to increase Ecuador's institutional capacity to absorb development resources and direct them to high priority problem areas. These efforts influence the allocation of GOE and other donor resources by providing the mechanisms for addressing poverty and other key development problems on a sus-

tained basis. This strategy uses A.I.D. grant financed technical assistance and modest seed capital loans as catalysts to develop low-cost delivery systems, improve institutional structures, develop appropriate and low cost technologies, and implement pilot programs that can be replicated on a national basis.

The integrated rural and urban development approach builds on the experience of previous A.I.D. and GOE development efforts showing that single-faceted projects--unrelated and dispersed throughout the country--have had only a limited impact on improving the conditions of low income families. Integrated approaches that concentrate limited resources and services in specific geographic areas are believed to be more effective in addressing the country's critical poverty problems.

A. Integrated Rural Development (IRD)

The Government of Ecuador's IRD approach that A.I.D. supports recognizes the fact that the multiple problems of the rural poor involve low levels of production resulting from many interrelated causes, lack of adequate off-farm employment, poor health and nutrition conditions, lack of public services such as potable water and access to education, and serious housing and environmental degradation problems. These problems cannot be attacked by any one GOE ministry or agency. The GOE believes that they must be attacked on an area specific, integrated basis by a number of different GOE entities (e.g., Ministries of Agriculture, Health, Education), each

working together in a coordinated and coherent manner. A focus on integrated approaches is felt to be essential for achieving Ecuador's growth-with-equity objective.

USAID supports this GOE objective through a package of activities designed to develop, test and establish low-cost delivery systems. These systems are expected to: (1) strengthen national institutions; (2) provide basic services and inputs in agriculture, health, potable water, housing, education, and other areas to the neediest groups in rural Ecuador; (3) strengthen community-level and decentralized institutions so that the rural poor can better contribute to the solution of their own problems; (4) address natural resource and environmental problems that affect Ecuador's long-term development prospects; (5) raise rural incomes; and (6) create jobs in both agriculture and in rural enterprises and small agroindustries.

The ultimate goal of USAID support is to leave behind, upon termination of A.I.D. assistance, an institutionalized capability that has been tested and applied--at the national, regional and community level--to deal with rural poverty problems on a sustained and effective basis.

At the area-specific level, the IRD approach consists of a series of interrelated activities in (1) rural institutional development, agricultural production and marketing, off-farm employment

generation, and environment/natural resources; and (2) health, nutrition, potable water, environmental sanitation, housing and education. Activities in Population, Development Administration, Non-Conventional Energy, and Science and Technology, PL-480 - Title II, and activities carried out through Private Voluntary Organizations are summarized separately. Although these latter activities will complement and support the IRD approach, they cut across all sectoral boundaries. For presentation purposes, these activities, which are crucial elements of the USAID strategy, are referred to and described under Multisectoral Projects.

The USAID assistance to the GOE's IRD approach includes a series of interrelated activities falling into two broad categories: (1) institutional development activities designed to develop and/or strengthen the linkages between national, regional and local organizations and the rural poor; and (2) area specific action programs, primarily of a demonstration nature, designed to test innovative, low-cost approaches to raising agricultural production, increasing agricultural and off-farm incomes and employment, and satisfying other basic needs such as those in health, potable water, housing, and education.

USAID support to the GOE IRD strategy is being and will continue to be provided in three stages to facilitate GOE planning and implementation of its program, and in harmony with GOE absorptive capacity, progress made in developing the foundation for each stage, and with the availability of both

GOE and A.I.D. resources to finance the specific activities within each stage.

-- The first stage of the IRD Strategy includes three projects,
as follows:

- a) An Integrated Rural Development Project focusing on the agriculture aspects of three area specific IRD projects included in the GOE's National Development Plan. This Project will assist the GOE make operational its IRD mechanism and implement model small farmer delivery and production systems that can be replicated nationwide. The Project includes technical assistance for the GOE's Integrated Rural Development Secretariat and financial and technical assistance to implement two model IRD projects in low income highland provinces and the planning of an IRD project in a coastal region. The IRD program will receive various A.I.D. sectoral inputs phased over several years starting in FY 1980 with IRD institutional development and small farmer agricultural production and marketing improvements. The above project was approved in FY 1980 at a level of \$11.8, including a \$2.0 million grant. To date, the \$9.8 million in loan funds and \$500 thousand in grant funds have been obligated through a first agreement signed in September, 1980 and an amendment signed in November, 1980. The GOE

is now meeting conditions precedent to the first disbursement and placing in motion implementation activities.

(b) A Rural Technology Transfer (Title XII) Project to assist the GOE mobilize technical expertise from U.S. land-grant universities and direct these resources to improving Ecuadorean agricultural research, education, and extension institutions working on small farmer problems, including farmers within the IRD target areas where the above project will be implemented. This \$5.3 million grant project, incrementally funded, was approved and the first agreement signed in late FY 1980. To date \$700,000 has been provided to initiate project implementation.

(c) A Rural Training System Project supports GOE efforts to train campesinos to better identify and implement local development activities within IRD areas. This \$2.5 million activity is part of a centrally funded project. To date, \$ 1.2 million has been provided through the first agreement signed in September, 1980 and an amendment signed in November, 1980.

-- The second stage of the IRD strategy includes a Rural Health, Nutrition, and Potable Water Project to help the GOE develop a national low-cost rural health delivery system to be tested in IRD areas. The project includes the provision of nutrition

services, safe drinking water and environmental sanitation, in addition to other basic health services which will be part of the system. A Project Identification document has been approved and the Project Paper is expected to be completed by April-May, 1981.

The second stage of the A.I.D.-IRD strategy may also involve the provision of some loan financing for rural home improvement within IRD target areas. Financing for this element of the program would be provided through a FY 1981/82 Housing Investment Guarantee Project, the PID for which is now under development.

-- The third stage of the IRD Strategy includes three Projects:

(a) A Forestry and Soil Conservation Project to strengthen the GOE's capacity to implement coherent policies, research and conservation activities to address problems of natural resource use, deforestation and soil erosion within IRD and other areas of the Central Sierra. The PID proposing a loan for \$6.0 million and a grant for \$1.5 million has been approved and the Project Paper is expected to be completed by early FY-1982.

(b) A Small Rural Enterprises and Agroindustry Project to be implemented initially in IRD areas to address Ecuador's pervasive rural underemployment problem by: (1) providing

off-farm employment opportunities for low-income families within IRD areas, and (2) strengthening GOE institutional capacity for dealing with the problems of the rural landless and near landless. This project is proposed for FY 1982 and the preliminary proposal is expected to be completed by the end of FY 1981.

(c) Rural Education. Depending on the availability of A.I.D. funding, a Rural Education and Skills Training Project may be initiated in FY 1982 or FY 1983. The Project will upgrade formal education services within IRD areas and support a new GOE emphasis on rural vocational skills training.

The above series of interrelated, time-phased, sequentially implemented loan and grant projects will focus initially on the Central Sierra and Manabí Provinces, as requested by the GOE. These provinces have some of the highest incidence of rural poverty in Ecuador. Within the IRD framework, to the extent feasible, special emphasis will also be given to agricultural commodities considered strategic by the GOE because their importance in the food basket of the poor or their export potential.

Subsequent USAID support, beyond and above the projects outlined under the above stages, will provide additional incremental funding for ongoing activities or expand and replicate similar activities.

B. Integrated Urban Development (IUD)

The IUD strategy addresses the problems of the urban poor through an integrated approach that combines: (a) the provision of low-cost housing, water, sewerage, electricity, schools, health care, jobs, and other physical and social services; and (b) new institutional arrangements and approaches, including municipal development, for undertaking urban projects in a systematic way.

The ultimate goal of USAID assistance in this sector is to establish a systematic and integrated approach to deal on a sustained basis, after termination of A.I.D. assistance, with the housing, infrastructure, employment, and social needs of the urban poor.

Over the next five years, the USAID plans to assist the GOE finance a series of integrated demonstration projects that will serve as models for a new system to address Ecuador's serious housing deficit and urban poverty problems on a national scale. Model integrated projects will include low-cost housing, entailing home improvements when appropriate, under the HIG program; employment expansion through small enterprises, financed with A.I.D. and/or local loan resources; GOE-financed infrastructure; social services financed through OPGs, and local resources; and A.I.D. financed technical assistance, training, and institutional strengthening activities for national and municipal agencies. The A.I.D. concessional resources required to implement this strategy are very modest, averaging only \$1.0 to 2.0

million annually. The major bulk of the financing will be provided under the HIG program and by the GOE itself.

Included as part of the IUD strategy will be USAID support for vocational education programs aimed at the lower income, more vulnerable residents of squatter settlements who are forced to seek any available marginal employment and who need basic skills to find more permanent and productive jobs. USAID will continue its support, principally through Private Voluntary Organizations (OPGs), to the several private institutions in Ecuador which are doing a good job of providing training to disadvantaged urban youth.

The IUD strategy addresses the country's serious housing deficit and related problems as indicated above, and the institutional, technological and financial constraints which hamper the GOE capability for effectively addressing these problems. To the extent feasible, it will also cover the shelter aspects of the IRD program. The strategy seeks to develop two basic models for attacking the problem:

- (1) A model for Ecuador's large urban, metropolitan centers; and
- (2) A decentralized model to address the housing deficit and related problems in secondary cities, market towns, and rural areas geographically linked to the areas where the USAID/GOE Integrated Rural Development Strategy is being implemented.

Implementation of the IUD strategy started in FY 1980 with a \$20 million Housing Investment Guaranty Loan (HIG) and a complementary \$0.6 million grant to finance a low-cost housing, social services and

employment generation/training program in a low income area of Quito (the Solanda Project) that can serve as a model for integrated urban development (IUD) projects that can be replicated nationwide. This effort will be followed by similar projects to develop models in secondary cities, market towns, and rural areas in support of the GOE's decentralization program, the IRD strategy, and efforts to develop secondary cities into improved rural growth and service centers that better support regional development. This approach will entail a possible FY 1983 or FY 1984 loan/grant project in Municipal/local Government development to complement HIG and other PVO grant resources. All IUD activities are being closely coordinated with other donor activities such as the large IBRD financed urban development project in Guayaquil and efforts by the IDB and IBRD to finance urban infrastructure requirements.

C. Multisectoral Projects

The above IRD and IUD programs are complemented by projects in Population/Family Planning, PL-480, Title II, Development Administration and Planning, Non-Conventional Energy and Appropriate Technology. Activities in these areas cut across a number of sectors and they are important complementary elements for reinforcing the Mission's IRD and IUD programs. These multisectoral activities have a critical importance in the long-range development of Ecuador, as explained below:

- (1) Population/Family Planning: One of Ecuador's most serious development problems is its extremely high rate of population

growth. Because population/family planning activities address a major cause of poverty while impacting on the extremely negative effects of excessive fertility on maternal and child health, they are receiving high priority in the overall USAID strategy. The goal of USAID efforts is to help the GOE and private sector develop and establish systems for the effective provision of family planning education, information, and services to its population. The USAID will seek to develop and carry out a four-pronged program strategy based on activities that:

(a) Develop and Implement Appropriate Policies. The USAID is proposing to carefully but actively support new GOE and public opinion leaders who are now or may be in position to influence policy. This will be done through awareness activities designed to educate and motivate groups in the public and private sectors to develop a comprehensive national population plan and provide the key resources necessary to implement it.

(b) Expand and Improve the Family Planning Service Delivery Systems. The USAID will support Ecuadorean efforts to facilitate the access of rural and urban poor to family planning services. Assistance will be provided: (1) as an integral part of the public health delivery system in the MOH in accordance with this Ministry's policy and will be closely coordinated and linked to USAID-supported integrated

rural and urban development, (2) through the Ecuadorean Social Security (IESS) and Armed Forces, and (3) through increased support to private organizations (APROFE, CEMO-PLAFF and CEPAR).

- (c) Stimulate and Expand the Demand for Family Planning Services through activities that inform and educate all sectors of society on the modern means available to determine the number and spacing of children; and
 - (d) Integrate Population Concerns into all other elements of the overall USAID strategy and programs.
- (2) Development Administration and Planning. As a complement to the IUD and IRD activities addressing institutional weaknesses in the area of public management training, the USAID will support GOE efforts to establish a Public Sector Management Training System. The ultimate USAID goal in supporting this system is to improve GOE efficiency and facilitate planning and implementation of a wide range of development activities directed to the poor. It is expected that once the system is established, the GOE will be able to:
- (a) implement in-country management training;
 - (b) carry out manpower training analyses to continually assess public sector training needs;

- (c) establish priorities for training;
- (d) develop training methodologies responsive to changing needs;
- (e) effectively coordinate all training activities for public sector employees; and
- (d) carry out continuous evaluations of training impact as a basis for improving the system.

USAID will also continue to support GOE or private sector efforts to carry out planning studies that can help influence GOE policies and/or set the framework for future programs financed by A.I.D. or other donors. For example, a number of important policy-planning studies have already been completed such as: the Title XII Study on Agricultural Research, Education and Extension in Ecuador (1979), Poverty in Ecuador (1980), Income Distribution in Ecuador (1980) and The Situation of Women in Ecuador (1980). Other studies underway or being planned include: Assessment of Ecuadorean Environmental Problems to be completed in 1981; a Science and Technology Assessment to be completed with funding from the National Academy of Sciences; and a Financial Development Study. Other policy-planning studies will evolve as a result of experience gained during implementation of the program outlined in this CDSS and they will be included in subsequent planning documents.

- (3) Non-Conventional Energy and Appropriate Technology. In non-conventional energy and science and technology, the USAID will assist the GOE strengthen its institutional capacity to locate, adapt, test, demonstrate, and disseminate processes for producing energy from non-conventional sources and farm and household technologies which utilize traditional and nontraditional sources more efficiently. Efforts will also be focused on improving energy planning and supporting conservation activities in order to bring about a more rational use of Ecuador's energy resources.

The first part of the strategy is expected to begin in FY 1981 with a project directed at the institutional development of Ecuador's National Energy Institute (INE) to: (a) increase its capability to impact an overall GOE energy policy and planning; and (b) provide it with the ability to promote the flow of non-conventional energy (NCE) technology appropriate to the needs of the rural and urban poor. The project will focus on four institutional development activities: planning and policy analysis; an information network and mechanism for technology transfer; demonstrations and dissemination; and energy conservation. The last element will be coordinated by INE.

Demonstrations, which comprise a major element of the project, will primarily address the needs of the poor and will be carried out to the extent feasible, in the pilot IRD and IUD areas.

Technologies to be tested will include mini-hydro generators, solar distillation and water treating, photo-voltaics, solar technologies for fish and crop drying, windmills for irrigation, methane-gas digesters to produce cooking fuel, and more efficient cooking stoves. Other research and demonstration efforts may be in subsectors which, though not directly benefiting the poor, may have significant benefits for the whole country in reducing energy and transportation costs, conserving resources, and protecting the environment. These could include: experiments in geothermal energy sources, studies on gasohol, introduction of energy conservation measures in industry and government, and other appropriate alternative energy activities.

The second phase of the energy sector strategy to take place under one or more projects during the CDSS period, includes assistance to the GOE in disseminating NCE technologies developed and tested under the first phase. The second phase will also include a Science and Technology Project to be developed in late FY 1982 or FY 1983.

The GOE has recently established a new Science and Technology Council (CONACYT) to begin upgrading Ecuador's scientific and technological resources and direct them to the problems of the poor. The proposed A.I.D. project will assist the GOE strengthen CONACYT, improve its policy planning and project development capability, and develop linkages between CONACYT and U. S. and Latin American sources of technology, particular-

ly in those areas that address the country's key poverty problems. An A.I.D. assisted Program on Scientific and Technological Development which will include demonstration and dissemination activities will be established to finance subprojects implemented through Ecuador's universities and research facilities. Some of these institutions have already initiated small scale scientific research and technology development activities aimed at key poverty problems, but in most cases, shortages of financing and trained manpower, inadequate knowledge of similar efforts in other countries, and lack of disseminating mechanisms have proved to be serious constraints. Through CONACYT, other project activities will assist specialized GOE institutions improve their access to U.S. patent information and to remote sensing technology when these activities relate to the problems of the poor.

- (4) PL-480 - Title II. PL-480 Title II inputs contribute primarily to meeting the food requirements of lactating mothers and pre-school children in the poorest segments of Ecuadorean society. They also support GOE efforts to produce fortified foods. To the extent feasible, these inputs are being integrated with and complement the inputs provided under the IRD and IUD programs. The PL-480 Title II program will range between \$1.5 million and \$2.5 million annually during the CDSS period. This program

will continue to be implemented through two U.S. private voluntary organizations: Catholic Relief Services and CARE.

- (5) Private Voluntary Organizations: USAID works closely with Ecuadorean and U.S. PVOs in financing projects that address key development problems and that can pioneer new approaches to assisting the poor. The current program (including PL-480 Title II) provides small amounts of assistance to nine PVO projects. As older PVO projects terminate, and depending on the availability of grant funds, USAID expects to expand its PVO program during the CDSS period. Special priority will be given to PVO projects that can assist in the implementation of IRD or IUD strategies. Expanded PVO assistance in Ecuador is important for the following reasons:

- It promotes a pluralistic development process and provides a vehicle for assisting private sector development initiatives.
- PVOs can fill gaps in public sector programs and reach isolated groups that are not being served by government programs.
- PVOs can pioneer new approaches to Ecuadorean development problems. They can assume high risks and develop small scale model projects that can be replicated through later

GOE programs.

- PVO projects can complement and support larger public sector programs and help make there government programs more effective.
- and PVOs can help increase Ecuadorean capacity to absorb development resources and channel them to key development problems.

While a balanced A.I.D. development strategy in Ecuador needs to support both public and private sector activities, PVO projects can be an effective means of initiating and testing new approaches. These projects also can effectively complement larger programs being supported by the GOE and A.I.D. For instance: (1) the Fundación Mariana de Jesús, an Ecuadorean PVO, is implementing an IUD project (Solanda) being assisted by the HG program; (2) the Overseas Education Fund of the U.S. League of Women Voters, in concert with an Ecuadorean PVO, is carrying out an Urban Community Development Project that can serve as a model for dealing with social problems in the urban slums of Quito; (3) the Fundación NATURA, an Ecuadorean PVO, is undertaking a program to educate the Ecuadorean public on the country's environmental problems and is preparing a environmental profile which will provide the basis for the design of Forestry, Soil Conservation; and Natural Resources Projects, and (4) The East Los Angeles Community Union (TELACU) is implementing a program to strengthen the managerial and project development capability of local PVOs so that they can better direct resources to low income target groups.

In future years, and depending on availability of funding, new OPG projects may be financed in the areas of Rural Youth Training (the Ecuadorean 4-H Foundation), Rural Credit Union Development (the Ecuadorean Credit Union Federation--FECOAC), nutrition and vocational training, community development, and campesino organization and legal aid. To the extent feasible, new PVOs will be related to the IRD, IUD and multisectoral activities described above.

IV. GOE Performance During 1979-1980 and Economic Prospects and Commitment

A. Performance. In August, 1979 the prospects for changing the plight of the Ecuadorean poor and for better addressing key development problems substantially improved. After almost a decade of dictatorial rule, an elected civilian government assumed office through the first free elections held in Ecuador since 1968. The new Roldós Administration committed itself to begin major structural and social reforms that could deal more effectively with Ecuador's widespread poverty and rural development problems.

For the past year the Roldós Administration has been consolidating and strengthening the country's democratic government and laying the institutional and planning foundation for more significant development actions. As a first step, a National Development Council (CONADE) was created that could better plan and coordinate development projects. CONADE prepared a National Development Plan for 1980-84 that proposes an ambitious growth-with-equity development strategy that has been used to give national budgets more of a basic human needs orientation.

The new National Development Plan, approved in February, 1980, includes 41 basic development projects selected on the basis of the GOE's priority objectives of "consolidation of democracy, economic development and social justice." To attain its development with social justice objectives (growth with equity) the plan proposes an investment of around \$5.8 million for the 41 basic projects, about equally divided between (a) integrated rural development projects and social improvement projects in basic health, education, potable water, training, and housing and (b) energy development and infrastructure projects directed at promoting growth.

A December 1980 review of the status of these projects shows a mixed GOE performance. Ten of the 41 projects, including hydroelectric projects and activities dealing with petroleum development, housing, training, and rural development are progressing as planned; sixteen projects were experiencing some delays and fifteen projects, particularly of an infrastructure and reforestation nature, were experiencing serious delays. Significantly, most of the projects dealing with a rural development and basic services have been progressing at a satisfactory pace.

Specifically, among the more significant actions being carried out to attain the GOE's growth with equity objectives are the following:

- (1) An Integrated Rural Development Secretariat was created and a fund established in October, 1980 to finance Integrated Rural Development (IRD) projects and facilitate the coordination and

implementation of projects to better address Ecuador's rural poverty problems. The IRD project development process is well underway and several IRD projects are being implemented in high-land provinces;

- (2) A Campesino Training Institute has been established and new adult literacy and school feeding programs are underway;
- (3) The GOE, through the Banco Nacional de Fomento, has created a new Forestry Development Corporation (EMDEFOR) as a mechanism to expand reforestation programs. The Ministry of Agriculture is in the process of establishing a National Soil Conservation Program.
- (4) A National Agriculture Crop Credit Insurance institution has been established to facilitate the provision of credit to small farmers;
- (5) The first significant low-cost housing projects in the urban slums of Guayaquil and Quito are being implemented. These include a 10,000 unit National Housing Board Project financed in part by an IBRD project in Guayaquil, in addition to the USAID sponsored 4,500 housing unit project in Quito.
- (6) A decentralization program is being planned to develop secondary cities into improved rural growth and service centers;

- (7) An administrative reform/management training program is underway to improve the efficiency of public sector development programs;
- (8) New efforts are being implemented to expand traditional and non-traditional exports and develop hydroelectric facilities as key measures for sustaining the country's economic growth.
- (9) New projects are being initiated for the construction of irrigation facilities, the development of small industries and agro-industries, rural electrification and rural road and school construction;
- (10) A Science and Technology Council (CONACYT) has been established to mobilize scientific and technological resources for addressing key poverty problems; and
- (11) A National Women's Office has been organized to plan and coordinate programs for better integrating women into the Ecuadorean development process.
- (12) Actions to rationalize prices for basic food commodities such as rice, corn, wheat, and barley which should stimulate agricultural production have been initiated.

- (13) A new grade of higher octane gasoline has been introduced by the GOE's oil company (CEPE) as the first step in reducing gasoline subsidies. The GOE has begun a campaign to prepare the public for additional increases in gasoline prices.
- (14) The Minister of Finance has been moving aggressively on the very difficult job of improving the Customs Service and increasing tax collections. Income tax collections increased by 18 percent in 1980 compared to 1979.
- (15) The GOE's Agrarian Reform Institute distributed 241,000 hectares of land to 17,000 rural families, in accordance with the 1980 target set by the plan;
- (16) Around 378,000 illiterates have been incorporated into the voting roles.

Despite the progress made during 1980 in planning and carrying out development projects, the overall GOE performance fell short of expectations. It is possible that the "euphoria" of the 1979 return to democracy created unrealistically high expectations that now make the difficulties and shortfalls of 1980 appear greater than they actually are. In any case, President Roldós and Vice-President Hurtado, in major public announcements on GOE progress in implementing its Development Plan have indicated that improvements in 1981 are necessary. Both have openly criticized GOE development performance during 1980 and they have called for greater GOE efforts in 1981. In a year-end speech President Roldós indicated that 1980 was the year in which consolidating democracy took priority while 1981 will be the year of accelerating GOE development performance.

Some of the major development shortfalls in 1980 were as follows:

- The 5.6 percent growth rate forecast in the Development Plan was not realized. It now appears that the growth rate will be only 4.2 percent.
- There were significant declines in GOE exports in agricultural commodities and petroleum.
- Because of political difficulties between the executive and legislative branches in 1980, the GOE could not move more aggressively on sensitive policy issues such as food and gasoline subsidies. There continues to be a need for new taxes to balance the budget and actions to increase interest rates.
- An increase in the minimum wage and the reduction of the work week from 44 hours to 40 hours (forced on the Roldós Administration by the GOE Congress) have had a negative effect on the economy, on the GOE budget and on the underemployment of some low income groups.
- Even with substantial efforts to control prices, inflation reached a level of over 15 percent which seriously eroded the purchasing power of the poor. Some estimates indicate that without price controls inflation may have averaged over 25 percent.

-- The Roldós Administration moved slowly and cautiously in 1980 in putting new programs and projects into implementation.

--- While a number of significant new measures were initiated to begin addressing Ecuador's serious poverty and rural development problems, the new GOE recognizes that additional policy and structural changes are still necessary to fully realize its growth-with-equity objectives.

However, the GOE's shortfall in 1980 must be put into perspective and judged on the basis of the circumstances which prevailed during the first year of the country's new democratic government. Among the key factors affecting GOE performance were the following:

- (1) Historically, Ecuador has had an extremely weak and fragmented central government that limits the ability of any executive to implement fundamental policy changes. During the 1960s and 1970s all Ecuadorean governments have been characterized by vacillation, instability, constant ministerial changes, lack of program continuity and inability to deal with fundamental development issues. No elected Ecuadorean government could overcome these underlying political and institutional weaknesses in only one year. By necessity, during 1980 President Roldós had to place priority on consolidating and strengthening his Administration or future significant development actions would not be possible.

Yet, despite the political problems, the GOE still placed in motion a number of policy and institutional changes and initiated

a number of important development planning efforts that are necessary for implementing more significant development actions during 1981-84. For this reason, USAID believes that the first year of the Roldós Administration has placed in motion more important planning and development actions than the first year of any democratic administration since the Ponce Administration of the late 1950s.

- (2) During 1979-80 campaign promises and development planning documents calling for increased social justice prompted many potential investors to adopt a "wait and see attitude." These uncertainties have delayed many private investments despite the GOE's assurance of the importance and need of private sector participation in attaining the 5.6 percent growth rate contemplated in its National Development Plan for 1980.
- (3) Immediately following the August 1979 return to constitutional government, serious political disputes ensued between the legislative and executive branches of the government. These conflicts continued well into 1980 and they virtually stagnated the GOE for many months. These disagreements seriously delayed approval of important new development initiatives. The 1980 budget was substantially modified by Congress which added projects not included in the National Development Plan and delayed Government proposals such as tax reforms aimed at improving the tax system and increasing revenue collections.

- (4) Serious institutional and human resources constraints caused the GOE bureaucracy to be largely unprepared to carry out the types of development programs envisioned by the new, constitutional government. One key problem has been the task of changing the urban-biased orientation of the previous military government and of creating new institutions responsive to the GOE's development emphasis in rural areas.
- (5) In making its campaign promises, Roldós and Hurtado did not fully appreciate the long lead-times that are necessary to staff-up a new government and to plan new development projects in the rural sector. While the Roldós Administration wanted to change direction, there was no "pipeline" of existing planned projects to carry out these new initiatives, particularly in rural areas. Substantial time in 1980 had to be dedicated to planning new projects.

B. Economic-Fiscal Prospects and Commitment. Ecuador's economy continued during 1980 the declining trend which started in 1979 when it rose at a level of 5 percent. Based on current projections, the 1980 GDP growth rate slowed to 4.2 percent, in sharp contrast with the 8.5 percent average growth rate realized between 1972 and 1978 and the 5.6 percent growth projection for 1980 of the 1980-1984 Development Plan.

No economic sector achieved the growth rate projected in the National Development Plan. Of special concern is the 3.0 percent rate realized in the agricultural sector which is still below the population growth rate and well below the 5.0 percent growth projected in the Plan for this sector.

Several factors have influenced this 1980 economic decline, including: (1) external market conditions which have caused a 7 percent drop from the 1979 level of traditional, non-petroleum exports; (2) a decrease of 7.2 percent in the volume of petroleum exports; (3) the existing uncertainties in the minds of potential investors who have delayed investments contemplated in the Development Plan; and (4) an increased inflation rate of over 15 percent which has affected exports, eroded the value of resources intended for investments, made less attractive Ecuadorean export products, and discouraged public savings.

Petroleum exports have heavily influenced Ecuador's economy during the last eight years, accounting for over 42 percent of total exports and around 10 percent of Ecuador's growth rate through the period 1970-1978. However, its importance has been declining and unless the GOE succeeds in finding new exploitable reserves, petroleum will cease to be a major factor in Ecuador's economy and development, perhaps by the mid 1980's. The GOE realizes this and is taking some difficult steps to face the dual challenge of attaining the economic growth rates (5.6 percent in 1980; 6.3 percent in 1981; 7.2 percent in 1982; 7.7 percent in 1983; and 5.5 percent in 1984) contemplated in the plan while pursuing its equity and social justice objectives, including: (1) marketing a new, high-priced gasoline blend as the first step in reducing gasoline subsidies; (2) undertaking a campaign to educate the general public about the need for additional gasoline price increases; (3) increasing tax collections through more vigorous enforcement of income and property tax laws and improved collection systems; (4) reducing subsidies on some basic food commodities, a policy which is also

expected to stimulate agricultural production; and (5) creating a special counterpart fund to speed up disbursement on international development loans.

The GOE 1980 budget totaled approximately US\$1.9 billion and showed a 36 percent increase in central government expenditures. Social Development activities were increased substantially as compared to the 1979 budget. For example, the education budget was 37 percent higher and allocations for labor and social welfare activities increased by 37 percent.

Data and information on the 1981 proforma budget and on the 1981 Annual Operational Plan are still preliminary and unofficial. The 1981 proforma budget calls for expenditures of 53.6 billion sucres (US\$2.144 billion). This figure is 7.6 percent higher than the 1980 revised budget, which in turn is 10 percent higher than its proforma, due to revisions that increase spending for priority health, education, and agricultural development projects. However, these data do not project the reality of Ecuador's public sector expenditures planned to be made in 1981, as it excludes expenditures to be channeled through 67 semi-autonomous agencies (entidades adscritas), or through the National Development Bank, and the public funds, such as the National Participation Fund (FONAPAR).

Resources to cover the US\$2.144 billion expenditure level will be generated as follows:

- (1) US\$1.744 billion from current revenue collection and transfers including US\$600 million or around 34 percent of current revenues from petroleum exports; and

(2) the US\$400 million deficit to be financed through: US\$200 million in external credits; US\$100 million in dollar bond issues; and a \$100 million of local bonds known as "emisiones fiduciarias." According to the Minister of Finance, this US\$400 million deficit is well within the limits which the GOE can manage.

According to the National Development Plan the GOE is projecting a public sector investment program totaling US\$6.5 billion during the period 1980-1984. This amount is expected to be financed as follows: (a) US\$4.2 billion from public sector current savings; (b) US\$260 million from capital revenues; (c) US\$220 million from internal credits; and (d) US\$1.8 billion from external credits. Based on a Mission analysis, the US\$6.5 billion public investment projection seems to be from 15 percent to 25 percent higher than the level of investment which can be achieved during the Plan's five-year period. Similarly, the 6.5 percent average annual GDP growth rate is unlikely to be achieved and unless the public sector current savings level exceeds the above US\$4.2 billion level projected in the Plan, the the GOE will need additional external resources above and beyond the \$1.8 billion.

Based on these fiscal and economic projections, the GOE is expected to face serious difficulties during the Plan period as it attempts to: (a) generate the required levels of public sector savings; (b) maintain the necessary fiscal and monetary controls to check the

rising inflation rate; (c) maintain an acceptable level of foreign exchange; and (d) obtain financing for its ambitious development and social justice programs.

C. Conclusion. If the GOE is to realize its growth-with-equity objectives, it must continue to obtain large resource transfers from the IDB, IBRD and from private capital markets. However, while these resource transfers are necessary for Ecuadorean development, they alone are not sufficient. The development of Ecuador depends not only on the availability of capital resources, but on its internal ability to channel these resources to its key development problems. Serious institutional, technological and human resource constraints limit Ecuador's ability to absorb resources and channel them to its most critical problem areas. The modest A.I.D. program addresses these constraints. It contributes to filling the gap between the GOE's strong growth-with-equity commitment and the weak institutional, technological, and human resource capacity for dealing with the country's highest priority development problems.

ASSISTANCE PLANNING LEVELS

	Fiscal Years (\$000)						Total
	1982	1983	1984	1985	1986	1987	
<u>AGRICULTURE, RURAL DEVELOPMENT, AND NUTRITION (F&N)</u>							
1. Loan	5,000	7,000	12,500	16,000	13,000	14,000	67,500
2. Project Grants							
a. Training*	500	300	400	400	600	600	2,800
b. Research	400	300	400	200	300	300	1,900
c. Production	400	200		400	500	500	2,000
d. Institution Building*	500	300	500	400	600	600	2,900
e. Nutrition		300	300	300	300	300	1,500
f. PD and S	200	200	200	200	300	300	1,400
g. OPGs	400	300	400	300	600	600	2,600
Subtotal	7,400	8,900	14,700	18,200	16,200	17,200	82,600
<u>HEALTH/POPULATION (HE/POP)</u>							
1. Loans	2,000	2,000	2,000	2,000	8,000	5,000	21,000
2. Project Grants							
a. Training*	150	200	200		400	400	1,350
b. Institution Building*	150	200	200	300	400	400	1,650
c. Population	700	1,400	1,100	1,000	1,200	1,200	6,600
d. PD and S	120	100	100	200	200	200	920
e. OPGs	340	200	300	300	400	400	1,940
Subtotal	3,460	4,100	3,900	3,800	10,600	7,600	33,460
<u>EDUCATION (EH)</u>							
1. Loans		2,000			2,300	4,300	8,600
2. Project Grants							
a. Training*	300	200	200	200	400	400	1,700
b. Nonformal Education		200	300	200	300	300	1,300
c. PD and S	100	100	100	100	200	200	800
d. OPGs	400	200	300	300	300	300	1,800
Subtotal	800	2,700	900	800	3,500	5,500	14,200
<u>SELECTED DEVELOPMENT PROBLEMS (SD)</u>							
1. Loans	2,000	3,100	4,000	5,800	2,800	3,000	20,700
2. Grants							
a. Training	200	100	200	160	300	300	1,210
b. Environment**		180	200	160	200	200	440
c. Energy	200	220	150	80	300	300	1,250
d. Land Tenure		100	100	200	200	200	800
e. SDAA	100	100	100	100	100	100	600
f. Municipal development	100	100	200	200	300	300	1,200
g. Science and App. Technology	100	100	100	200	200		700
h. PD and S	200	100	100	100	100	100	700
i. OPGs	440	200	350	200	200	200	1,590
Subtotal	3,340	4,300	5,500	7,200	4,700	4,700	29,740
TOTAL	15,000	20,000	25,000	30,000	35,000	35,000	160,000

In addition to training and institution-building efforts under loans and other grant categ.
 * Most environmental funding will fall under the F&N category.

It should be noted that the APLs have been presented and revised following the normal A.I.D funding categories, i.e., Food and Nutrition, Health/Population, etc. As implied in the strategy, almost 100 percent of the resources planned under Food and Nutrition will be directly related to the Integrated Rural Development Program. The levels planned under the other funding categories will cover financing of activities related to both IRD and IUD programs, in addition to national level activities which will impact on the GOE growth with equity goals.

The proposed Assistance Planning Levels (APL), as revised, are essential to: (1) achieve the program objectives as outlined in the corresponding strategy; and (2) continue to influence the allocation of GOE resources toward projects aimed at meeting basic human needs of the rural and urban poor. The APLs reflect the Mission's program design and budgeting experience during FY 1980 and early part of FY 1981 and the results of the first year of experience working with Ecuador's new democratic government. The updated projections for the period 1983-1987 also show the Mission's and GOE's clearer vision of the specific projects and funding requirements for incrementally funded projects approved in FY 1980 and FY 1981 and the projects which will be initiated in subsequent years to carry out the Development Strategy. For example, the APLs now include Science and Appropriate Technology and Municipal Development activities which complement the range of activities under the IRD and IUD strategies, GOE priorities and initiatives which have

been more clearly defined during the first year of Ecuador's new Government.

Consistent with the Strategy, the APLs reflect the emphasis on Integrated Rural Development (IRD), in accordance with GOE priorities. For instance, in addition to the resources planned under the Food and Nutrition Category, the IRD program will receive a large share of the various AID sectoral inputs phased over the CDSS period. The levels also reflect the GOE and USAID plans for staging specific projects progressively in accordance with the Integrated Development approach. Thus, the FY 1980 IRD projects will be followed by: (a) a FY 1981 project for rural primary health, nutrition, potable water, and environmental sanitation; and (b) two FY 1982 projects in forestry and natural resources conservation and in small enterprises and agroindustry development. A rural education and skills training project may follow in later years. The distribution of resources among the different funding categories also show the funding requirements for the specific projects in IUD and multisectoral activities as discussed in the development strategy.

In projecting the above levels, grant funding has been kept to the minimum necessary to accomplish the objectives of the program strategy. The estimated grant funds under each category are necessary to finance primarily technical assistance requirements

to carry out institution-building activities, which are critical to the program's success. In addition, grant funding will finance pilot demonstration activities to demonstrate feasibility and pioneer new approaches as the first step to influence GOE institutions to self-finance such activities on a larger scale. The modest grant levels will: (1) provide the Mission with the required flexibility, somewhat limited under loan financing, to influence the selection and contracting of U.S. technicians who are often viewed by the GOE as too expensive; and (2) allow the USAID to support in-depth studies and evaluations which are essential components of the program planning, implementation and evaluation process. Without grant funding, A.I.D. would not have the needed instrument to pursue its institution-building and technology development strategy nor have the means for supporting private sector development programs.