

# Country Development Strategy Statement

**FY 1985**

**ECUADOR**



**MAY 1983**

Agency for International Development  
Washington, D.C. 20523

\*\*\*\*\*

THIS STRATEGY STATEMENT HAS BEEN PREPARED BY THE  
A.I.D. FIELD MISSION. IT IS PREPARED ANNUALLY AND  
USED FOR PLANNING PURPOSES IN THE FIELD AND IN  
WASHINGTON. IT DOES NOT REPRESENT OFFICIAL AGENCY  
POLICY!

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*\*

\*\*\*\*

\*\*

\*

ECUADOR  
Country Development Strategy Statement (CDSS)  
FY 1985 - FY 1989  
Table of Contents

	<u>Page No.</u>
Ambassador's Statement	
Introduction	1
<b>Part I. <u>ANALYSIS</u></b>	
A. Current Economic Performance	2
B. Projected Economic Performance During the CDSS Time Period	5
C. The Nature of Poverty	9
D. The Causes of Poverty	13
E. Institutional Development	15
F. Technology Development	17
G. The Private Sector in the Ecuadorean Economy	18
H. Summary of Development Constraints	19
I. Progress in Addressing Constraints	21
J. The Role of Other Donors	25
<b>PART II. <u>STRATEGY</u></b>	
A. The Overall Approach	28
B. Proposed Program Activities	30
(1) Private Sector Strategy	31
(2) Agriculture and Rural Development	33
(3) Health and Nutrition	38
(4) Population and Family Planning	41
(5) Urban Development	43
(6) Other Activities	45

	Page
<b>PART III. <u>PROPOSED ASSISTANCE PLANNING LEVELS (PAPLs)</u></b>	
A. Planning Levels	50
B. Staffing Requirements	54
C. Project Implementation and Evaluation	55
 <b>PART IV. <u>ISSUES</u></b>	
A. Ecuador's Ability to Meet its Counterpart Requirements	58
B. Ecuador as a Middle Income Country (MIC)	59

Tables

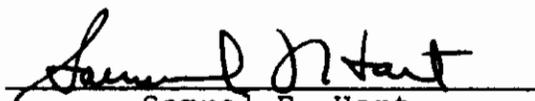
Table I Proposed Assistance Planning Levels By Functional Account	51
Table II Illustrative FY 1985-1989 Activities	52
Table III Staffing Requirements (in work years)	55

Submitted: May 16, 1983

AMBASSADOR'S STATEMENT

The objectives outlined in the CDSS are realistic and fully consistent with Ecuador's current and projected development situation during this CDSS period. The emphasis on institutional development, technology transfer, policy dialogue, productive activities, employment creation and the private sector is essential to help Ecuador through the difficult period ahead and to assure the continuation of Ecuador's democracy. I strongly recommend, therefore, that every effort be made to make available the resources projected in the CDSS to finance the activities which will assure uninterrupted progress in pursuing the objectives.

Regarding assistance levels, I am concerned that the levels for other countries in the region be consistent with our bilateral interests and that we do not convey a sense of favoring one country over the others. In the case of Perú and Ecuador, our bilateral interests are similar. We are interested in supporting their democracies, in promoting their sustained socio-economic development and in maintaining peace between them. U.S. actions, including the allocation of resources, should convey our sense of fairness. For this reason and because the levels proposed in the CDSS are necessary to carry out the A.I.D. development objectives in Ecuador, I strongly recommend that the levels proposed in the CDSS be considered minimum levels and that consideration be given to raise them to levels that would eliminate the impression of favoring one country over the other. In my opinion, given the population size of each country, the Ecuador assistance levels should be about 50 percent of the levels for Perú. Currently, the 1985-89 levels for Ecuador are about one third the levels for Perú.

  
\_\_\_\_\_  
Samuel F. Hart  
Ambassador

May 12, 1983

## Introduction

Ecuador will have completed five years of democratic government in 1984, when elections leading to a second period of constitutional government will take place. The strategy contained in USAID's 1982 CDSS and its update, designed to support the efforts of the current government, is well underway. By the time the present government finishes its five-year period, some projects will have been completed, but most will be in the midst of implementation. Meanwhile, important changes have taken place in Ecuador's development situation as a consequence of the dramatic deterioration of its economy. The country's economic growth rate will likely be negative on a per capita basis over the coming years and unemployment will increase. Ecuador's success or failure in handling its economic crisis will affect its fragile democracy during the remainder of the 1980s and beyond. Part of the CDSS reviews Ecuador's current development situation and provides the setting for the development strategy discussed in Part II. Part III identifies the proposed planning levels that are necessary to carry out the strategy, and Part IV discusses two issues that should be considered in reviewing this CDSS.

USAID conducted or contracted several studies that serve as the basis for some of the analysis contained in the CDSS. These studies include: (1) "Ecuador: A Macro-economic Assessment of Trends in 1982 and Projections for 1983"--an internal study conducted in November, 1982 by Clarence Zuvekas (AID/W LAC/DP) and Carlos Luzuriaga, USAID/Ecuador Program Economist; (2) "The Situation and Perspectives of the Private Sector in the Ecuadorean Economy," a study completed in February, 1983 by the Ecuadorean Association of Private Enterprises (ANDE); (3) a USAID report on "Ecuador's Petroleum Situation and A.I.D. Options in the Ecuadorean Petroleum Sector," prepared in early 1982; (4) "Ecuador: National Plans to Satisfy Basic Human Needs," a report completed in January 1983 by the Futures Group; (5) "The Role of Women in Ecuador's Development," a USAID study conducted in 1981 by USAID's Program Economist; and (6) "A Prefeasibility Study for the Establishment of a Graduate School of Management in Ecuador," by William Renforth, August, 1982. USAID also drew on the Embassy's 1983 trends report and a study prepared by F. Swett: "El Modelo de Desarrollo Agrícola. El Caso Ecuatoriano," February, 1983.

## PART I. ANALYSIS

### A. Current Economic Performance

Ecuador's economy has been deteriorating for the past two years. It reached crisis proportions during the last part of 1982, and will deeply affect Ecuador's development plans and performance during the rest of the 1980s. The main indicators of economic crisis are discussed below. The factors which led to the crisis are reviewed in the following subsection B.

1. Declining Economic Growth. Growth of Ecuador's Gross Domestic Product (GDP) has fallen drastically from the remarkable growth experienced during the 1973-1978 period when the economy expanded at a 10.4 percent annual rate in real terms as a result of a temporary petroleum boom. GDP grew at an average rate of 4.7 percent during the period 1978-1981. For 1982, the Central Bank of Ecuador estimates a real growth rate of only two percent, which some observers believe is optimistic.

2. Fiscal Deficits. Total public sector expenditures expanded rapidly between 1972 and 1981, reaching 30.7 percent of GDP in 1981 (Zuvekas/Luzuriaga). Although Ecuador's fiscal revenues expanded rapidly since petroleum exports were initiated in 1972, they have not kept pace with public sector spending. As a result, the GOE has resorted to borrowing to finance substantial fiscal deficits. The public sector deficit averaged 5.3 percent of the GDP during 1976-81. For 1982 the deficit was estimated at 4.7 percent of the GDP, despite a severe austerity program which included the elimination or reduction of subsidies and a reduction in public expenditures in real terms. Primarily as a result of decreased revenues from petroleum exports, current central government revenues declined in real terms during 1982, and the central government budget showed a deficit equal to about 50 percent of current revenues. In order to contain the 1983 deficit, the GOE has introduced a series of additional austerity and revenue generating measures. Even so, the 1983 deficit is estimated at 9,000 million Sucres (\$214.3 million at the March, 1983 official exchange rate of 42 sucres/dollar) or about 14 percent of estimated current revenues.

3. Balance of Payments Deficit. Since 1978, Ecuador has experienced large current account deficits in its balance of payments. This deficit increased sharply from \$600 million in 1979 to \$1,002 million in 1981 and \$1,050

million in 1982 (eight percent of GDP). The increasing deficit has been due to: (1) a diminishing trade account surplus caused by declining export prices and rising import requirements for foodstuffs and import substitution industries; and (2) large net outflows in the service accounts. The latter is due largely to substantial interest payments on public and private debt as a result of heavy external borrowing in recent years and high international interest rates. These factors led to a drastic drop in Ecuador's foreign exchange reserves from \$857 million at the end of December 1980 to just \$142 million as of March 31, 1983. Increased world supplies of Ecuador's major exports combined with reduced demand due to the world recession have resulted in falling prices for Ecuador's principal agricultural exports and, more recently, for petroleum. The GOE estimates that at the current volume of exports, Ecuador will lose about \$36.0 million in export revenues for each dollar reduction in the price per barrel of oil. These factors, combined with stagnating production levels for major agricultural commodities, have resulted in reduced export earnings. Until 1982 Ecuador's imports also rose significantly. Much of Ecuador's industrial base, built up over the last 20 years, is dependent on imported raw materials and components. The value of imported raw materials for industrial purposes increased from \$90 million in 1972 to \$658 million in 1981 (ANDE). Also, a stagnant agricultural sector has resulted in increased imports of foodstuffs such as wheat, milk, edible oils, and sugar. The value of agricultural imports increased to \$304 million in 1982 from an average of \$163 million between 1976 and 1980.

Although there has been a net inflow of capital for more than a decade, short term private capital outflows (estimated at about \$650 million) occurred at an unprecedented level during 1981 and 1982 (ANDE). Interest rate ceilings in Ecuador encouraged an exodus of savings. The situation was exacerbated by the relative abundance of external credit in dollars at the same time that the GOE was trying to hold inflation down by restraining internal liquidity. Consequently, many firms and individuals contracted short term dollar loans for local currency expenditures. Despite recent increases in interest rate ceilings investors have maintained these savings abroad, even when international interest rates fell. They have done so in expectation of a devaluation of the Sucre and because increased inflation has meant that real in-

terest rates in Ecuador are still negative. Registered private foreign debt exceeded \$1.5 billion at the end of 1982. Furthermore, the GOE has resorted to extensive external borrowing to finance budgetary deficits. Public sector debt increased from \$643 million at the end of 1975 to \$4.7 billion at the end of 1982.

4. Increased Inflation. Ecuador's inflation rate reached 24 percent in 1982, the highest in Ecuador's recent history. It affected exports and fueled a series of internal disruptions which further aggravated the political climate and fed the perception of the GOE's lack of control over the country's economy. Because of recent economic measures, including devaluations and the elimination or reduction of subsidies on basic foodstuffs and petroleum products, the 1983 inflation rate is expected to be at least 40-50 percent. In an attempt to control inflation, the Central Bank will likely severely limit the expansion of the internal money supply. Credit will continue to be a serious constraint to the expansion of private sector activity. Also, government spending must be cut back to minimize the budget deficit. Moreover, the citizens and institutions of Ecuador are not used to such levels of inflation. There is no indexing and rapid price adjustments until recently were not common. The coming rise in inflation could cause serious social unrest and conflict.

The economic situation described above has been compounded by a four-month flood which affected 40,000 families, destroyed bridges and roads, and caused heavy losses of agriculture production on the coast where most of the country's food staples, especially rice and sugar, are produced. A recent Economic Commission for Latin America report on the disaster estimates the total agricultural losses at \$41.9 million, including livestock and shrimp ponds. Another \$75.7 million in flood losses are attributable to damage to transportation infrastructure. Social infrastructure (housing, schools, water and sanitation systems, etc.) suffered an estimated \$13.1 million in damages. Agricultural workers lost an estimated 53,100 person months of wages, valued at \$4.8 million. The industrial sector's loss in infrastructure and foregone production is estimated at \$25.3 million. These losses were estimated as of February 15, 1983. The continuation of the heavy rain through March and into May probably has caused increases in these figures, particularly with respect to agricultural production and infrastructure damage.

B. Projected Economic Performance During the CDSS Time Period

The outlook for improving Ecuador's declining economic performance during the next few years is somber. A recent report carried out for USAID (Zuvekas/Luzuriaga) estimates that GDP growth could average less than one percent per year between 1983 and 1987. When matched against the country's population growth rate of about three percent, Ecuador can expect negative growth on a per capita basis. The downturn in public investment and private sector activity has not yet been fully felt. Should the economy grow this slowly, unemployment and underemployment would increase sharply in coming years. Unemployment could reach 18 percent by 1987 if economic growth remains slow (Zuvekas/Luzuriaga). On the other hand, a strong world economic recovery, expanded petroleum production combined with stable or increasing prices, and improved GOE economic policies could result in the resumption of a respectable rate of growth within two or three years. Four main reasons, combined and interrelated, will impact on future economic growth.

1. Cumulative effects of capital intensive, import substitution industrialization. Ecuador has pursued import-substitution industrialization during the past 25 years. Although this strategy brought some benefits to the country, over time it aggravated the problem it was intended to solve. While this approach was intended to reduce external dependence by reducing imports and promoting industrial development, actual implementation has been inconsistent. Encouraged by an overvalued exchange rate and government investment incentives, industries have been largely based on capital-intensive technologies and imported raw materials. They are largely oriented toward limited Ecuadorean or Andean Pact markets. Consequently, these industries have: (a) failed to generate the additional jobs needed to absorb the growing Ecuadorean labor force; (b) created, rather than alleviated, external dependence on imported goods; and (c) contributed to the rapid rise of external debt. Further, the absence in these favored industries of backward linkages with agriculture has increased sectoral and regional imbalances, since most industries have been concentrated in Quito and Guayaquil. This has further exacerbated Ecuador's highly unequal income distribution pattern. Continued reliance on import substitution industrialization would, in the context of Ecuador's li-

mitted internal market and current economic conditions, contribute to slow economic growth.

2. Neglect of the agricultural sector. The advent of the petroleum boom was a mixed blessing for Ecuador. Because petroleum provided significant resources to finance Ecuador's economic development for several years, the GOE has paid scant attention to developing the agricultural sector which, prior to the petroleum boom, had been the foundation of Ecuador's economy. Although Ecuador continues to export traditional agricultural commodities (bananas, cacao, coffee), production has been stagnant and, with few exceptions, Ecuador has not exploited opportunities for agricultural diversification. Agricultural production has grown only slightly. Using 1970 as a base year, with an index value of 100, total production by 1981 only reached an index level of 104 (103 for traditional export products and 107 for internally consumed products). On a per capita basis, the index value for internally consumed products fell from 100 in 1970 to 77 in 1981 (Swett). Politically established prices for foodstuffs, an overvalued exchange rate, export taxes on agricultural products, and other negative policies have discouraged investment in the sector, even though it offers an excellent opportunity for promoting economic growth and generating employment. Although related agro-industries have grown rapidly, they have done so without government incentives. Together, agriculture and agro-industries offer the greatest potential for non-petroleum related economic development in Ecuador during the 1980s.

3. Declining world prices for Ecuador's major exports. Ecuador's major exports include four agricultural products--coffee, cacao, bananas, and shrimp--and petroleum. World prices for cacao and coffee, which started to drop in 1980, were not offset by increased demand and led to a drop in agricultural exports from \$928 million in 1979 to \$777 million in 1982. Likewise, the drop in world prices for Ecuadorean petroleum, from \$34.40 per barrel in 1981 to \$32 in 1982, combined with a six percent decline in the volume of exports, resulted in a decline of the value of petroleum exports from \$1,560 million in 1981 to \$1,184.1 million in 1982. At the March 1983 price of \$29 per barrel set by OPEC, petroleum export revenues will be lower than 1981, even assuming that the export volume will slightly exceed the 1982 export level of 42.7 million barrels.

Combined export sales of coffee, cacao, bananas, and petroleum accounted for 91.1 percent of total exports and for 12.1 percent of Ecuador's GDP in 1982. Although some non-traditional exports--like shrimp and fish products which increased from \$65.9 million in 1980 to \$121.1 million in 1982 or by 84 percent--fared better in international markets, the volume of these exports is not large enough to offset the declining trend of the traditional ones. Short term prospects for improved earnings from traditional products will depend on factors beyond Ecuador's control. Although these factors are not expected to improve substantially during the next four years, increased emphasis on non-traditional exports as well as improved productivity and/or production of petroleum and traditional agricultural crops can begin to improve the trade balance by the end of the CDSS planning period.

4. The rapid growth and nature of the external debt. Ecuador's external debt rose to \$6.3 billion in 1982, from a level of \$912 million in 1975. Currently, about 73 percent of the total debt (or \$4.7 billion) is public debt of which 64 percent is owed to commercial banks and 32 percent is medium and short term debt. Total medium and long term debt as a percentage of the GDP rose from 22 percent at the end of 1976 to 40.6 at the end of 1982.

Service on the medium and long term debt rose from \$188 million in 1976 to an estimated \$1,839 million in 1982, prior to debt rescheduling (Zuvekas/Luzuriaga). As a percentage of exports of goods and non-factor services, debt service over this period rose from 13.2 percent to 66.4 percent. In addition, the public sector had \$320 million in short term debt servicing requirements in 1982. Private short term debt servicing requirements in 1982 were estimated to be \$522 million.

Servicing of the external debt will impose a serious constraint on the balance of payments and exert heavy pressure on central government finances, at least over the medium term. In the pro-forma budget for 1983, prior to debt rescheduling, 26 percent of all central government outlays were assigned to servicing the external public debt during the year. The comparable figure for the 1981 budget was 10 percent. Rescheduling of public and private external debt, now under negotiation, will provide some balance of payments relief to Ecuador in 1983. However, it also adds significantly to existing debt servicing requirements in 1984-1987 and beyond. Servicing of the currently

contracted debt alone will average \$1,267 million a year during this period. Additional loans and credits that Ecuador obtains in the coming years will add to these servicing requirements, although it is likely that the volume of foreign borrowing in real terms will be much below that of recent years. This lack of access to foreign loans is likely to constrain Ecuador's economic growth during the CDSS time frame by limiting its capacity to obtain the resources needed to modernize its technology and increase productivity.

In addition to these four major factors which will affect the Ecuadorean economy for several years, the economic outlook will be influenced by several other positive and negative factors. The positive factors are: First, during his recent visit to the U.S., President Hurtado publicly invited foreign investment. If Ecuador can attract such investment, the balance of payments outlook would improve. Second, Ecuador seems to be moving toward a more vigorous export oriented production strategy which relies more heavily on utilizing local raw materials. Combined with improved pricing policies for agricultural and petroleum products, the balance of trade should again be strengthened. Third, Ecuador will be able to export more petroleum as a result of increased hydro-electric generating capacity, encouragement of exploration by international oil enterprises, an increased petroleum refining capability, and conservation resulting from decreased subsidization of petroleum products.

On the other hand, several negative factors may offset the effects of the positive factors, unless the former are carefully managed. First, Ecuador's productivity in its most important traditional sector, agriculture, is very low; a concerted effort which should include the use of improved technologies and supporting incentives (pricing, marketing, information services, etc.) will be required to increase production for domestic consumption and for exports. Second, Ecuador's public and private institutions involved in the export sector are weak and do not have the broad experience needed to diversify markets and stimulate the production of non-traditional exports.

Ecuador's current economic crisis, however, may help bring about improved economic policies. One factor which caused Ecuador's present situation was the GOE's indecisiveness in taking the hard policy decisions on subsidies, prices of both gasoline and food stuffs, the value of the Sucre, and its fiscal deficit. The GOE has recently addressed all of these issues. As discuss-

ed under section I.G below, other important actions are already underway, but concerted external assistance will be required to help Ecuador in coping with the present crisis within a democratic atmosphere and to strengthen its foundation for sustained economic growth.

### C. The Nature of Poverty

(1) Overview. Ecuador has achieved remarkable social progress during the last 20 years, yet it still displays many of the characteristics of a severely underdeveloped country. Life expectancy at birth increased from 51 years in 1960 to 61 years in 1980; infant mortality declined from 140/1000 in 1960 to 71/1000 in 1982; and child mortality (ages 1 to 4) declined from 28/1000 in 1960 to 8/1000 in 1980. The adult literacy rate increased from 68 percent in 1960 to 81 percent in 1982, and enrollees in primary education as a percentage of the 6-11 age group increased from 83 percent in 1960 to 107 percent in 1976.<sup>1</sup> Nevertheless, basic social services are still inadequate. Only 32 percent of the population in 1977 had access to excreta disposal systems; the infant mortality rate is still one of the highest among countries of similar levels of development; around 40 percent of children under five years of age are malnourished; the adult literacy rate in some rural areas is around 40 percent; and about 70 percent of all rural children drop out of school by the fourth grade. In addition, the housing deficit reached over 800,000 units in 1982. Ecuador's population growth rate of about three percent per annum compounds these problems.

Ecuador's income distribution pattern is very unbalanced. An IBRD study (Redistribution with Growth) indicated that the lowest 40 percent of the population receives only 6.5 percent of income. A 1980 USAID sponsored study on the poverty situation in Ecuador (Luzuriaga's "Poverty in Ecuador") shows that around 60 percent of Ecuadoreans live under conditions of poverty. Moreover, the GOE's Ministry of Labor estimates that around 50 percent of Ecuador's workers are underemployed and do not earn enough to satisfy their basic

---

<sup>1</sup>Ratio can exceed 100 percent because over-age students are enrolled in primary school.

needs. Similarly, the Zuvekas/Luzuriaga study concludes that "the overall distribution of income remains very unequal," and has worsened as a result of Ecuador's deteriorating economic situation.

(2) Urban versus Rural Poverty. Ecuador's rural population has received few of the benefits of Ecuador's social and economic progress. For example, the average rural income per worker in 1978 was only 37 percent of the average urban income. There are some 6.4 physicians per 10,000 people in rural areas versus 25 per 10,000 for the country as a whole. Although over 84 percent of urban dwellings have electricity, only 20 percent of rural dwellings do. Similarly, there are great disparities in other health, education, and social indicators.

Among GOE efforts to reach the rural poor, the agrarian reform program deserves special mention because land ownership has been considered an essential condition to alleviate the plight of the poor. According to the GOE Agrarian Reform Institute (IERAC), 118,957 families were beneficiaries of land reform between 1964 and 1982. Yet, IERAC's own studies show that recipients generally remain as poor as before. The smallness of the parcels has accentuated the minifundio problem, where the size of the owned piece of land is not adequate for meeting the income needs of the farm family. This, plus the lack of needed technical assistance and credit for the purchase and adoption of modern technologies, and inefficiencies caused by an inappropriate marketing system and price incentive structure have forced the family farm to adopt a series of survival strategies. Share cropping arrangements, for example, are prevalent throughout rural Ecuador and among all farm size categories. Excess labor is channeled to other remunerative activities, including migrating temporarily to major metropolitan areas, artisan production, and any other task which provides income for the family welfare.

USAID estimates that about 450,000 farm families, who own up to five hectares of land or own marginal lands, and who represent about 2,400,000 persons, live in a state of perpetual poverty. They farm their lands intensively, but lacking inputs and services they are locked into a poverty situation.

The situation of the rural landless is particularly grave. Many of the estimated 300,000 landless and almost landless workers, largely deprived of

the fruits of the country's development, seek escape in urban centers. Some seek seasonal employment on the large cash-crops farms in coastal provinces, while others have permanent arrangements with large farm enterprises. Overall, these workers are underpaid, functionally illiterate, malnourished, and live in inadequate shelter.

Yet, these facts do not imply the absence of urban poverty. The slums of Guayaquil are visible evidence of one of the worst conditions of urban misery in Latin America. To illustrate, an Economic Commission for Latin America study on the largest barrio suburbano of Guayaquil, one of Latin America's most depressing slums, found: (1) almost all of the workers in a state of permanent underemployment; (2) an almost total lack of economic and social mobility; (3) 50 percent of the households headed by women, who have even less chance than men for decent paying, productive work; (4) 47.6 percent of the labor force having started working between the ages of five and 14 and thus locked into jobs paying from \$14 to \$40 per month; (5) 70 percent 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 diseases.

(3) Geographic Location of Poverty. Geographically, poverty in Ecuador is spread throughout the country's 20 provinces and 115 counties. According to a USAID analysis (based on eight indicators including income, incidence of minifundia, mortality, education, and other basic services), the 13 poorest counties are located in the Sierra, eight of them in the southern half. Of the 35 poorest counties, 25 are located in the Sierra, with the greatest numbers in Azuay (six), Chimborazo (five), and Cotopaxi (four). Two of the three poorest are in Chimborazo. Of the 10 poorest counties on the Coast, four are in Guayas Province north and west of Guayaquil, and four are in the southern half of Manabí Province. There is also 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 that part of the country.

(4) Social, Cultural, and Racial Distinctions. Over 60 percent of the rural inhabitants of the Sierra are Indians in various degrees of integration with the Spanish-speaking society. Indians are also found to some extent in Sierra urban areas and on the Coast as landless laborers. There are also small indigenous communities on the Coast and in the Oriente. In addition, there are an estimated 300,000 blacks, concentrated in Esmeraldas Province on the Coast and in one small pocket in the northern Sierra. Anthropological studies have shown that these two ethnic groups face serious cultural and social barriers to socio-economic mobility, making it especially difficult for them to escape from poverty.

(5) The Role of Women in Ecuadorean Society. Women constitute an even larger group that faces barriers to socio-economic mobility. The participation of women in the rural labor force is in fact much greater than indicated by the 1974 census data, which show only nine percent of women 12 years of age and older to be in the economically active population. A USAID sponsored study on the role of women in Ecuador concludes that women are far from realizing their full potential in Ecuador's development. They are largely bound to their traditional roles as wives and mothers, and the process of improving and recognizing their participation in society is very slow, particularly for the lower income groups in rural areas.

Women are also subject to various forms of open and disguised discrimination. Discrimination affects mostly female heads of households that have to overcome imbedded traditional obstacles in competing with men for employment and income earning opportunities. Women's labor is often not regarded officially as "work," thus preventing many working women from having access to benefits such as those accorded by the country's social security system. Women's access to educational opportunities, with some exceptions, is also limited to certain traditional fields, and many of those who succeed in fields traditionally dominated by men usually face serious difficulties in advancing their career in those fields. Neither the GOE nor private groups have yet set up adequate institutional mechanisms to promote the role of women in urban society. The GOE's Women's Office, created in 1980 mostly for political purposes, is moribund. It lacks the resources and the political and society-wide support needed to promote significant changes about the perceptions of women's

role in Ecuadorean society. Private groups are still in the throes of consciousness raising and are largely ineffective.

D. The Causes of Poverty

(1) Job Availability and Employment Creation. While open unemployment is a growing problem in urban Ecuador (now affecting around 8.7 percent of the labor force compared to 5.7 percent in 1977), underemployment is also widespread. A recent ILO study estimates that 60 percent of the rural labor force and 45 percent of the urban labor force are underemployed. USAID and GOE Ministry of Labor analyses confirm the magnitude of these estimates. As indicated in Section I.A., Ecuador's near term economic prospects could seriously worsen the employment situation, since there will be insufficient job creation for the expanding labor force.

(2) Macro-economic Policies. Ecuador has followed macro-economic development policies which have achieved high growth rates. Rhetoric notwithstanding, these policies have not generated sufficient jobs nor have they adequately benefitted the poor or reduced income disparities. Capital-intensive technologies have been encouraged at the expense of investments which could have created more jobs. These policies have tended to increase the concentration of assets, productive resources, and income, and have benefitted mostly the upper and middle income groups.

(3) Resource Allocation Policies. Ecuador has not allotted significant resources for immediate and direct benefit to the neediest, particularly in rural areas. Instead, it has previously emphasized capital-intensive industries, defense, and infrastructure (particularly roads and hydroelectric power). The subsidized price of domestic petroleum products benefits middle and upper income groups much more than the poor. Even within basic needs sectors, public investments have often not benefitted the most needy. In education, where public spending has increased rapidly since 1969, the budget has been heavily skewed in favor of the universities. Price controls on basic food items have discouraged domestic production and benefitted urban dwellers at all income levels, at the expense of the rural poor. These erratic policies are largely a result of pervasive institutional and human resource weaknesses.

(4) Highly Skewed Distribution of Productive Resources and Income. The most significant example of maldistribution of productive resources is land.

The smallest 78 percent of the landholders hold only 12 percent of the land in farms, while the largest two percent control 48 percent. 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, similar dependency relationships persist because most farmers must seek wage employment to supplement the meager incomes from their own small parcels. Also, the deficient outreach capacity of public sector credit and technical assistance institutions and lack of access to markets has created a new set of dependencies. Small farmers frequently have to depend on informal money lenders for credit and farm inputs and on market intermediaries who capture a large share of the farmers' returns. The urban poor similarly lack the opportunities, education, skills, credit, and other resources to facilitate their mobility.

(5) Political Fragmentation. Ecuador's progress and commitment to meeting the socio-economic needs of the poor have been determined partly by the country's political fragmentation. Political power has usually been held by weak central governments dependent on coalitions and subject to intense pressures from individuals or special interest groups including urban-oriented labor unions and middle class student groups as well as the elite. Ecuador is a pluralistic society and, although there are many progressive groups in both the public and private sectors who are actively promoting beneficial development programs, the degree of pluralism has contributed to political fragmentation and the weakened capacity of the central government to elicit the wide range of support needed to make important policy decisions affecting the country's development.

(6) Lack of Participation. Despite some GOE and PVO efforts to organize the poor, the poorer segments of the population remain largely unorganized and powerless. They are often functionally illiterate, inarticulate, and ignorant about the processes and vehicles they could use to influence public policy and to obtain services and resources which might improve their socio-economic situation. When the GOE has attempted to mobilize the poor, the highly paternalistic nature of these efforts (e.g., IERAC's past activities in cooperative formation among agrarian reform beneficiaries) has often doomed them to failure.

(7) Sociological and Cultural Constraints. Ecuador's traditional values impose serious constraints on the social and economic mobility of various disadvantaged groups. The patrón-peón relationship has been abandoned by legal decree, but replaced by economic relationships that restrict the spectrum of educational and socio-economic opportunities. Racial and social prejudices against Indians and blacks bar these groups from easy mobility. A further obstacle is faced by women, as separate male and female roles are well defined in Ecuadorean society. This problem is particularly acute for the large number of female heads of household in urban slums and squatter settlements who are seeking productive employment. In rural areas, men are considered the clear authorities in all matters pertaining to the home and community. But in reality, women are often the key decision-makers for the household's economic activities, including planting, harvesting, and marketing. Social and cultural factors have prevented rural women from being adequately trained to carry out this de facto role effectively.

(8) Unchecked Population Growth. The high rate of population growth and the absence of a clear national population policy have aggravated the poverty problems caused by the other factors described above. Religious and cultural factors, together with vocal anti-family planning elements, make population control programs in Ecuador extremely sensitive. Nevertheless, demand for family planning services is high. The recent census indicates a slightly declining population growth rate. It appears that low-key, behind-the-scenes efforts are beginning to have some results, but not yet to the degree needed.

#### E. Institutional Development

The weakness of Ecuador's institutions has been documented fully in numerous USAID documents, including previous CDSSs, ABSs, and Project Papers. This weakness continues to be one of Ecuador's main constraints on development. Institutions lack the necessary qualified personnel to conceive and implement the policies and programs which support the government's socio-economic development goals; to coordinate development activities; to develop, adapt, and diffuse appropriate technologies; and to utilize effectively their limited resources. Often, organizational structures are inappropriate to permit an effective contribution to Ecuador's development.

At the central level, public institutions often lack the information necessary to carry out rational policy decisions. The lack of adequate management information systems contributes to the reluctance of high level authorities to delegate responsibility and, consequently, to the marked over-centralization of governmental authority in Quito. At the provincial, regional, and local levels, Ecuadorean institutions are even weaker. Municipalities and other decentralized organizations have the legal authority to make decisions on their own development problems. However, the necessary resources are concentrated in central institutions. Moreover, local government personnel are generally unqualified and their outlook tends to be parochial. At the same time, national level organizations responsible for promoting municipal and local level development lack the technical capacity to respond to the needs of decentralized organizations such as the municipalities.

Private sector institutions are affected by the same human resources constraints that affect public institutions. Significant training needs exist. The demand for qualified managers in private enterprise far exceeds supply, and many managerial positions are filled by persons who are not properly trained. Quality graduate management programs are virtually non-existent. At the technical level, vocational schools are generally underfunded, poorly staffed, and unresponsive to labor market needs. The GOE maintains a specialized vocational training program, but its facilities are costly and limited. Finally, the private sector is well aware of this problem but lacks the capacity and support to address it effectively.

Currently, through the AID/W Social and Institutional Profile (SIP) activity, USAID is conducting a comprehensive institutional analysis of Ecuador's private sector and regional statal and para-statal institutions which will define the characteristics of these institutions with which USAID expects to work closely during the CDSS time frame. The SIP will help USAID to define its activities to better address the institutional constraints to Ecuador's development.

Institutional development has been and remains a primary USAID objective. There are forty indigenous institutions in Ecuador which were initiated with USAID and predecessor agency support. Institutional strengthening is a necessary requisite for sustained, productive policy dialogue. In particular,

USAID's long term effort has focused on improving the human resource base and developing a better information base -- two indispensable elements for implementing improved policies.

F. Technology Development

Technology development in Ecuador is incipient. Almost all technological innovations are imported. Yet, the imported technologies generally have not supported broad-based development since they have tended to be capital intensive, expensive, and oriented to the needs of wealthier social groups. Ecuador is only now beginning to build the indigenous capacity to select and adapt technologies which will contribute to national development, particularly in the agricultural sector.

There are several reasons for Ecuador's weak technological development:

(1) Inadequacy of Ecuadorean research institutions. Public institutions engaged in technology research and development suffer from the same weaknesses as most other Ecuadorean institutions. Their personnel are generally under-qualified and lack incentives. Even the more established institutions, such as the Agricultural Research Institute (INIAP), must contend with inadequate facilities and financial resources. Furthermore, these institutions function in near isolation from each other and from other public and private development organizations. As a result of this fragmentation, Ecuador's scarce resources for research are not efficiently directed toward the country's priority development needs.

(2) Inadequacy of public and private educational institutions. Educational institutions do not have the capacity to train an adequate number of personnel in science and technology. Universities suffer from a lack of trained teachers and facilities and from weak curricula. At the secondary level, exposure to science is marginal at best.

(3) Inadequacy of the extension system. Extension programs in Ecuador are also highly fragmented and uncoordinated. Nor are these programs adept at transferring new technologies at the small farm level.

The GOE, with support from USAID, has taken initial steps to improve this situation. In 1980, the National Science and Technology Council (CONACYT) was created with the broad mandate of providing the policy framework and necessary

coordinating mechanisms to make technology a more effective tool for Ecuador's development. USAID is helping CONACYT to fulfill this mandate through the creation of a Rural Technology Transfer System which encourages linkages between Ecuadorean entities involved in applied research and Title XII centers of expertise. USAID is also sponsoring the establishment of a Campesino Training Institute that is strengthening extension programs through the use of innovative non-formal education techniques.

G. The Private Sector in the Ecuadorean Economy

The private sector plays a predominant role in Ecuadorean economy. It has generated about 70 percent of the country's GDP during the past five years. Furthermore; it accounts for 75 percent of investments, 80 percent of total employment, and 85 percent of imports and 33 percent of exports (ANDE). In short, Ecuador's socio-economic development depends heavily on the private sector. However, private sector institutions, like public institutions, face serious constraints which hinder their participation in the country's development. The constraints they face, based on the ANDE study, include:

(1) Inadequacy of the investment climate. Ecuador needs to intensify its efforts to restore confidence as a safe, stable place for both domestic and foreign investment. This confidence can be restored through appropriate fiscal and economic policies consistent with the country's needs and a package of incentives to stimulate investments. President Hurtado recently assured the U.S. banking community and petroleum companies that foreign private investment will be encouraged and has given similar assurance to the local private sector. The private sector, however, must do its share to work with the government in establishing an atmosphere of mutual trust as a precondition for concerted actions to fulfill the country's development objectives.

(2) The lack or scarcity of qualified human resources to support private sector needs. Currently, Ecuador's educational institutions are inadequate to provide the quality and type of personnel that the private sector needs. Acute scarcities of qualified, well-trained managers and skilled laborers are particularly evident. Recent studies commissioned by USAID (Renforth, ANDE) clearly articulate the deficit of qualified personnel in these categories.

(3) Low labor productivity. For various reasons, including lack of training and motivation, the productivity of Ecuadorean labor is low. This, coupled with labor laws on number of working hours and compensation, discourages the formation of labor-intensive enterprises which Ecuador needs most.

Other factors which currently are affecting the private sector participation in Ecuador's development include the lack of venture capital, the low level of liquidity in the banking system, the policies regarding exchange rates, and the world recession and the uncertainties it has created among potential investors.

#### H. Summary of Development Constraints

(1) Absorptive Capacity. Ecuador's inadequate human resource base and its weak institutions affect its capacity to utilize its resources efficiently. The alleviation of these constraints, a long range objective, is a pre-condition for Ecuador's sustained development. As discussed under the institutional development section of this CDSS, Ecuador's human and institutional weaknesses are pervasive and affect both the public and private sector.

In the public sector, GOE agencies do not have enough trained, experienced personnel with the planning, managerial, and technical skills to establish sound policies and plans and to carry out development activities. There is a dearth of reliable information on which to base decisions. For example, neither the Ministry of Agriculture nor the Ministry of Health has comprehensive, timely data collection and analysis systems. Moreover, strong, almost zealous controls and supervision from the national offices of the Attorney General and the Controller cause bureaucrats to be overly cautious and to seek time-consuming clearances even for minor decisions. These deficiencies hinder the quality and the pace of Ecuador's development in many ways, viz.: (a) national policies and priorities to guide the planning, development, and implementation of socio-economic programs are often inconsistent, isolated, or unrealistic; (b) inter-sectoral and intra-sectoral coordination is difficult and erratic; (c) resources, both human and financial, are underutilized and their allocation is often based on the relative political clout which each agency and its leaders command at a particular time; and (d) the process of rational development, adaptation, and diffusion of relevant technologies is slow and inefficient. All these factors, either individually or combined, make more

difficult the GOE goals of creating jobs and promoting productivity, growth, and equity.

(2) Financial. The country-wide financial crisis, which is expected to continue at least during the first half of the CDSS time frame, is due to a combination of factors, most of them interrelated. These are merely listed here, since most have been discussed under the economic analysis section of this CDSS. They include: (a) a rapidly increasing public sector budget deficit which was almost entirely financed by foreign borrowing; (b) the large external debt, which will require heavy servicing throughout the 1980s; (c) domestic interest rate ceilings and high inflation rates which have discouraged domestic savings; and (d) the continued overvaluation of the Sucre (official rate).

(3) Policies. There are several GOE policies which adversely affect Ecuador's development prospects, namely: (a) price controls on agricultural products, such as milk, meat, and sugar, which inhibit production; (b) the continuation of certain subsidies which promote inefficiencies and aggravate the deficit; (c) lax enforcement of tax laws and tax policies that rely heavily on exports and encourage widespread evasion; (d) tariff policies (high tariff rates and quantitative restrictions) which encourage inefficient import substitution industries; (e) unclear policies toward investment and lack of incentives to attract foreign investments; and (f) the absence, until recently, of appropriate policies to diversify and expand exports. These policies are largely a result of the institutional constraints discussed above and also contribute to the financial constraints,

(4) The Political and Investment Climate. The new populist government which assumed office in 1979 brought with it high expectations among the poor and anxiety in the private sector. The private sector assumed a "wait and see" posture while the government struggled with growing economic problems and the contending demands for improvements by the poorer population groups and the powerful labor unions. As a result, the GOE has not been able to obtain the type of private sector collaboration contemplated in the 1980-1984 development plan while the sense of frustration among the most needy population groups has deepened, thus feeding the conditions for social unrest. At the same time, GOE indecision on a number of economic policies (exchange rate, ex-

ternal debt, etc.) and certain legislative acts (reduction in the number of working hours and increasing minimum wages) disillusioned potential investors who delayed decisions to proceed with planned investments needed to promote growth and create jobs. As a result of this climate and the interplay of other factors (interest rates, external debt servicing, etc.), the levels of private investments contemplated in the development plan have not been realized. Further, between 1973 and 1982, Ecuador did not actively encourage foreign investment and little foreign investment occurred during this period.

In addition, the public and private sectors have not fully developed the necessary relationship of mutual trust and confidence to work in concert to promote Ecuador's development. The GOE has initiated actions to promote private investments, particularly through the petroleum and export promotion laws, but the country's extreme pluralism and political fragmentation and the mutual distrust of the public and private sectors contribute to the continuation of an investment climate that is less than ideal.

(5) Population Pressure and Rational Resource Use. Poor resource management techniques, combined with rapid population growth, will continue to place great pressure on the rational use of Ecuador's natural resources. The country-wide problem of environmental degradation and the continued abuse of Ecuador's natural resources will be exacerbated. This situation will compound Ecuador's development problems for the next several decades and represents a major constraint on its long term development.

#### I. Progress in Addressing Constraints

Since 1979, when Ecuador's new constitutional government assumed office, the GOE has intensified its efforts to address the institutional, technological, and policy-related constraints. Three new institutions were established to address the structural problems of rural poverty. The Integrated Rural Development Secretariat (SEDRI) is coordinating, from the President's Office, field level programs in agriculture production and health in selected areas with high poverty incidence. SEDRI is drawing on the services of the new Campesino Training Institute (INCAA) to provide more appropriate extension services to indigenous and mestizo farmers normally outside the reach of GOE agricultural sector entities. A new National Council for Science and Technology

(CONACYT) has been established. Under USAID's Title XII program, CONACYT is creating a Rural Technology Transfer System that will stimulate applied research and the flow of appropriate technologies for the rural sector. The GOE is also testing on a pilot scale the feasibility of providing crop insurance through a new insurance company (CONASA), with mixed public and private sector ownership. In the health sector, a National Health Council is being strengthened in its capacity to establish sector priorities and policies. Also, the Ministry of Health is undertaking important decentralization measures to improve rural health delivery. The strengthening of these institutions and others so that they become effective vehicles for development is a long term proposition. As explained in the strategy section of this CDSS, USAID is playing a key role in assisting the GOE to address the institutional, human resources, and technological constraints, a support that will be required on a sustained basis during the time frame of this CDSS and beyond.

The GOE is well aware of the financial and investment climate constraints and, despite the political costs, has taken decisive actions to address them. The first set of recent actions took place on May 13, 1982, and the second on March 18, 1983. The rapidly deteriorating GDP situation, the high inflation rate, the declining balance of payments, and the mounting external debt led the GOE to develop the economic stabilization program of May 1982. The program included far reaching policy recommendations. Implementation of these recommendations has resulted in actions to:

- Gradually eliminate subsidies. In October 1982 gasoline prices were doubled and the wheat subsidy was completely eliminated.
- Enact a revised hydrocarbons law to encourage private investment in the petroleum sector.
- Enact the Economic and Public Budget Law limiting public expenditures. At the same time, new fiscal revenues were legislated by increasing taxes on luxury items, beer, and cigarettes.
- Revise the Agricultural Promotion Law to facilitate the expansion of credit for agricultural activities and to stimulate agricultural production for the domestic and export markets and for agroindustries.

- Liberalize regulations governing the operation of the country's capital markets by allowing the Central Bank to participate in and stimulate capital market activities.

- Establish priorities to direct the imports of capital goods towards productive activities. According to a GOE estimate this action alone saved the country around \$600 million in foreign exchange which relieved some pressure on the balance of payments.

- Renegotiate both the public and private external debt. Through the GOE proposed mechanism, servicing of the public and private sector would stretch out 1982-1983 debt repayment for seven years and guarantee the entry of \$450 million in fresh credits.

- Negotiate with the IMF a stand-by agreement equivalent to \$171 million, which will improve the liquidity of the Ecuadorean foreign exchange reserves.

- Enact a law creating an Export Promotion Insurance Fund to stimulate the export sector and improve the country's balance of payment situation.

Subsequently, in March, 1983 the GOE announced a second stabilization program for 1983 and 1984. The stabilization program is by far more comprehensive and far reaching than any other economic and fiscal action undertaken by the present GOE since it assumed office in 1980. The program comprises a series of integrated policies to attack the structural causes that led to the present crisis. Among others, the program includes policies to: (1) limit the fiscal deficit, which should not exceed four percent of GDP; (2) establish additional fiscal mechanisms to reduce the incidence of tax evasion; (3) expand the tax base by increasing the number of individuals and enterprises subject to taxation; (4) limit the internal public debt to increase the availability of internal financing to the private sector; (5) increase the maximum interest rate ceiling to 16 percent; (6) increase the price of consumer goods to reflect the real cost of production and to eliminate subsidies (concurrently with the announcement of the stabilization measures, the GOE increased the price of milk and doubled the price of some petroleum products such as kerosene and bunker fuel, thus reducing significantly the subsidies on these prod-

ucts); and (7) devalue the Sucre for the second time within the last 10 months. <sup>1/</sup>

Moreover, President Hurtado, during his April trip to the U.S., made a concerted effort to encourage private investors, particularly oil companies, to invest in Ecuador. Yet, despite the above actions, Ecuador will continue to face serious economic difficulties. The May, 1982 stabilization program did not attain the results expected, and Ecuador's steadily deteriorating economic trend has not been reversed. First, inflation estimated at 24 percent in 1982 and 40 percent or greater for 1983 offsets the increased ceilings on interest rates rendering a negative return in real terms. Second, despite the two devaluations, the gap between the official and the free market rate is still very wide--during May the official Sucre/dollar rate was approximately 44:1 while the free market rate was roughly 81:1. Unless Ecuador succeeds in improving the traditional low productivity of its work force, in increasing the production of exportable products, and in identifying new markets for its products, the effects of this policy action will be limited to imports. Third, the austerity measures will limit Ecuador's capacity to finance important development projects. Fourth, although the GOE renegotiated part of its public sector external debt, it will be seriously burdened by heavy debt servicing during the period of the CDSS. Fifth, although the GOE has enacted new laws (i.e., petroleum and export promotion laws), Ecuador still has to overcome lack of confidence on the part of investors and perhaps offer additional incentives to attract them. Finally, continuing labor demands for higher wages, coupled with low productivity, may deter private sector investments that otherwise would take place. The intensity of these demands is increasing and will be one of the most disrupting factors as the powerful labor groups peg these demands to the steadily climbing inflation rate.

---

<sup>1/</sup> The first devaluation in May 1982 changed the official Sucre/dollar ratio from 25 to 33; the second, which took place on March 18, 1983 changed it by 27 percent, from 33 to 42 with subsequent mini-devaluations to reach a 54:1 ratio by December, 1983. This rate is applicable for traditional exports and for priority imports. A second sliding rate (currently 73.8 Sucre/dollar) is applied to 30 percent of the value of non-traditional exports and non-priority imports.

In addition, Ecuador still needs to address certain key constraints in the areas of institution building, pricing, tax and tariff structures, the strained relationship with the private sector, and the potentially explosive problem of lack of services to the poor. Certain constraints, of an external nature, such as the world recession and depressed world prices for Ecuadorean export products are beyond the GOE's control and will continue to affect Ecuador's development during the remainder of the decade.

#### J. The Role of Other Donors

The main regional and international organizations are providing assistance to Ecuador. Some focus on resource transfers and others on technical assistance, training, and institution building activities. The International Bank for Reconstruction and Development (IBRD) and the Interamerican Development Bank (IDB) are the main resource transfer organizations represented in Ecuador. The various United Nations agencies, the OAS, and other countries provide technical assistance and training in a wide variety of fields. Other countries including Japan, Great Britain, France, West Germany, Sweden, Israel, and Belgium maintain bilateral programs, often related to trade agreements with Ecuador.

The IDB is the largest individual lender to Ecuador with an active portfolio of around \$805 million, including a \$523 million pipeline. IDB is financing primarily large infrastructure projects; its active portfolio includes hydropower generation and power transmission projects, irrigation, high schools, sewerage and water supply, rural electrification, highways, industrial credit, rural health, and integrated rural development (IRD) programs with heavy infrastructure components. As of the end of 1982 IDB was considering additional infrastructure projects totalling over \$145.0 million for hydroelectric power generation, potable water, rural roads, education, industrial credit, and IRD. The IDB also finances small technical assistance projects, mostly tied to the implementation of its infrastructure projects. In areas of mutual interest, e.g., irrigation, USAID is increasing its coordination.

The IBRD active portfolio totals around \$650 million, including a pipeline of around \$380.0 million. The resource transfer IBRD programs include financ-

ing for GOE activities in vocational training, highways, agricultural credit, IRD, urban development, and low income housing, development banking, small scale enterprise credit, and power transmission. Currently, the IBRD is considering projects in petroleum exploration (\$50.0 million), low income housing (\$35.7 million), agricultural credit (\$30.0 million), vocational education (\$16.0 million), power transmission (\$70.0 million), and rural primary education (\$20.0 million). Although the petroleum project is in its initial stage of development, the IBRD has indicated a willingness to lend the GOE up to \$1.0 million to carry out needed feasibility studies. USAID maintains a particularly good working relationship with the IBRD, by coordinating closely in on-going activities where both institutions provide resources, e.g., housing, and by dialoguing with most IBRD missions to Ecuador on matters including agricultural and interest rate policies. Of particular importance is USAID's support to the IBRD in its lead role in policy dialogues with the GOE through indirect mechanisms such as training. An important element of future policy dialogues between the IBRD, USAID, and the GOE will be the 1984 update of the IBRD's 1979 country study.

Among the multilateral agencies which provide technical assistance and training, the United Nations Development Program (UNDP) is the most important. The UNDP indicative planning figure for the five year period of 1982-1986 is \$15.0 million or an average of \$3.0 million annually. In early 1983, UNDP had about 30 active projects, mostly to cover the services of UN technicians who work in a wide array of fields, including public policies. Unfortunately, despite UNDP efforts to focus its assistance in a few sectors, the project portfolio is diluted and unlikely to have major impact on Ecuador's development. In addition, the World Food Program sponsors a relatively large feeding program totalling \$8.2 million which concentrates on maternal and child feeding activities. The OAS, Economic Commission for Latin America (ECLA), the Interamerican Institute of Agricultural Sciences (IICA), and PAHO also finance small technical assistance and training programs.

The U.S. Peace Corps currently maintains about 220 volunteers in Ecuador. Many of these Peace Corps volunteers (PCVs) work in close collaboration with USAID in the implementation of programs which involve A.I.D. financing. In turn, USAID participates in PCV in-country training/orientation programs which

facilitate inter-action between the two agencies and often lead to the assignment of PCVs to assist in the implementation of USAID sponsored projects. For instance, USAID participation in the training of PCVs in the area of health facilitated the assignment of PCVs to work with the Ecuadorean Sanitary Works Institute (IEOS), the executing agency for the potable water component of the USAID sponsored Integrated Rural Health Delivery Systems Project. Similarly, USAID and Peace Corps have closely coordinated the assignment of PCVs to assist in the development of energy efficient cookstoves, a component of the Alternative Energy Sources Project. PCVs are assisting in the implementation of the Forestry Sector Development Project and in the development and implementation of most of the community development projects funded under the USAID's Special Development Activities Authority (SDAA). In the future, PCVs may also participate in proposed USAID projects in rural savings mobilization and small enterprise development.

The USAID program is closely coordinated directly with these international organizations and through the National Development Council (CONADE), the GOE agency charged with coordinating all international technical cooperation. The USAID program represents the country's most important activity in institutional building and technology transfer, complementary to the IBRD and IDB resource transfer programs. USAID institutional development programs have often paved the way for IDB and IBRD large resource transfer projects. USAID also works closely and in concert with multilateral organizations (IDB, IBRD, UNDP) to facilitate the dialogue with GOE institutions in areas such as pricing policies and family planning which are highly sensitive politically.

## PART II. STRATEGY

### A. The Overall Approach

The strategy described in this CDSS recognizes that USAID cannot address all the causes of poverty nor all the development constraints discussed in Part I. Some causes of poverty and some constraints, such as the country's power structure and the cultural constraints, are beyond USAID's direct influence. Others, such as financial constraints, cannot be solved with the limited A.I.D. development assistance resources available, although innovative pilot activities may be appropriate in areas such as savings mobilization. Instead, USAID sponsored programs focus on the critical human resource, institutional, policy, and technological constraints which can be most effectively addressed by USAID.

As defined in the CDSS prepared in conjunction with the program resumption in Ecuador, USAID's underlying strategy has been to: (1) develop and strengthen public and private institutions so that they can effectively address Ecuador's key development problems, and (2) collaborate in innovative pilot or geographically targeted approaches and technologies (principally in agriculture, health, and housing) which more efficiently and effectively provide for basic human needs so the poor may participate productively in the development process. The validity of this strategy is unchanged and will continue to be pursued. USAID's existing portfolio of projects directly supports this strategy.

Nevertheless, the new economic circumstances that Ecuador faces require urgent measures to stimulate increases in production, employment, and foreign exchange reserves. If the economy continues to deteriorate, increasing social unrest will not only make it more difficult for the GOE to carry out difficult but necessary reforms, but will threaten the democratic process itself. However, the GOE is now confronted by an inescapable need to apply austerity measures to a degree unanticipated only two years ago. Resulting financial constraints can only aggravate the existing institutional bottlenecks to development. At the same time, the private sector, accustomed to a rapidly growing internal market, readily available external credit, and abundance of foreign exchange, has suddenly found itself in a severe crisis with few prospects for an early recovery.

Therefore, during the 1985-1989 CDSS period, USAID will address Ecuador's development needs within the context of its deteriorated economic situation by more strongly promoting productive activities. This effort will focus on a more rational use of Ecuador's natural resources and on a strengthened human resource, institutional, and technological base. General objectives to be achieved by the end of the CDSS period are:

- Better equipped institutions--particularly in USAID's traditional sectors of agriculture, health, and housing--for refining and carrying out public policies (this objective will be achieved primarily through training, technical assistance, and the improvement of information systems);
- Strengthened capacity of private sector institutions to contribute to the development process, especially through employment generating, Productive activities;
- Increased production/productivity in the agricultural sector and reduced marketing constraints to small and medium commercial farm development; and
- Greater development of growth poles outside of Quito and Guayaquil where employment opportunities based on comparative natural resource advantages can be generated.

These objectives will be reflected mainly in new projects to be developed and implemented during the CDSS period. USAID will continue its approach of using projects having a mix of technical assistance, training, and research activities as means to upgrade Ecuadorean private and public institutional capacity to develop and implement appropriate policies as well as to develop, adapt, and utilize appropriate technologies. These components are combined with modest amounts of loan and grant funds to finance pilot activities that demonstrate improved production technologies or more efficient delivery of services. By the end of the CDSS period, USAID expects that projects and activities which it finances will have contributed significantly towards bringing about a more efficient public sector and a more dynamic private sector.

Specifically, objectives in the public sector are:

- A strengthened institutional base for improving the GOE fiscal situation through technical assistance and training in revenue generation

and through training in the hydrocarbons sector;

- Successful completion of model service delivery systems (again with emphasis on agriculture, health, and housing) that demonstrate more cost-effective approaches; and
- A wider and deeper degree of commitment in national development programs to decentralized development and greater participation at the local level.

In the private sector, specific objectives during the CDSS time frame are:

- Strengthened producer associations that can carry out constructive dialogue with the GOE and can facilitate the flow of technology and information to their members;
- Increased institutional capacity in skills training and managerial preparation;
- A greater proportion of export-oriented enterprises involved in competitive ventures (e.g., rural based agro-industries); and
- Improved institutional mechanisms to promote and develop small scale enterprises.

The following section describes in more detail the lines of action USAID plans to follow for much of the balance of the 1980s. The new projects and activities identified are, of course, tentative and subject to further review and dialogue. In particular, USAID plans to have a detailed programmatic review with the incoming government scheduled to assume office in August of 1984. At that time, USAID will prepare a revision to this CDSS, if necessary, as a result of these discussions. However, regardless of the government that is elected in 1984, the basic problems identified herein must be addressed.

#### B. Proposed Program Activities

USAID's proposed program strategy during the 1985-1989 CDSS period will be composed primarily of projects which will generate increased productivity and promote productive activities. Productive activities are best carried out by private rather than public organizations. Therefore, projects developed and implemented by private sector organizations and groups will necessarily represent a major portion of USAID's portfolio. Because of the importance of the

private sector in future program implementation and the inter-related nature of the proposed activities, many of which are cross-sectoral, USAID's private sector strategy is discussed apart from the discussion of activities by sectors which follows.

(1) Private Sector Strategy

Overview. The development of productive enterprise activities based on the rational utilization of Ecuador's natural resource base will be the major focus of the USAID strategy during this CDSS period. Some of the proposed activities of this focus, particularly those which strengthen public and private sector agricultural institutions in order to improve institutional, technological, and policy frameworks, are discussed under the agriculture and rural development sector strategy. In essence, the proposed activities in support of productive enterprises are consonant with the revised objectives of the GOE National Development Plan and concentrate in areas where Ecuador has a real or potential comparative advantage, where its human resource base can be utilized, and where the private sector can play a predominant role. Particular attention will be given to the development of agriculturally related activities, e.g., agro-industrial, fisheries, and forestry activities, which will: (1) create productive employment opportunities principally in secondary cities and market towns; (2) help Ecuador's balance-of-payments situation through generation of exports or through a rational substitution of imports; and (3) promote economic growth.

USAID plans to support Ecuadorean efforts to analyze the country's potential for agricultural (including forestry and fishing) and agro-industrial development. These studies will provide the basis for defining potential USAID support where economic benefits will be maximized. In addition, with PPC assistance USAID is carrying out a Social and Institutional Profile (SIP) to assess private sector organizations and statal and para-statal institutions located in small municipalities. The private sector organizations to be analyzed include producer associations, cooperatives, and charitable, fraternal, voluntary, and popular associations. The SIP will help identify those organizations which could be used as vehicles to implement production focused programs in the private sector.

Proposed Activities. The results of the studies mentioned above will be used to help USAID to make programatic decisions regarding possible private sector projects. Activities that cut across the traditional A.I.D. sectors described in the following subsectors and are now under consideration include: (i) A FY 1985 Export Development project would establish a trading corporation sponsored by a consortium of private banks and financieras which would work in concert with the GOE Ministry of Commerce in identifying markets, developing product ideas, providing financial and insurance services to exporters, and developing or adopting technologies to increase the yield and quality of export crops. (ii) A FY 1988 Entrepreneurship for Small Enterprise Development project would develop a private sector institutional capacity to promote small scale enterprises in rural and urban areas. (iii) A Private Sector Forestry project would be a FY 1989 follow-on loan to the Forestry Sector Development Project currently being implemented by the Ministry of Agriculture's National Forestry Program. The project would facilitate joint public/ private sector collaboration in research, development, and diffusion of wood product technology, drawing on substantial U.S. private sector expertise. (iv) A Fisheries Resource Development project, possibly in FY 1985, would be directed at improving productivity of artisan level fishermen who live and work in Ecuador's numerous coastal fishing villages. Should this activity prove successful, a follow-on project would be considered toward the end of the CDSS time frame.

Private sector institutions also will play a significant role in USAID's strategy for managerial and technical skills training. First, USAID will consider a proposal from a group of private businessmen in Guayaquil to support efforts in the area of advanced managerial training. If the project is found to be feasible, the training would emphasize the introduction and adaptation of effective teaching methodologies (e.g., case study methods) and a curriculum directed at development constraints (e.g., marketing, foreign trade, banking, etc.). A FY 1984 grant is tentatively planned to provide technical support. Second, Ecuadorean PVOs in the private sector will be used to increase participation of private employers in skills training activities. Of particular importance is the successful pilot adaptation of the highly effective

technical skills training model developed by the State of California. This small initial effort is having a positive impact on the work skills and attitudes of low income youth in Guayaquil. USAID seeks to expand this model to include commercial and related types of practical training as an important means of addressing Ecuador's growing urban unemployment problem. Finally, USAID proposes to strengthen selected private agricultural skills training activities, an effort initiated through the RITS Project. These OPG experiences are expected to lead to a larger private sector skills training project by FY 1988.

Greater participation of the Ecuadorean private sector in managerial and skills training is important for two reasons. First, the private sector is generally more open to technological innovations than are Ecuador's public sector education institutions. Private sector sponsored training can be at the cutting edge with respect to demonstrating new methodologies and approaches. Second, there is a strong feeling in the Ecuadorean business community that public sector higher and vocational education institutions have been influenced along ideological lines that are anti-business. Many departments of state-sponsored universities in particular are controlled by radical student groups. For these and other reasons, USAID anticipates strong support and participation in its activities in this area by the Ecuadorean private sector.

#### (2) Agriculture and Rural Development

Overview. Until the temporary petroleum boom of the 1970s, agriculture and the rural sector played the most important role in Ecuador's economy. The sector is still very important and can be expected to continue to make a substantial contribution to the economy. Currently, the sector generates over 15 percent of Ecuador's GDP, accounts for over 37 percent of its foreign exchange earnings, and provides a livelihood to over 50 percent of its population.

Yet, the agricultural and rural sector has been neglected. This neglect has been one important reason for Ecuador's current crisis and the worsening situation of the rural poor. Three indicators of this neglect are: First, since the early 1970s, food production has lagged behind population growth. While population has been growing at about three percent per year, food prod-

uction has increased by an average annual rate of less than one percent. As a result, Ecuador had to spend foreign exchange to import food. Second, there has been a failure to develop effective marketing systems and related agribusiness activities--activities which create employment and are necessary to alleviate the underemployment and low incomes in rural areas. Third, the large number of subsistence farmers who are locked in a poverty situation go through a vicious circle as they try to scratch a living from their land and unknowingly set in motion a process of environmental degradation. Problems of deforestation, soil erosion, and desertification have further deteriorated Ecuador's population/resource ratio. Fortunately, Ecuador's current economic crisis has led to a society-wide consensus that Ecuador's long term development prospects are dependent on agriculture and related activities.

Constraints. A combination of factors explains the depressed state of Ecuador's agricultural sector and the plight of the large rural population which depends on it, including: (a) the false sense of security provided by the petroleum boom which deflected attention from the agricultural sector; (b) unrealistic political prices established for some staple products which resulted in disincentives to increased investment in the sector; (c) the lack of improved technologies to increase productivity and to reduce costs of production; (d) weak institutions which are unable to coordinate their policies and programs and to find innovative, effective solutions and technologies to cope with the sector problems. These institutions are hindered by a lack of qualified personnel and funds, inappropriate information on which to base decisions, inappropriate organizational structures, and inappropriate delivery systems.

Response. USAID is addressing the sector's institutional, technological, and policy constraints and the lack of basic services in the rural sector through four projects: Rural Technology Transfer System (RTTS), Integrated Rural Development (IRD), Campesino Training System, and Forestry Development. The RTTS Project addresses the technology constraint in the rural sector by bringing together centers of expertise (particularly U.S. Land Grant Universities) and Ecuadorean entities involved in applied research directed at farming

systems. The IRD and Campesino Training projects bring together for the first time coordinated actions in farming systems research, farm extension specifically oriented to the campesino's cultural background, specially tailored credit delivery, irrigation improvement, and marketing services. The Forestry Sector Development project addresses some of the environmental degradation problems as well as foment the improved utilization of Ecuador's renewable natural resources. In addition, these programs are supporting the development of new institutions created by the GOE specifically to address the structural difficulties faced by campesinos is their quest for access to technology, water, land, credit, markets, etc. These efforts are expediting the gradual transition of the subsistence campesino economy into a market, commercially oriented economy.

The role of women in the rural sector is an important concern of these projects. For example, in the Salcedo IRD area where men migrate temporarily to Quito to work as unskilled construction laborers, the projects support women-managed small animal production activities and train women in techniques such as livestock vaccination. Also in Salcedo, a successful on-farm irrigation demonstration has been held with the participation of women heads of household involved in intensive vegetable growing.

Implementation of these projects, which is well underway, will continue during the time frame of this CDSS. Eventually, the experience of these projects will be replicated by the GOE throughout the seventeen programmed IRD areas comprising around 485,000 persons who are among Ecuador's poorest. The fundamental problems and constraints which these projects seek to address have not changed and they must continue to be addressed. However, Ecuador's current economic crisis has highlighted the need to increase the emphasis on productive activities in the agricultural sector, especially those leading to improved productivity, increased food production, the creation of jobs, and the generation of an exportable surplus.

Accordingly, while continuing to expand the market participation of the small farmers in the present geographic target areas, USAID proposes to increase its attention to reach the small to medium size farmers already in the commercial sector and with an adequate resource ease. These farmers have the potential to increase significantly their production in the short run, both

for the domestic and for the export market, as well as to absorb additional labor. This new emphasis will entail: (a) increased efforts to develop and accelerate the diffusion and use of productive technologies; (b) improving the efficiency of Ecuador's marketing system and farmer access to it; (c) facilitating the flow of credit necessary to finance inputs and the application of improved technologies; and (d) developing channels for the use of the increased production (e.g., exports and agro-industry). Consistent with this emphasis and building on the experience and progress of the current rural development program, USAID proposes to increase its support to key Ecuadorean institutions, both public and private, which play a role in promoting agricultural production/productivity and in related marketing systems. The activities in these areas, which have been assigned top priority in the revised GOE National Development Plan, are discussed below.

(1) Agricultural Production/Productivity. Given the economic crisis and the constraint analysis discussed under Part I of this CDSS, USAID proposes to expand emphasis on agricultural activities that help promote sustained growth and create productive employment opportunities. These activities will emphasize the role of productive enterprises which have the potential to use in a rational way Ecuador's natural resource base and thereby generate increased foreign exchange earnings. This effort will entail continuing and expanding present efforts to: (a) strengthen the private and public institutions which play a role in promoting and implementing productive activities; (b) improve the quality and quantity of information flows and the diffusion of agricultural technologies; and (c) identify and study the feasibility of productive investments.

USAID proposes to develop a series of projects to stimulate small and medium commercial farm development which would result in increased staple food production and diversification into high value and non-traditional crops. A number of specific activities would be carried out, all involving the private sector: (i) One component under this line of action, Private Sector Agricultural Technology Transfer, would promote the transfer of agricultural technologies (improved crops, farming technologies, etc.) to individual farmers through producers' associations and farmer cooperatives or through agro-industrial and agro-business enterprises. This component would require grant fund-

ing in FY 1985 to finance specific agricultural research efforts including technical assistance to develop and implement a private sector technology delivery system. (ii) A fully funded FY 1984 OPG would carry out a Rural Savings Mobilization activity involving private credit unions that want to expand production lending to small and medium size farmers. (iii) A third component, Agricultural Insurance, would seek to strengthen the Ecuadorean institution which insures selected farm enterprises and assists small farmers to obtain credit through local sources. This component is already underway though the regionally funded Crop Credit Insurance Project which is assisting in establishing the Ecuadorean Agricultural Insurance Company (CONASA). Substantial policy dialogue would be involved in reaching agreement on the structure and scope of operations of CONASA. (iv) A fourth component, On-farm Water and Soil Management, would assist the GOE agricultural institutions to rationalize on-farm water usage and promote soil conservation. This FY 1987 project would expand the pilot efforts initiated under the RITS Project and would help bring about improved resource use policies and practices at the farm level.

(2) Marketing Systems Development. To address the marketing constraints which inhibit the effective development of Ecuador's agricultural sector and to complement the above production/productivity oriented activities which will help develop small scale commercial agriculture, USAID will assist Ecuador to improve its marketing system. This line of action would be directed at improving the management of Ecuador's food system from a security and/or efficiency viewpoint, at improving small farmer access to markets, and at increasing the involvement of the private sector in the marketing of farm products. Activities proposed include: (i) A Regional Rural Cooperative OPG which would develop a model for regional service cooperatives to market small farmer production and to furnish inputs and technical assistance. This activity would be carried out under an OPG to an Ecuadorean cooperative with technical assistance from Agricultural Cooperative Development International (ACDI). This FY 1984 project would help identify components of a larger project of national scope. (ii) An Agricultural Marketing Systems activity would finance studies, technical assistance, and training for on-farm storage, regional private storage institutions, a marketing information system, and the institutional strengthening of Ecuador's National Storage and Marketing Enterprise (ENAC).

Agricultural pricing policy would be carefully examined during project design. The proposed project would begin in FY 1984 and would draw upon the ENAC staff currently being trained by USAID. (iii) A FY 1984 Agro-Industrial Development Services project, possibly a loan to the Central Bank or the National Finance Corporation (CFN), would mobilize private sector capacity to develop projects that improve processing and marketing of agricultural products. This activity would finance feasibility studies for agro-investments and provide limited credit to qualified private firms on the basis of the studies. (iv) A FY 1986 Market Towns Development project would stimulate the development of selected secondary cities and towns that serve as key market centers for those areas having high agricultural potential. In addition to creating jobs, this project would further promote the GOE goal of balanced development and decentralization.

### (3) Health and Nutrition

Overview. Poor health and nutrition seriously affect Ecuador's population, especially in rural areas. Infant mortality exceeds 100/1000 in some rural areas while the national rate is 71/1000. Nearly 50 percent of all mortality occurs in children under five years, even though this group constitutes only 16 percent of the total population. Diarrheal diseases and respiratory infections--both preventable, controllable problems--are the two leading causes of death. Although no truly comprehensive nutrition studies have been conducted, current data indicate that 40 percent of children under five years old are malnourished. Moreover, only about 12 percent of rural people have access to clean water, and fewer have sanitary waste disposal facilities. The interaction of poor nutrition and water-borne infections is a principal cause of the high mortality rates noted above.

A pervasive mistrust of western medicine and its practitioners among the rural population plus the inefficiency of the country's health services exacerbate the poor health condition of Ecuador's population. Only 50 percent of rural inhabitants have access to public health services, and the services which are available are underutilized. There are less than 0.4 consultations per capita per year in Ministry of Health (MOH) facilities. Only 20 percent

of all births are attended by professional personnel, and only four percent of children from one to five receive any modern medical care at all.

Constraints. Two principal categories of constraints, institutional and financial, inhibit the solution of these problems.

Institutional. Although GOE policies are increasingly sensitive to the needs of the rural poor, the MOH is not adequately organized to deliver primary-care services (including water/sanitation services) in rural areas. Planning is highly centralized and ineffective. Information, logistics, and supervisory systems are weak. Services are provided in fixed facilities, and community outreach is almost non-existent. Nutritional concerns are the province of a three-person (none properly qualified) nutrition division which is exclusively occupied with the administration of a maternal and child health (MCH) feeding program.

Financial. In 1980, 6.1 percent of the GOE's budget went to health as compared to 2.6 percent in 1970. Although it is unlikely that this expansion will continue in the future, basic health and especially water/sanitation services are still not available to large segments of the rural population. Cost reductions will, therefore, be required if the MOH is to effect significant service extension in the future. However, technologies employed by the MOH are not cost effective. Rural water systems are over-designed and have a high per capita construction cost. They are, therefore, relatively scarce, with systems for dispersed populations being nearly non-existent. Rural health centers cost twice as much as similar facilities in other developing countries such as Guatemala. Cost-effective oral rehydration therapy is only now being introduced.

Response. The Integrated Rural Health Delivery System Project is USAID's initial effort in this sector. The project attempts to improve the MOH's capacity to respond to the needs of the rural poor by developing a low-cost, health care-delivery model which can function as an integral part of IRD projects and which can be replicated in other areas nationwide. It emphasizes: (1) the decentralization of planning and decisionmaking and increased community participation; (2) the promotion of low-cost primary health care (PHC) and water/sanitation technologies; (3) the extension of health-service delivery

with an emphasis on specific, high priority PHC and water/sanitation programs; and (4) the strengthening of national and provincial levels of the MOH to support the model and replicate it in other areas. This project addresses the problems of women in several ways. For example, the project's PHC activities take into account the women's role in child care. Rural women have participated in the design of priority PHC activities, such as diarrheal disease control, and have been consulted regarding prevention and treatment measures. Women play an active role in the community water boards that operate the water systems built under the project. Improved water supplies will mean significant time savings to women, allowing them to spend more time on productive activities.

During the CDSS period USAID will support the genesis of a coherent national nutrition strategy. USAID has already begun close collaboration with the National Health Council and the National Development Council (CONADE) to identify needs for additional studies and analyses. By providing resources for these efforts, USAID will be directly involved in a policy/programmatic dialogue on crucial nutrition issues. With centrally funded assistance, a national nutrition survey will be undertaken. Information on food production and consumption patterns will be collected and nutritional impacts of agricultural policies analyzed. USAID will also sponsor participant training at the master's level in nutrition, drawing on available central or regional funding. Under OPGs (Save the Children Federation and possibly Meals for Millions) additional approaches to improved nutrition in rural areas will be tested. Also, USAID is initiating a pilot effort to improve the PL-480 Title II financed MCH activity being carried out by the Ministry of Health with CARE support (see II.B.6.).

Given the management and financial constraints to expanding health services in the public sector, USAID will explore opportunities for financing and delivery of services through private sector mechanisms. Accordingly, USAID will implement a private sector health initiative through a two-phased process. During FY 1983/84, a feasibility study for private or quasi-private provision of health service will be conducted, and a model delivery mechanism will be developed. This will be followed by an OPG to implement the model in FY 1984. Throughout this process USAID will collaborate with the GOE in order to share findings and conclusions that may be reflected in improved policies.

By FY 1987 USAID expects to have developed a follow-on health, water/sanitation, nutrition project. This follow-on project will continue the institution building efforts of USAID's current rural health project. It will expand the geographical coverage of successful components of this effort including the model health-care delivery system, priority PHC activities such as oral rehydration therapy and the use of health promoters, and low-cost water and sanitation technology. Based on the knowledge and experience gained about nutritional problems in Ecuador, larger scale nutrition activities would be designed to implement improved nutrition policies. Similarly, the project would serve as a vehicle to expand and replicate successful elements of the private sector health initiatives expected to be designed and tested during the initial years of the CDSS period.

#### (4) Population and Family Planning

Overview. Ecuador's population of 8.4 million is growing by 2.9 percent per annum and is expected to double to over 19 million by the year 2003. This growth alone implies the need to provide by the year 2003 jobs for approximately 3.5 million additional workers and education for an additional 1.5 million children, as well as vastly increased food production and supply of other basic services, especially in urban areas. The dangers of environmental degradation also will increase substantially. Although contraceptive usage is increasing, many women use ineffective methods and many more still use no contraception at all.

Several institutions are supporting population/family planning (FP) programs to control population growth, including the Ministries of Health and Defense (MOH, MOD) and the Social Security Institute (IESS) in the public sector and the Center for Population Studies and Responsible Parenthood (CEPAR), the Ecuadorean Association for Family Welfare (APROFE), and the Medical Center for Orientation in Family Planning (CEMOPLAF) in the private sector. Each of these agencies is limited by one or more of the constraints noted below.

#### Constraints

Policy. The GOE has no official population policy. CONADE has been slow in taking its constitutionally mandated lead in this area. Operating agencies, like the MOH, generally take a non-aggressive posture on FP, ad-

addressing it solely in the context of MCH services.

Institutional. The public sector has insufficient trained personnel to plan, manage, and execute FP programs, and logistics systems for contraceptive delivery are weak. The two private agencies offering FP services, APROFE and CEMOPLAF, are relatively small and have limited geographic coverage.

Financial. The expansion of FP services depends largely on expanding local and external resources. While a significant portion of contraceptives users relies on commercial outlets, prices are too high for most people.

Socio-cultural. Cultural/attitudinal factors ranging from leftist ideological objections to conservative religious beliefs and simple ignorance make comprehensive FP programs difficult to implement, especially among the rural, indigenous population.

Response. USAID is addressing and will continue to address these constraints through bilateral and intermediary population projects and through the integration of population concerns into other elements of its program, especially in health and nutrition (e.g., the rural nurses and health promoters under the Integrated Rural Health Delivery System Project are being trained in FP). USAID efforts will continue to focus on the implementation of the existing Population and Family Planning Project, approved in 1981.

Although the lack of a population policy has not prevented the delivery of FP services, nor the implementation of the current population project, an affirmative policy could accelerate the expansion of existing programs. USAID will encourage the formulation of population policy by supporting, with UNFPA, CONADE's new population division, strengthening the National Statistics and Census Institute (INEC) to provide data for policy formulation, and expanding CEPAR's activities to promote public awareness of the population problem among the country's leadership and general population.

USAID will concentrate its resources on assisting Ecuadorean public and private institutions to expand and improve FP services. Although important, the policy problem is less crucial than the strengthening of the limited institutional capacity of existing FP agencies. Therefore, the bulk of USAID's assistance will be targeted on the MOH, the MOD, IESS, APROFE, and CEMOPLAF to

enable them to expand service delivery. A Commercial Retail Sales (CRS) program will also be initiated which will provide contraceptives through private pharmacies. The current population project, initiated in 1981, will be the chief resource for implementing the strategy outlined above in the near and medium term. Nevertheless, the population problem requires longer term efforts, and a follow-on bilateral project will be necessary for the period 1986-1990. During this period, emphasis will shift toward private sector support and an expanded CRS program. Reliance on intermediaries such as IPPF to supply contraceptives will be carefully assessed. Emphasis will be placed on increasing permanent local mechanisms to provide contraceptives. By the end of the 1980s USAID expects that Ecuador's population growth rate will be reduced to about 2.4 percent.

(5) Urban Development

Overview. Ecuador's urban housing deficit is estimated at 800,000 units, affecting approximately 80 percent of the urban population. Approximately 46 percent of the deficit is accounted for in Guayaquil and Quito, and the balance is in rapidly growing secondary cities and market towns. One of the principal causes afflicting Ecuador's urban areas is the rapid rural-to-urban migration and the rate of new family formation occurring in urban areas throughout the country. In 1950, only 28.5 percent of the total population lived in urban areas. By 1981, the urban population was estimated at 44 percent. The urban population has more than tripled over the past 30 years with an annual growth rate of 4.9 percent. These growing numbers crowd the suburbios in Guayaquil, occupy inner city tenements in Quito, and form clandestine communities throughout the country. Secondary cities and market towns such as Quevedo, Santo Domingo, Machala, Portoviejo, Manta, Chone, and Cuenca are particularly hard pressed to furnish basic services to attend to this rather recent phenomenon. Squalid living conditions, lack of jobs, and other pressures will likely lead to the spread of social unrest and volatility normally only encountered in Guayaquil and Quito.

Constraints. Until recently almost all Ecuadorean public and private sector housing activities have concentrated on middle and upper middle class housing. This orientation has prevented the responsible GOE institutions from developing their administrative, technical, and financial capacity to respond

adequately to the shelter needs of low income families. In addition, national level agencies, like the National Housing Board and the Ecuadorean Housing Bank (JNV/BEV), have been unable to mobilize local resources to expand low income housing and urban development programs throughout Ecuador. However, partly as a result of USAID and IBRD efforts, improved coordination of national and local efforts in the shelter and urban development sector is now beginning to emerge.

Response. USAID's approach to the needs of urban areas in Ecuador is to deal on a sustained basis with the housing, infrastructure, employment, and social needs of the urban poor. It seeks to alleviate the housing deficit in the major urban areas and to correct unbalanced urban growth by alleviating the housing problem in secondary cities and market towns.

USAID's urban development strategy relies primarily on Housing Guaranty (HG) resources complemented by small development grants to finance technical assistance and studies. The principal USAID sponsored programs are the \$20 million Solanda low cost HG program in Quito and the \$25 million Secondary Cities HG Program. These programs will benefit 5,000 and 14,600 poor families, respectively, representing over 98,000 persons. A grant component to the Solanda HG is financing the design and implementation of community development activities that will provide a model for other programs. These activities include special attention to eligibility criteria for women heads of household, employment generation, and day-care centers.

New programs implemented during the CDSS time frame will extend the systems developed in the current programs and attack new and specific problem areas that hinder Ecuador's ability to address its serious and growing housing deficit and urban development problems on a national scale. The next HG program, planned for FY 1984, will address the critical shelter and urban development problems of Ecuador's largest city, Guayaquil. Elements of this program will include progressively developed dwellings tested in the Solanda and Secondary Cities programs as well as home improvement programs and innovative solutions tailored to the inner city tenements. The Guayaquil initiative will serve as a model for other cities suffering similar inner city and squatter problems. It will build on other USAID efforts to be carried out in priority

urban centers to promote employment generation, urban planning, institution building, and the provision of social services. The Guayaquil program will also stimulate private sector developers to participate in the solution of Ecuador's shelter problem.

The HG program is instrumental in USAID's policy dialogue on urban development. USAID attained a milestone when the GOE made a far-reaching policy decision to start constructing low cost houses affordable to low income groups. USAID will continue to assist the GOE to define shelter and urban development policy through its HG programs and pilot activities. Policy dialogue will continue to focus on reducing costs and reaching lower income groups through public housing programs and GOE supported private efforts. New construction standards and technologies will be encouraged. Additionally, greater cooperation with local level organizations such as municipalities and greater use of private sector developers will be pursued as cost-saving devices. Given rapidly increasing inflation, policy dialogue also will have to be directed at savings mobilization and interest rate practices for both the public and the private sector housing institutions. In addition to dealing directly with the GOE on these matters, USAID will also encourage the IBRD to carry on a dialogue on these matters.

The HG resource is a particularly appropriate USAID program tool for Ecuador. The GOE housing and financial authorities are very interested in increasing access to HG financing, given budget constraints and the need for dollar resources. Accordingly, USAID plans to draw heavily on the HG mechanism during the CDSS time frame. Increasing attention will be given to using private sector institutions and entities to complement HG programs.

(6) Other Activities

(A) Revenue Generation and Energy. USAID is assisting the GOE to address its financial constraints. The FY 1983 Revenue Generation Project seeks to develop mechanisms for improved revenue generation and fiscal management at both central and municipal levels of government. Ecuador is now ranked among the lowest of Latin American countries by all common measures of tax effort. An improved GOE capacity to generate revenues is crucial to maintaining vital public sector programs without resorting to large deficit budgets. In addi-

tion, USAID support will help municipalities, which can no longer count on generous central government transfers, to tap the large revenue potential from existing sources at the municipal level. For example, property taxes, betterment taxes, and users charges for public services could be more effectively and efficiently collected. Concurrently, the effort will also strengthen the role of selected intermediate municipalities in promoting a more balanced pattern of national growth. Follow-on projects in market town development and in tax administration, possibly loan funded, are planned in FY 1986.

Because petroleum exports account for 30 percent of central government revenues, the energy sector is a critical factor in improving Ecuador's fiscal situation. As explained earlier, the single greatest need is to expand exploration and develop new petroleum reserves. IBRD and IDB are more suited than USAID to pursue project development and policy dialogue in the petroleum sector. However, USAID can assist in the strengthening of Ecuadorean petroleum sector institutions through training. Already, several instructors at Ecuador's prestigious polytechnical university in Guayaquil are receiving post graduate level technical training in the U.S. during the CDSS period. USAID plans to expand its training support to include the Department of Hydrocarbons of the Ministry of Natural Resources and possibly the state oil company, CEPE. Through these efforts USAID expects to promote the development of more mature petroleum sector institutions, able to formulate policies and adopt practices that more rationally utilize Ecuador's current most important resource--petroleum. All financing will be from central or regional sources; no bilateral project is contemplated.

Also in the energy sector, USAID is currently implementing the FY 1981 Alternative Energy Sources Project. The project is designed to: (i) strengthen the capacity of the National Energy Institute (INE) to carry out macro-economic energy planning; (ii) facilitate the flow and diffusion of appropriate alternative energy sources to serve the needs of rural and urban poor (e.g., fuel efficient wood burning stoves, minihydro, solar, wind, etc.); and (iii) promote energy conservation. While the project does not have a revenue generation focus, the conservation component is fully consistent with USAID revenue generation objectives since it can help increase Ecuador's exportable petroleum surplus. USAID will work closely with INE to help emphasize and ex-

pedite this component. However, USAID has no follow-on plans for this project and will be phasing out of the alternative energy sector upon project completion.

(B) PL-480 Title II. Title II programs are implemented by CARE and Catholic Relief Services (CRS). CARE provides soy to the Ministry of Health (MOH) for its Maternal-Chile Health (MCH) feeding program, while CRS provides its local counterpart, Promoción Humana, with six commodities for school feeding, other child feeding, and a small, pilot food-for-work program. USAID plans to re-design both programs to enhance their development impact and address important policy concerns.

The first priority is CARE's program with the MOH. This program is targeted at pregnant and lactating women to address their special nutritional needs and to prevent malnutrition in newborns and infants. A 19-month pilot project to improve and evaluate this program is planned to begin in June, 1983. It will emphasize the more regular and timely provision of management information and better health education to maximize program impact, and growth surveillance to evaluate that impact. This latter improvement, in conjunction with a separate national nutrition survey and support for nutrition surveillance (see II.B.2), will eventually result in improved program targeting on mothers and children with the highest nutritional risk. Funds will be provided by FVA/PPE, with complementary resources from USAID's rural health project, to train personnel in the larger scale implementation of the improvements. These improvements will enhance the development impact of the MCH program by insuring that food is effectively and efficiently delivered to those most likely to suffer the long term debilitating effects of malnutrition.

The major policy issue confronting the MCH program is the GOE's sustained support for the program when external assistance terminates. The outlook is promising. The MOH currently assumes all the program's operating costs, and is beginning to assume its commodity costs as well. A new food supplement, based on locally grown rice, will completely replace the current supplement in 1983. While the MOH is currently negotiating a new agreement with the World Food Program to supply milk and rice to the program from 1984 through 1988, these commodities will only be supplied in quantities sufficient for about

half of the program's current beneficiaries. All additional rice and milk will be supplied by the MOH. Furthermore, PL-480 Title II soy contributions will not continue past FY 1984. After that date, the MOH will supply the program with locally grown soy.

USAID has also advised CRS that its Title II programs will not be continued in their present form after FY 1984. An evaluation, similar to the evaluation of the MOH program, will be conducted starting in April/May 1983, with CONADE assistance as a basis to improve the CRS program. The evaluation will provide the basis for a policy dialogue with the GOE and CRS and for a possible five-year program through CRS. It will consider the successes and failures of CRS's recent efforts in Ecuador, including Title II and community development efforts, and will suggest means of enhancing the development impact of both. Key considerations for enhancing the development impact of Title II will be improved targeting, institutional development, formulation of more precise program objectives, built-in feedback mechanisms to measure the attainment of these objectives, and potential self-sufficiency. Opportunities for OPGs to complement these efforts will also be explored.

(C) OPGs and Small Grants. USAID has successfully contributed to institution building needs in Ecuador by using OPGs and small grants on a relatively limited basis with PVOs. In some cases, this mechanism is the only feasible approach to developing the proposed programs with private sector groups described in preceding sections. Accordingly, the future USAID program mix will tend to emphasize OPGs and small grants relative to large loan/grant projects more than has been the past experience. In this context, USAID has carried on discussions about elements of its country development strategy with PVOs such as Save the Children, Acción Internacional/AITEC, International Executive Service Corps (IESC), CRS, CARE, the Overseas Education Fund (OEF), the American Institute for Free Labor Development, and the Medical Assistance Program (MAP), as well as U.S. cooperative organizations including the Agricultural Cooperative Development International (ACDI) and the Cooperative League of the United States of America (CLUSA).

In the agriculture and rural development sector, the OPG and small grant mechanism will be used to assist producer associations, to carry out the sav-

ings mobilization activity, and to test the regional marketing cooperative approach. In the health sector, an OPG to test private or quasi-private provision of health services is contemplated as are OPGs to promoted community based solutions to health and nutrition problems.

USAID will continue to address the special problems faced by Ecuadorean women in the context of its OPGs and centrally funded activities as well as bilaterally funded projects. The problems of Ecuadorean women, as discussed in the analysis section of this CDSS, are partly a result of the overall development problems of the country. Thus, USAID prefers to incorporate women-in-development concerns as part of its regular development program, particularly in its traditional sectors of agriculture and rural development, health, and housing. However, if opportunities arise to support institution building among private or public organizations that can promote effective women-in-development activities, USAID will use OPGs and/or small grants for this purpose. Unfortunately, to date such organizations in the public and the private sectors have not been interested in developing acceptable programs or have been pre-occupied with political causes.

### PART III. PROPOSED ASSISTANCE PLANNING LEVELS

#### A. Planning Levels

The Assistance Planning Levels (APLs) shown in Tables I and II follow the established A.I.D. funding categories, i.e., Agriculture, Rural Development and Nutrition (ARDN), Health (HE), Population (PN), Education and Human Resources (EH) and Selected Development Problems (SD). Consistent with the problems facing Ecuador in the immediate future and with the strategy outlined in Part II of this CDSS, the APLs reflect the high priority assigned to the Agriculture and Rural Development sector. Indeed, about 50 percent of total A.I.D. resources during the CDSS period are concentrated in this sector.

The APLs also reflect the emphasis assigned to the participation of the private sector. Specific private sector activities are being contemplated in all sectors covered by this CDSS. Of particular interest is private sector involvement in the rural development and human resources development sectors. The focus on small to medium size commercial farmers to increase agricultural production for the domestic and export markets, and the involvement of private groups in the implementation of graduate business and entrepreneurial/technical skills training will seek to develop innovative approaches to complement public sector efforts.

Overall, the APLs are essential to: (1) contribute to the solution of key development constraints confronting Ecuador in the CDSS period; and (2) continue to influence the allocation of public and private resources towards priority activities that will contribute to sustained economic growth, enhance employment opportunities, and help meet the basic human needs of Ecuador's poorest population groups.

The APLs, as presented by sectors (Table I) and activities (Table II), will assist the GOE and the private sector in the financing of project inputs to consolidate and/or build public and private development institutions, and to promote the flow and transfer of technologies relevant to Ecuador's development situation. Accordingly, A.I.D. resources will finance technical assistance, training, limited credit, strengthened marketing systems, export

TABLE I  
Proposed Assistance Planning Levels  
By Functional Account

1. <u>Levels</u>	<u>Account</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
A. Agriculture, Rural Development and Nutrition (ARDN)						
1.	Loans	3500	7500	6000	5000	12500
2.	Grants	<u>3800</u>	<u>4700</u>	<u>2200</u>	<u>700</u>	<u>1600</u>
	Sub-Total	7300	12200	8200	5700	14100
B. Health (HE)						
1.	Loans			2000	6500	
2.	Grants	<u>300</u>	<u>400</u>	<u>300</u>	<u>800</u>	<u>250</u>
	Sub-Total	300	400	2300	7300	250
C. Population (PN)						
1.	Loans					
2.	Grants	<u>40</u>	<u>600</u>	<u>600</u>	<u>1600</u>	<u>1750</u>
	Sub-Total	40	600	600	1600	1750
D. Education and Human Resources (EH)						
1.	Loans				2500	2000
2.	Grants	<u>1700</u>	<u>1200</u>	<u>1200</u>	<u>1000</u>	<u>600</u>
	Sub-Total	1700	1200	1200	3500	2600
E. Selected Development Problems (SD)						
1.	Loans			5000	1000	3500
2.	Grants	<u>660</u>	<u>1600</u>	<u>1700</u>	<u>1900</u>	<u>800</u>
	Sub-Total	660	1600	6700	2900	4300
TOTAL						
	1. LOANS	3500	7500	13000	15000	18000
	2. GRANTS	6500	8500	6000	6000	5000
PL-480 Title II		1200	1300	1000	800	800
Housing Investment Guaranty				30000		30000

TABLE II

Illustrative FY 1985-1989 Activities

<u>ACTIVITIES</u>	<u>FISCAL YEAR (\$000)</u>				
	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
<b>A. <u>Agriculture and Rural</u></b>					
<b><u>Development</u></b>					
1. Agricultural Production and Productivity	700	1200	6300		
2. Marketing and Export Systems Development	5000	9700	1400	5200	5500
3. Forestry Development	500	400			3000
4. Fisheries Development	500	400			5000
5. OPGs	400	300	300	300	400
6. PD&S	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>
Sub-Total	7300	12200	8200	5700	14100
<b>B. <u>Health and Nutrition</u></b>					
1. Health, Water and Nutrition Follow-on			2250	7250	200
2. OPGs	250	250			
3. PD&S	<u>50</u>	<u>150</u>	<u>50</u>	<u>50</u>	<u>50</u>
Sub-Total	300	400	2300	7300	250
<b>C. <u>Population and Family Planning</u></b>					
1. Public and Private Sector FP	-	560	560	1560	1700
2. PD&S	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>50</u>
Sub-Total	40	600	600	1600	1750

D. Education and Human Resources

1. Advanced Management Training	1000				
2. Enterprenurial and Technical Skills Training	200	800	800	3100	2000
3. OPGs	400	300	300	300	450
4. PD&S	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>150</u>
Sub-Total	1700	1200	1200	3500	2600

E. Selected Development

Problems

1. Housing and Urban Development	200	200	200	200	200
2. Entrepreneurship for Small Enterprise Development			500	1500	3500
3. Revenue Generation		1000	5500	500	
4. OPGs	260	300	300	500	500
5. PD&S	<u>200</u>	<u>100</u>	<u>200</u>	<u>200</u>	<u>100</u>
Sub-Total	<u>660</u>	<u>1600</u>	<u>6700</u>	<u>2900</u>	<u>4300</u>

TOTALS 10000 16000 19000 21000 23000

PL-480 Title II (1200) (1300) (1000) ( 800) ( 800)  
 Housing Investment Guaranty (30000) (30000)

promotion activities, and the corresponding commodities necessary to facilitate project implementation and the provision of basic services to Ecuador's population.

In developing the APLs, USAID has considered carefully the grant/loan mix of the total planned portfolio, with the loan percentage increasing gradually. Loans as a percentage of the total APL rise from 35 percent in FY 1985 to 47 percent in FY 1986, 68 percent in FY 1987, 74 percent in FY 1988, and 78 percent in FY 1989. This mix is considered adequate to implement the proposed strategy.

#### B. Staffing Requirements

USAID's FY 1983 staffing level consists of 14 U.S. Direct Hire (USDH) officers (including one IDI and a Regional Energy Officer) and 19 Foreign National Direct Hire (FNDH) employees. Additionally, a Joint Career Corps member under the Title II program is expected to come on board during FY 1983. It is recognized that this staffing level is very limited to carry out the heavy workload which the present project portfolio entails. However, USAID has used effectively several mechanisms to complement the capability of this limited staff. The mechanisms used to date include: (1) project funding of resident advisors obtained through PASAs and Personal Services Contractors (PSCs); (2) increasing the participation of the Ecuadorean professional staff (both contract and direct hire) in the various aspects of program planning and implementation; (3) the careful assignment of responsibilities to USDH officers to maximize the use of their background and experience; and (4) the effective use of technical advisors available through centrally funded projects and in AID/W backstopping offices. These mechanisms have worked very well, and USAID will continue to use them. However, the additional projects proposed during the CDSS period will require a modest increase of the present staff by two USDHs, specifically to carry out the private sector strategy and to assist with the mounting program implementation workload that will result from the expanded strategy. The required staffing level is shown in Table 1 below. Actual recruitment of the additional positions required during each CDSS year will depend on the progress made in developing the new activities.

TABLE III  
Staffing Requirements  
In Work Years

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
USDH	15	16	16	16	16
FNDH	19	19	19	19	19

C. Project Implementation and Evaluation.

Staff increases can be kept to a minimum by improving project management efficiency. To date, implementation of the current strategy has been hindered by the very same key constraints (i.e., institutional weaknesses and ill-prepared counterpart personnel) that the USAID approved projects seek to address. This was an expected problem which is being corrected as the programs move from the project development stage to the implementing stage. The project development stage which began in FY 1980 has led to an active project portfolio exceeding \$95 million, including \$45.0 million under HG programs. The portfolio consists almost totally of bilateral activities with Ecuadorean governmental entities which have had little or no recent experience implementing A.I.D. financed projects. In most cases these agencies are unfamiliar with A.I.D. procurement regulations and have little experience in the procurement of technical services and imported commodities. In other cases, project agreements required GOE compliance of conditions precedent which have been difficult and time consuming. Invariably, the concerned GOE agencies require a significant amount of guidance from USAID in these matters. Compounding this situation, USAID's project officers and the Project Design and Implementation Office had to devote a large part of their time to project development. However, the USAID's attention during FY 1983 is being focused more on implementation. In order to assure that projects achieve their intended purposes, USAID will undertake several actions involving internal operations as well as the way in which USAID relates to host country implementing institutions:

- a. Strengthening of USAID implementation skills. USAID staff expertise in project implementation concerns will be expanded through: (a) the addition of local professional contract staff in USAID's Project Design and Implementation and Controller's offices; (b) additional training and increased professional responsibilities for existing staff in these offices; (c) the implementation of a series of USAID workshops for project officers designed to increase their knowledge of key implementation matters; and (d) the development of an IQC mechanism with a local representative of a U.S. accounting firm to provide USAID management and staff with additional resources for financial analyses and reviews.
- b. Improved project monitoring process. Project monitoring will be improved through the development and implementation of three types of information management systems which can be installed on USAID's computer hardware. These include: (a) a project implementation tracking system; (b) a project financial management system; and (c) a project procurement/contracting status system. Software already developed by USAIDs in Haiti and Peru will be used as the basis for developing these systems.
- c. Use of project committee system. USAID will also more effectively utilize the project committee system to anticipate and resolve project implementation problems. Specifically, project committees will review the project monitoring documents on a regular basis, and ad hoc task forces will be constituted to assist project officers to address key problems as they are identified.
- d. Strengthening the dialogue with GOE counterparts. USAID's external relations with GOE agencies will include more frequent formal joint project review meetings in which project officers, together with representatives from USAID staff offices and, as appropriate, the USAID Director, meet with their counterparts to review project status. These project review meetings, which have proved exceedingly useful for the projects where they have been conducted, will be carried out for all major projects in USAID's portfolio on a regular basis. Where particularly significant problem areas or implementation bottlenecks are identified, joint task forces will be established to resolve these problems.

e. Technical assistance and training of GOE counterparts. Most on-going projects have an explicit allocation of funds for technical assistance to improve GOE management capacity. In those projects where funds have not already been earmarked USAID will, within the context of its institution building objectives, encourage host country institutions to reprogram project funds to finance this type of assistance where appropriate. Although these efforts will be directed at general management improvement, they also have a positive impact on project implementation.

Also, USAID will continue its current efforts to evaluate each project at critical implementation stages. The findings of project evaluations which have been conducted on pilot activities have been used in the design of larger projects. For example, the Forestry Sector Development Project incorporated important findings resulting from the evaluation of the Fundación Natura OPG project; the water component of the Integrated Rural Health Delivery System Project incorporated the evaluation findings of other water projects in Ecuador; the evaluation of the CARE PL-480 Title II project will provide important information for the design of future USAID efforts in nutrition; and the evaluation of the RITS Project, currently underway, will provide additional experience on interinstitutional coordination in the Ecuadorean context, on technology transfer systems and policy development, and on implementation. The findings of the RITS evaluation will be used in making necessary adjustments in the implementation of the project and in the design of similar future activities.

#### PART IV. ISSUES

USAID has identified two main issues to be considered during the time frame of this CDSS. These are: (A) Ecuador's ability to meet its counterpart requirements, and (B) Ecuador as a Middle Income Country (MIC).

##### A. Ecuador's Ability to Meet its Counterpart Requirements

Given Ecuador's austerity measures and the strict control imposed by the new 1983 law on public spending, the GOE will be hard pressed to provide the required counterpart project contributions. This statement is in general valid. However, the USAID believes that implementation of the existing USAID sponsored programs and the programs proposed in this CDSS will not be affected because: (a) the revised GOE budget, which is in accord with the new public spending law, already provides for such contributions; (b) the existing and the proposed projects are consistent with the GOE's highest priorities for which the various implementing institutions have set aside the required counterpart resources; and (c) the existing projects call for GOE contributions mostly of an "in-kind" nature. Most of these in-kind contributions are already in place.

In addition, in January, 1983 the GOE revised its National Development Plan and re-ordered its objectives to assign top priority to:

- productive projects which generate basic goods for popular consumption (especially food) and for exports;
- projects that promote agricultural production, including projects which would expand the size of farming land. The plan specifically mentions projects in irrigation, integrated rural development, and marketing, including storage and distribution;
- projects that develop additional sources of energy;
- projects that promote regional, socio-economic integration;
- projects that promote the availability of basic services, such as water, health, and shelter.

By focusing its attention on certain social areas and re-orienting some of its priorities, the GOE is seeking to accelerate the process of

reaching the large number of Ecuadoreans who continue to live in poverty and thereby reduce the incidence of social unrest. Since USAID's current and proposed projects are fully consistent with these GOE priorities, counterpart contributions, both financial and in-kind, are not expected to be a serious problem. However, it is important that the IBRD and IDB, as well as USAID, reassess their requirements for counterpart for new projects and reduce them if and when it is appropriate. In this regard, each USAID project will be carefully analyzed and designed in a way that will not impose an unbearable counterpart burden on any public or private institution.

B. Ecuador as a Middle Income Country (MIC)

Ecuador has been classified as a Middle Income Country (MIC) based on the overall wealth indicator of per capita income (PCI), which for Ecuador was \$1,270 according to a 1980 IBRD estimate. According to the IDA criterion, countries with a PCI of over \$730 are considered MICs. Yet, there are powerful reasons for considering Ecuador a low income country (LIC). For instance:

(1) Ecuador's currency, the Sucre, is highly overvalued. Currently, in mid-April, 1983, the official exchange rate is \$1=42 Sucres while the free market exchange rate is about \$1=82 Sucres. Even after the May, 1982 devaluation, the gap between the official and the free market exchange rate continues to widen. This shows that the Sucre is overvalued; that the official rate is an artificial rate bearing no relationship to the real purchasing power of the Sucre; and that the free market exchange rate which is based on supply and demand is a more realistic value of the Sucre. Using the official exchange rate of \$1 = 33 Sucres, a population of 8,400,000, and a GDP of 394,809 million Sucres at the end of 1982, Ecuador's PCI would be \$1,424. Yet on the basis of the free market rate of \$1 = 70 Sucres in December, 1982, Ecuador's PCI would be barely \$671, which is well below the IDA PCI criterion of \$730.

(2) Ecuador's recent GDP growth rate has been greater than in the average MIC. Yet such growth was led by a petroleum "boom" which distorted Ecuador's basic economy. With the passing boom, Ecuador is now regres-

sing to the situation it faced when it was one of South America's poorest countries.

(3) Ecuador does not share some of the important characteristics of social well-being typical of MICs. Ecuador's average per capita food production index for the period 1969-71 was 95, while the average for MICs it was 108. With declining food production and rising population, Ecuador's index has worsened. Ecuador's per capita energy consumption is around 640 Kg (coal equivalent); for MICs it is around 967 Kg. Similarly, only 42 percent of Ecuador's population has access to potable water systems while the average for MICs is 50 percent. Although comparative figures are not available, Ecuador's official housing deficit totals over 800,000 units, a problem aggravated by the recent floods. Using a conservative figure of five persons per household, around 4.0 million people, or close to 50 percent of the population, do not have access to adequate housing.

(4) Ecuador's industrial production contribution to GDP of eight percent is about half the average for MICs (15 percent). Its industrial exports represent only three percent of total exports in contrast to 70 percent for MIC oil importing countries, 74 percent for MICs, and 20 percent for LICs.

(5) A recent study (M. Rivadaneira, La Situación Nutricional en el Ecuador) indicates that in 1980 there were some 1.4 million Ecuadoreans (29 percent of the total population) who lived in a condition of absolute poverty with an additional 4.7 million people (57 percent of the population) living in a condition of relative poverty.

The implication of classifying Ecuador as a LIC instead of a MIC means that for the next several years Ecuador will need increased access to external assistance on the most concessional terms. Particularly, Ecuador should continue to have access to "soft" IDB and IBRD funding resources and to grants and concessional loans from other international organizations and cooperating countries.