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Country Development Strategy Statement

FY 1986

ECUADOR

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Agency for International Development
Washington, D.C. 20523

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ECUADOR FY 1986 CDSS

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AMBASSADOR'S STATEMENT

After a decade of strong economic growth, with one of the best records in Latin America, Ecuador has more recently experienced the shock of economic downturn and financial crisis. In 1982 real growth did not keep up with the increase in population, and in 1983 it plummeted into the negative column as the country lived through its worst economic year in half a century. The causes of the deterioration are both external and internal -- the world recession, decline in both prices and demand for oil and for traditional agricultural exports, and the rapid growth in external debt, especially short term maturities. The devastating effects of El Niño on crops and fishing darkened the economic picture even further in 1983.

Ecuador faced up to these adversities as well as any of its neighbors and better than most. The GOE has adopted a courageous (and politically risky) course leading to elimination of subsidies, government austerity, and the adoption of an economic stabilization program. In mature and responsible fashion, it has successfully renegotiated its 1983 external debt, both public and private, with foreign creditor banks, secured fresh financing from these banks, and has begun discussions for the restructuring of 1984 debt as well. It has obtained the blessing of the IMF on its economic stabilization program and entered into a one year Stand-by Agreement with the Fund through July 1984. Most important of all, the GOE is living up to the commitments it has made in these negotiations. As we begin 1984, most indications are that the worst for this economy is over and that Ecuador can now begin the long and difficult road to recovery.

Ecuador is a good example of a friendly country with a fledgling democratic regime which has depended on the United States for help during these difficult times. On the political side, we have made clear, both publicly and privately, the firm commitment of the United States to the continuation of a democratic, constitutional regime in Ecuador. In response to the need for additional economic help, we were able to initiate a program of Commodity Credit Corporation credit guarantees to replace crops lost because of flooding and to ease the financial strain. Our continuing A.I.D. program has, of course, been of particular benefit during this period of economic distress. The ability to react immediately to meet urgent requirements, as in the case of flood relief assistance, has been of major importance.

We cannot predict with certainty the economic policy of the new government which will take office on August 10 of this year. President Hurtado has stated that, whoever wins, future economic decisions will of necessity follow at least seventy percent of the current policy line. We believe this to be true. Present GOE

policy stresses more careful management of central government finances, including means to increase tax revenue, increased attention to private sector development and improved incentives for private foreign investment. We are encouraged by an emerging national consensus that Ecuador's future development model should emphasize exports and support for the beleaguered agricultural sector. We will encourage the continuation of these trends in a new government. We must be realistic in assessing the degree of leverage we gain here in affecting policy decisions with a relatively modest A.I.D. program of $10 million annually. Nevertheless, this program is but one (important) part of overall U.S. assistance which can include CCC credit guarantees, Eximbank financing, and aid from international institutions to which we contribute, such as the IDB and the IBRD. Thus, our influence is not insignificant.

Our interests in maintaining an effective USAID program in Ecuador are both humanitarian and selfish. A democratic Ecuador, sustained by a sound economy, definitely serves the best political and economic interests of the United States. Ecuador has not experienced the violence found in many parts of the region, including its closest neighbors. The opportunity still exists to avoid political crisis here in Ecuador. The challenge for the United States is to provide effective and sustained support for the process of economic structural adjustment which will still be required during the 1980's. As now designed, our relatively modest A.I.D. program can play an important role in helping Ecuador achieve these objectives.

The program will be a continuing demonstration of the importance the United States places on Ecuadorean democracy, and our concern for the welfare of the Ecuadorean people.

Samuel F. Hart
Ambassador

EXECUTIVE SUMMARY

USAID's major thrusts of new activities during the CDSS period will be in agriculture, including the productive utilization of natural resources, and in private sector initiatives involving agri-business, non-traditional export promotion, small scale enterprise, and human resource development. The emphasis on agriculture is warranted because of the sector's large rural employment function and its potential for rapid growth in production of food and export commodities if proper incentives are provided. The private sector activities selected for increased A.I.D. attention are important because of (1) their direct inter-relationship with the agriculture sector; and/or (2) their potentially dynamic urban employment and production function.

Ongoing programs in energy and the social sectors of health and population, housing, and resource mobilization will continue during the CDSS time frame to varying degrees. However, new funding for follow-on activities in these areas generally will be limited and more focused (e.g., increased private sector participation in family planning services and low income housing; improved dissemination of cost-effective technologies such as oral rehydration therapy). Accordingly, USAID's current set of active programs with their broad institution building mandates will be completed and their major objectives accomplished without major new funding requirements during the CDSS period. One exception is USAID's current pilot program in resource mobilization, which could lead to an important follow-on activity if the political will to implement improvements continues.

This change in program emphasis reflects Ecuador's growing recognition that structural adjustment is needed for sustained growth and development. Ecuador's belated, rude awakening to an external debt crisis is causing re-thinking about the appropriateness of its import substitution strategy as an Andean Pact member and the affordability of urban subsidies. The most significant structural weaknesses of the economy are:

- A long-term trend of declining food production (minus three percent per year), exacerbated by an annual population grown of 2.9 percent, which results in increasing dependence on imported food stuffs.
- An inadequate employment generation capacity for men and women in the industrial sector at a time when more jobs and greater exports are needed and with urban population growing four times as fast as the rural population.
- Insufficient private sector investment resulting in a deflated tax base and inadequate stimulation of productive enterprises, jobs, and revenue.
- Inappropriate fiscal policies, overvalued currency, unaffordable public subsidies, inadequate revenue generation, and an inefficient public sector.
- Inadequate social services for men, women, and families, a weak human resource/managerial base, an antiquated educational system, and significant private and public sector institutional deficiencies.

These internal weaknesses were compounded by a series of unfavorable external conditions during 1982-83, including rising foreign interest rates, an increasing external debt service burden, higher import costs, and depressed prices and demand for Ecuador's exports including petroleum. Moreover, recent floods caused more than $500 million in damage to crops, businesses, and infrastructure. Consequently, the economy slumped sharply:

- Real GDP growth dropped to 4.5 percent in 1981, 1.4 percent in 1982, and was an estimated negative 3.3 percent in 1983.
- Inflation for 1983 averaged an unprecedented 48 percent and unemployment/underemployment affected an estimated 40 percent of the active labor force.

- Agriculture production continued to decline and real investment by private firms by 1982 had fallen 21 percent from its 1978 level.

The Central Bank estimates that the economy will barely grow at a 0.5 percent in 1984. However, per capita GDP will still decline.

In the context of these factors, poverty has remained a pervasive problem. Rural poverty is especially acute. Of the more than four million people who live in the rural areas, only half have access to medical services; only about 13 percent have potable water supplies; infant mortality rates exceed 100/1,000 in many rural areas; 70 percent of all rural children are forced to leave school by the fourth grade; and unemployment and underemployment are reported to affect 60 percent of the workforce. Urban poverty is also extremely severe. The slums of Guayaquil are among the poorest in Latin America. Most members of the active workforce are permanently underemployed and possess virtually no social mobility; housing is deplorable; and neighborhoods are filled with open sewers, trash dumps, and other breeding grounds for communicable diseases. While the urban poor tend to have higher nominal incomes than their rural counterparts, they face considerably higher living costs.

Superimposed over the general pattern of poverty are specific concerns of minorities. Over 60 percent of the rural inhabitants are Indians who have integrated in various degrees with the Hispanic society. There are also an estimated 300,000 blacks concentrated along the Coast and in one small pocket in the northern Sierra. The blacks and Indians are among the poorest elements of Ecuadorean society. The traditional values of Ecuador's dominant culture impose barriers to the socio-economic mobility of these groups making it especially difficult for them to escape the poverty cycle.

Women are also subject to various forms of open and disguised discrimination which affects mostly female heads of households that have to overcome imbedded traditional obstacles in competing with men for employment and income earning opportunities. Women are largely bound to their traditional roles as wives and mothers, and the process of improving and reorganizing their participation in society is very slow, particularly for lower income groups.

The prevailing conditions among the poor reduce their ability to participate effectively in Ecuador's democratic political process and to compete for economic opportunities and social services. If these conditions continue, Ecuador may well become prone to the kind of forces that are threatening democracy and stability elsewhere in the region.

The current elected government, which came to power in 1979 after seven years of military rule, has demonstrated considerable political courage, competence, and determination in coming to grips with economic issues. In its initial years in office, the government pursued expansionist economic and social policies which contributed to the significant growth in the size of the public sector. This growth occurred not so much because of any strong ideological commitment to state control of the economy, but rather because of a belief in the need for the state to promote development, encourage employment, and protect consumers. In the last years of its term (1982 through the beginning of 1984), the current GOE's policy orientation, in the context of the external sector crisis, steadily shifted to a more austere, less interventionist role for the public sector and to beginning to create the framework for a more market-oriented, efficient economy. During 1982 and 1983 the GOE:

- Eliminated wheat subsidies and reduced gasoline subsidies.
- Reduced public spending, increased the interest rate ceiling to 19 percent, and devalued the Ecuadorean currency (sucre) and introduced a crawling peg.
- Moved ahead with opening new concessions to international oil firms and increasing petroleum production under its Consortium with Texaco.
- Imposed restrictions on "non-essential" imports and set a schedule for quarterly increases for other petroleum products other than gasoline.
- Renegotiated $2.4 billion in official and private external debt, adopted an IMF austerity program, and is benefitting from a $170 million Stand-by Agreement and a $91 million compensatory financing facility.
- Reduced external payment arrears from $600 to $150 million and tightened domestic credit in accord with its IMF agreement.

The government is exploring additional short term measures and long term policy reforms to overcome the economic problems inherited from the 1970's. The continuity of this process will require continued careful economic management reflecting balance between what is necessary and what is possible. What is important, however, is that economic stabilization and initial adjustment measures have been taken and will continue to be implemented at least through next August when a newly elected civilian government takes office. While it is too early to predict how the new government will approach the questions of economic stabilization, structural adjustment, and development, USAID will continue to promote and encourage the adoption of needed changes and improvements.

During the remainder of FY 1984 and continuing through the CDSS period, the Mission proposes to assist Ecuador in the restoration of equitable and

sustainable economic growth through the development of appropriate policies, institutions, technology, human resources, and other mechanisms that can contribute to structural adjustment and economic revitalization. USAID strategy will:

- o Stimulate the private productive sector and assist it to expand and diversify into more competitive activities, thereby strengthening Ecuador's base for long term growth.
- o Improve the efficiency and cost effectiveness of development programs directed at the poor, and simultaneously increase the mobilization of domestic resources.
- o Help mitigate the damage to the productive base and to social infrastructure caused by the 1983 flooding.

Key indicators of satisfactory progress towards these goals by the end of the CDSS period include: (1) productivity increases of at least 2.5 percent per year; (2) an annual increase in agricultural sector output of five percent; (3) a growth of urban employment of 3.5 percent per year; (4) a reduction in population growth to 2.4 percent per year; (5) a reduction in mortality of infants and children by 15 percent; (6) an annual increase by 10 percent in the number of shelter solutions provided by the public and private sector shelter institutions for low-income families; and (7) an increase in income and value-added tax revenues to at least 40 percent of total central government current revenues.

The changing emphases to evolve in the USAID portfolio before the end of the CDSS period, broken down by the productive and social components, are highlighted below. The relationship to A.I.D.'s four priority areas is shown in Chart 1.

Productive Sectors - Agriculture, Private Enterprise, Energy

- New efforts to remove agricultural sector policy constraints, improving market incentives for farmers and other investors, and improving the data base for analyzing the sector, including information on gender participation.

- Development of a private sector outreach capacity within the Mission with new programs in non-traditional export promotion, small business, and private sector human resource development.

- New emphasis on the role of agri-business as private sector service structures for agriculture and increased attention on collaborative research programs with the private sector.

- Completion and satisfactory accomplishment of existing programs focusing largely on Sierra agriculture and public sector service delivery to subsistence farmers.

- Greater emphasis on small scale commercial farmers and on utilization of coastal productive resources, including forestry and fisheries.

- New efforts to overcome agricultural institutional deficiencies through improving the agriculture education system.

- Continuation of efforts to better utilize Ecuador's hydrocarbon resources through improved policies, technical training, and conservation.

Social Sectors - Health, Population, Housing, Resource Mobilization

- Completion of the primary health care model being carried out in integrated rural development areas with expansion of selected, cost-effective elements to a national basis.

- Through studies and possibly pilot efforts, greater emphasis on private sector model health delivery systems.

- Increased emphasis on improving GOE nutrition policies/programming and on better targeting of nutrition impact of GOE and PVO programs using PL-480 commodities.

- Expanded family planning program emphasis on use of private sector delivery mechanisms.

- Greater attention to constraints to increased private sector contribution to low income shelter including financial market limitations, inappropriate technical standards, and weak human resources.

o Expanded efforts to improve revenue generation at both national and local levels, subject to the receptivity of the new GOE administration.

USAID's emergency rehabilitation program to help alleviate the effects of the 1983 flooding cuts across both the productive and the social sectors. It supports high priority needs identified by the GOE and not adequately covered by other donors. Activities include repair of agricultural infrastructure, financing of productive agricultural inputs, repair of schools, homes, and water and sanitation facilities in flooded areas, reconstruction of damaged electrical power facilities, and related technical assistance and studies. Authorized in late FY 1983, activities will continue through FY 1984 and into FY 1985. Despite other donor assistance, further repair and preventative needs have been identified. Additional funding for USAID's emergency rehabilitation program may be forthcoming in FY 1984.

Since U.S. bilateral assistance represents a very small share of official external assistance, USAID's role will necessarily be limited to catalytic activities that encourage and reinforce innovation and leverage domestic and other donor resources. In this regard, USAID fully endorses the LAC Regional Strategic Plan's suggestion of resumption of trilateral meetings among A.I.D., IDB, and IBRD (see page 42). To carry out its catalytic role, USAID will require: (a) ample grant financing that permits the testing of pilots and models that initially may appear too risky to the other donors; and (b) a skilled in-country staff that can work closely with host country colleagues to facilitate quick and appropriate responses to opportunities as they arise. USAID will continue to complement its staff (13 USDH plus one regional officer) by using

program funded consultants and by tapping into backstopping and support available from regional and central AID/W offices.

Nevertheless, two new U.S. direct hire positions are needed to help implement this CDSS. The first priority, which reflects the Mission's growing emphasis on Ecuador's productive sectors, is for a private sector officer to help expand and refine USAID's private sector initiatives. Given the increasing responsibilities envisaged for this sector, it is essential that USAID's private sector office be under the supervision of a direct hire employee. USAID's other priority is for an additional position in its agricultural office to accommodate the assignment of a forestry advisor (currently an IDI) to assure continued sound implementation of USAID's ongoing forestry program. Other adjustments and modifications not affecting direct hire ceiling are already underway or requested (see page 43).

I. ANALYSIS

A. Macro Trends and Problems

Introduction. The macroeconomic perspective for the Ecuador economy during the CDSS period is for modest growth of output and, if current structural adjustment trends continue to be successfully implemented, for reduced inflation, reduced public and external sector deficits, increased domestic savings, and gradually rising investment levels. The major challenges will be the elaboration of sound policies and the management of their implementation during a period in which high external debt service requirements will severely restrict the GOE's economic and financial maneuverability.

Output. In 1983, output of the Ecuadorean economy, according to Central Bank estimates, declined by 3.3 percent. This represents a continuation of the longer term trend toward decelerating growth which has been evident since the late 1970's. From an increase of 5.3 percent in 1979, annual growth in output declined gradually through 1981 to 4.5 percent and then abruptly to essentially zero and negative growth in 1982-83. The long term declining growth trend is related to inefficient structures which developed with the protectionist, inward-oriented policy framework of the 1970's, which is now recognized as being ill-equipped to meet the efficiency, competitiveness, and external orientation required for generating future growth of the Ecuador economy.

Investment. Overall investment has remained relatively stable in recent years. However, this stability masks significant changes in the composition of investment. There was a significant increase in public sector fixed investment in 1980 which continued into 1981 as the GOE undertook a number of

large scale investment projects, which on the whole are well conceived. On the private sector side, there is an evident trend toward a decline in real investment and in the proportion of output going to private fixed investment, from 13.0 percent of GDP in 1978 to 8.9 percent in 1982.

Employment. Estimates of open unemployment and underemployment in Ecuador, a nation which is still half rural and in which perhaps half the economically active population is either "own account" or family labor, are problematical. In 1981, the GOE estimated a national unemployment rate of 5.0 percent. The 1982 Census preliminary results reportedly indicated a 5.4 percent rate (U.S. Embassy estimates closer to 10 percent). The present trend is for increasing open unemployment. The GOE estimated that 24 percent of the economically active population in 1981 was underemployed (females 28 percent and males 22 percent). FAO estimates, confirmed by USAID, indicate that as much as 60 percent of the rural labor force and 45 percent of the urban labor force are underemployed. Although reliable sex-disaggregated data are not available, women are believed to be widely affected by underemployment given their high labor participation in informal sectors. Demographic and social changes in Ecuador will, over the CDSS period, increase the economically active population at rates faster than that projected for population growth. The expectation is for participation percentage rates to be in the mid-30's as compared to the high 20's of the 1974-1977 period. The agricultural sector will continue to be the largest single employer. The major growth in relative terms, continuing the trend of the late 1970's, will be in the service sectors and in construction and industry.

Inflation and Savings Mobilization. Prior to the oil boom, Ecuador was a low inflation country with price increases averaging well under five percent per year. Between 1973 and 1981, however, inflation averaged 13.8 percent and never fell below 10 percent. The average annual rate of inflation in 1983 was 48 percent. A major contributing factor to 1983's inflation was the El Niño disaster of 1983 and the food shortages that it produced. The prospect for 1984 and beyond is for reduced inflation if the GOE is able to pursue its current policy direction.

External financing over the past decade permitted Ecuador to expand credit significantly. The low level of national savings mobilization directly reflects the fact that the GOE kept interest rates fixed at six percent for savings deposits and 8-9 percent for time deposits until 1981. Although the upper limit on deposit interest was raised in 1982, margins are still effectively controlled by a ceiling of 19 percent on loans (plus commissions).

Public Deficit. Since 1972, Ecuador's public sector is increasingly dependent on oil exports for current revenues. In addition, during the 1970's the military government embarked upon a strategy of aggressive indebtedness to foreign lenders to finance ambitious infrastructure projects. Foreign lenders (largely private banks), impressed with Ecuador's oil potential, backed this strategy almost unquestioningly. Between 1975 and 1981 the public sector deficit was entirely financed by external borrowing. Under these circumstances, the incentives to improve internal generation of fiscal revenues were few. Studies indicate that evasion of both income and sales tax payments has been rampant, especially among higher income categories of taxpayers.

The external sector crisis of 1982-1983 caused a sharp deterioration in the fiscal situation. The GOE reacted by taking steps to reduce expenditures, by raising taxes, and by initiating efforts, with A.I.D. assistance, to improve its revenue generation efficiency. The GOE's determination to address the situation is reflected in its compliance with the IMF program terms on a reduced public deficit. The GOE has managed to reduce substantially the size of the consolidated deficit from 6.8 percent of GDP in 1982 to 3.5 percent in 1983. This reduction in a short space of time is a major accomplishment which few countries in the region have achieved and reflects the GOE's current sound financial management.

External Sector. Ecuador's balance of payments situation is dominated by the petroleum sector. The value of petroleum exports has risen steadily from 50 percent in 1973-1974 to 72.2 percent in 1983. Despite a weakened world market, this pattern was sustained through a combination of increased production and restrained domestic consumption (the latter resulting mainly from higher domestic prices). On the other hand, non-traditional exports declined steadily from $636 million or 29 percent of total exports in 1979 to $362 million or 16 percent in 1983. The only dynamic non-traditional sub-sector has been shrimp which has become Ecuador's second export earner. Ecuador's traditional exports - sugar, coffee, cacao, and bananas - have all performed poorly over recent years, and have suffered the results of an overvalued, fixed exchange rate, export taxes, and generally rising production costs. Despite a positive trade balance, Ecuador has had a negative balance on its current account for every year over the period 1978-1982. The deficit was covered

mainly by net additional external short term borrowing. In 1983, Ecuador's balance of trade improved through severe import restrictions. This contributed greatly to the fall in output and obviously cannot be maintained if economic growth is to occur.

In May 1982, faced with a depreciating free market sucre (S/60 to S/70 per dollar), the GOE devalued the official exchange rate from S/25 to S/33 to the dollar. In November 1982, import restrictions were announced but in March 1983, with inflation mounting, the sucre was again devalued (to S/42 to the dollar) and a crawling peg was instituted. The GOE, in an attempt to stimulate exports, began to allow exporters of products other than petroleum to exchange a part of their receipts on the free market. At the beginning of 1984, as a result of the crawling peg, the official exchange rate stood at approximately S/54 to the dollar while the free market rate was moving in the range of S/85 to S/91 to the dollar. The expectation is that with the success of a stabilization program and the continuing of the crawling peg, the differential will narrow.

External Debt. By the end of 1982, the external debt of Ecuador had reached crisis proportions, totaling $6.4 billion, roughly 47 percent of GDP, and debt service requirements for 1983 were greater than export receipts, with the gap projected to increase. The rapidly increasing debt service requirements on both public and private external debt, combined with falling export receipts, forced the GOE in 1983 to undertake a major rescheduling of both its commercial and bilateral debt (Paris Club).

As part of the steps taken to resolve its external debt problem the GOE, effective July 25, 1983, entered into a one-year Stand-by Agreement with the IMF. GOE performance during 1983 under the Agreement was impressive. On the fiscal side, the program called for a reduction in the consolidated public sector deficit from 6.8 percent of GDP to 4.2 percent; the GOE was able to reduce its deficit to 3.5 percent of GDP. The program also called for reserves of $110 million to be held by the end of 1983; the GOE reported actual reserves at the end of the year of more than $150 million. Similarly, it appears that targets on domestic credit expansion and the term structure of public debt will be met. Payment arrears were not eliminated as programmed, but were reduced from $600 million to less than $150 million. Finally, the GOE was subsequently able to negotiate the rescheduling of $2.4 billion in official and private external debt and to obtain $431 million in new commercial bank financing.

B. Major Productive Sectors

Agricultural Sector Trends. Agriculture in Ecuador now accounts for 12 percent of GDP, 35 percent of total export earnings, and provides employment for almost 50 percent of Ecuador's economically active population. Women provide a significant share of the small farm labor force. Average per capita income in the sector is much below the rest of the economy.

The performance of the agricultural sector since 1970 has generally been disappointing with production of the main agricultural products expanding at an annual rate of two percent. Overall, production of export crops and raw

materials increased by about three percent and 12 percent per annum, respectively, while food crop production declined by more than three percent annually. The steady decline in food production combined with an estimated growth in food demand of five percent per year led to sharp increases in food imports (an average annual rate of increase of 13 percent in real terms) over the 1978-1981 period. A major reason for this food production decline was the acreage shift in the Sierra (the highlands running north-south through the center of Ecuador which include the fertile inter-Andean valley as well as unproductive paramo) from cultivated crops to pasture, due in part to controlled prices of traditional food crops falling relative to those of milk and beef. Agriculture on the Coast (the tropical lowlands from the Western slopes of the Andes to the Pacific Ocean) actually saw a 20 percent increase in cropped area and shifted over the period from being primarily a producer of export crops to also becoming an important producer of food and raw material crops. The combination of the national decline in subsistence food production, the decline in real prices for the rural sector's agricultural products, the growth in population, and large and increasing income distribution disparities indicates a growing food crisis, especially for the poor in Ecuador. Nutrition surveys have revealed major diet deficiencies in calories, proteins, fats, and certain minerals and vegetables to which women and children are particularly vulnerable.

Productivity in the agricultural sector has remained generally at low levels. This low productivity is due to the failure of producers to receive adequate credit, little or no access to modern inputs, limited irrigation, an

inadequate marketing system, insufficient technical support services to improve cultural practices and farming methods, and agricultural policies that have discouraged private sector investment and production.

With a long term trend of declining food production in the face of a rapidly increasing population and scarcity of foreign exchange, Ecuador's food security will be of increasing concern during the CDSS period. The pressures became obvious as a result of the 1983 flood disaster which destroyed some crops directly (11.6 percent of total area under cultivation) and prevented the marketing of others due to the destruction of infrastructure. The overall decline in output was 13.3 percent, particularly in rice, corn, soybean, cotton, and sugar. Food shortages occurred in areas hardest hit by the flooding, leading to sporadic riots and requiring emergency relief efforts by the GOE and PVOs. While the prospect for 1984 is for a recovery of agricultural production to near its 1982 levels and modest increases thereafter, the GOE has now realized that it must devote increased attention to food production.

Through the 1970's, agriculture had a positive trade balance which, after peaking at $547 million in 1979, declined to $231 million in 1982. In the period 1970-82, while constant price agricultural imports increased by 500 percent, exports rose by only 36 percent. The deterioration in the trade balance can also be linked to public policies and institutional constraints which have reduced overall output, distorted resource allocations, and penalized producers. Agricultural exports can be substantially increased, provided that policy constraints are reduced and appropriate institutional mechanisms to develop

export oriented agri-business are established. The package of policy reforms enacted in 1983 removed or reduced some of the agriculture sector policy related constraints. Export taxes were eliminated and the exchange rate was devalued, partially removing the disadvantage under which agricultural producers of export crops operate. The subsidy for imported wheat was also eliminated. Nevertheless, the system of price controls remains in effect.

A major factor that has historically affected agricultural policy formation and development in Ecuador is that policy makers from the Sierra perceive land shortage, extremes of resource ownership, and widespread poverty as the major problems of the sector. In general, they pursue policies of price control and direct intervention. Conversely, leaders from the Coast tend to perceive the major needs as agricultural growth and a reduction in GOE restrictions. They place priority on positive GOE price and investment policies. Both policy perceptions are correct. What is needed is the derivation of policies that deal with both sets of problems rather than focusing on one or the other.

Sector prospects clearly depend on the policy environment. A recent World Bank report estimates that production of most of the major commodities could be increased 50 percent over the next 10 years with a Government policy emphasizing increased sector investment and incentives. To achieve this potential, the IBRD report recommends agricultural price policies adjusted to world market levels at realistic exchange rates; elimination of existing marketing, storage, and handling bottlenecks; improved and expanded agricultural input delivery and credit systems; and improved focus of technology generation on

farm level problems and improved farmer research extension linkage. With such efforts, expanded output would come from increased productivity and expansion in areas cultivated. The principal increase in land area would occur in the Coast which has over 800,000 hectares that could be placed under production.

Important productive activities in the rural sector include fisheries and forestry. The fisheries subsector has expanded at an extremely high rate of 17.5 percent per year over the period 1978-82, and prospects for continued growth are good. The subsector generates substantial foreign exchange through the export of fish, shellfish, and fish products. Earnings from shrimp exports amounted to almost $200 million in 1983, and fisheries exports are now the second leading source of foreign exchange. The subsector is also an important source of employment with about 4.7 percent of the national labor force involved in fishing and fishing related activities.

The current contribution of the forestry sector is an estimated four percent of GDP and the sector is growing in importance. The total production value of forest industries increased from 2.2 percent of total manufacturing output in 1970 to 4.6 percent in 1978. Exports of wood products increased rapidly from $15 million in 1977 to more than $54 million in 1980. Forestry also provides important indirect benefits to the economy and can play an even more important role in Ecuador's economy. This will, however, require changes in policy and investment priorities. To meet projected 1990 needs and sustain its rapidly diminishing forestry reserves, Ecuador will need to increase its present rate of reforestation twenty-fold.

Natural Resource Trends. Ecuador's natural resource base has deteriorated significantly in recent years, threatening the long term productivity of agriculture and related activities. Two of the most serious problems are deforestation and land degradation through poor soil management practices. In the Sierra, as a result of strong population pressures and a skewed land distribution system, most natural forests have been cleared for fuelwood and cultivation. Cultivation in the Sierra is often carried out on steep slopes with loose soils which, when combined with inappropriate tillage and irrigation practices, has resulted in serious soil erosion problems. In the Oriente (the Amazonian jungle east of the Andes), colonization resulting from the opening of the area to petroleum exploration is causing extensive deforestation and resulting soil deterioration and loss of fertility. On the Coast, the destruction of mangroves by oil pollution and uncontrolled shrimp pond construction threatens the future of the shrimp industry itself, while deforestation in other coastal areas has led to growing desertification.

If present deforestation trends continue, it is estimated that Ecuador's seemingly vast forest resources will be virtually depleted within 15-20 years. This, in turn, would accelerate soil erosion and desertification which have already resulted in an estimated 31.5 percent increase in arid lands over the past 25 years (10,000 Km^2 are now arid). In addition to destroying vital productive resources, deforestation and resulting soil erosion threaten to reduce significantly the useful life of several major hydroelectric and multipurpose water projects which represent an investment of over $2.5 billion. This also has serious economic implications for the 45 percent of rural house-

holds and many rural small enterprises which still depend on fuelwood for most of their domestic energy needs; the task of gathering fuel falls largely on women and is becoming increasingly more difficult.

Petroleum and Energy Sector Trends. Ecuador is a small participant in the world petroleum market. However, petroleum plays a crucial role in the Ecuador economy, far in excess of that implied by its 9-10 percent direct share in total output; revenues from petroleum products account for more than 40 percent of public sector revenues. At the present time, Ecuador's proven reserves are estimated at 1.1 billion barrels. From the mid-1970's through 1981, the GOE set domestic petroleum product prices at a fraction of the world price. As a result, domestic consumption grew faster (14 to 15 percent per year) than in virtually any other country in the world. During 1981 and 1982 the rate of growth slowed to an average five percent annually due to domestic price rises. At current production and consumption rates, these reserves would only last about 14 more years.

Several recent developments have, however, substantially brightened the outlook for petroleum production and exports during the CDSS period. First, the Texaco/GOE consortium has begun a program of secondary recovery in the two largest fields which together account for 75 percent of present petroleum production. Second, the GOE has recently begun the development of eight new fields in the Oriente. The combination of secondary recovery and output from the new fields has raised production by 20,000 barrels per day in 1983 and a further increase in production of 25,000 barrels per day is expected in 1984.

Third, changes in oil exploration legislation and the terms of the standard contract, enacted in 1982, have induced a number of U.S. firms to seek investment opportunities in Ecuador. Three major firms are presently negotiating contracts for exploration and development which will help ensure continued growth of reserves. Finally, the completion of several major hydroelectric projects should reduce the domestic consumption of petroleum products and increase the exportable surplus.

Manufacturing Sector Trends. The manufacturing sector is concentrated both by units and geographically. Out of an estimated 1,700 to 2,300 formal sector firms with an average of 50 employees each, 200 contributed 67 percent of value added in 1977; five percent of the firms in 1978 controlled 72 percent of invested capital. However, the fastest growing sub-sector in terms of production, productivity, and employment has been the small scale group, defined as having seven to 20 employees. Available data also indicate a large, potentially dynamic, informal subsector of small enterprises which is a major source of urban employment, especially for low-income women. Geographically, firms located in the provinces of Guayas and Pichincha contributed 81 percent of manufacturing value added.

The Ecuadorean manufacturing sector is at present characterized by low growth, a heavy dependence on imported inputs, and tariff protection resulting from long standing policies of import-substitution industrialization. The structural nature of the problem is evident: 35-45 percent of the value of manufacturing output is represented by the value of imports of raw material,

intermediary products, and capital goods, while only 17 percent of the value of manufacturing output is exported. A recent study commissioned by the IDB showed that there are efficient and inefficient industries (measured at border prices) in all of the broad categories. However, it appears that the industries which are competitive at international prices are precisely those which have maintained their rates of growth up until the current recession while industries which are most dependent on protection have seen their rates of growth decline most sharply.

Private Sector Development. Private enterprise based production is the dominant force in Ecuador's economy: 77 percent of gross value added, 60 percent of wages and salaries, and 56 percent of gross fixed capital formation in 1982 were of private sector origin. The GOE is the major producer in the sectors of petroleum, communications, electricity, gas, and water, and is significant in those of construction and financial services. Public ownership in agriculture and industry is of small aggregate value and has resulted from an intention to prevent a unit's closure, not from any ideological predilection for public ownership.

Investment by private firms has declined; by 1982 it had fallen 21 percent from its 1978 level. The GOE public sector, by sustaining relatively higher levels of investment and growth over recent years in "its" sectors (e.g., utilities, infrastructure construction, health, and education) than the private sector has done in "its" sectors (e.g., agriculture and manufacturing), has become increasingly more important in the total economy. In the financial

sector, the Central Bank, mainly through its use of rediscount mechanisms, is now responsible for half the total credit (up from 31 percent in 1970) and controls more than 40 percent of the system's assets.

During the 1970's, Ecuador's private market investment climate was good, demand was stimulated by petroleum revenues, and the GOE's policies presented minimal constraints and many incentives to domestic market oriented investments and to private, productive sector expansion generally. The recent trend of declining private investment is partly due to external factors (petroleum price trends; deteriorating terms of trade for traditional agricultural exports; climatic conditions), and has been affected by strategies to deal with these external trends (increased public sector internal and external borrowing; increased attempts to manage the economy, both to control inflation and to promote development) combined with the hesitancy and lack of maturity of the private productive sectors.

The external sector crisis of 1982 and 1983 caused sharp rethinking of the role of private enterprise on the part of both the private sector and the GOE. The reaction of the private sector to the external sector crisis varied. Gross investment by private firms, in real terms, as mentioned above, declined; capital flight and speculative investment in real assets are reported to have occurred; private sector demands for the public sector to absorb the foreign exchange losses of the private sector and for concessional credit to be extended by the Central Bank were combined with demands for less state intervention in the markets. On the other hand, there were positive

indications of increased dialogue between many public and private sector elements. This dialogue was stimulated by private investigations, one of which was financed by USAID, on the structural nature of the crisis and by a growing recognition by the private sector that a domestic and Andean market focus has its limitations. The GOE, in the context of the crisis, generally has adopted a positive stance towards private enterprise and since mid-1981 has taken steps gradually to move toward a more market based economy.

Looking ahead at the CDSS period, the climate for the private sector appears hazy, mainly because of the measures the GOE will be forced to take to manage its way out of the current crisis. Agreements achieved with the IMF and international banks during 1983 softened the immediate liquidity problem inherent in the private sector's debt servicing, and proceeds from an IDB reactivation credit in 1984 should provide additional funds to cover the costs of imported industrial sector inputs. These agreements notwithstanding, the public sector will be taking a growing share of domestic savings while, at the same time, implementing measures which will have the effect of holding down aggregate demand. At the beginning of 1984, Ecuador's private sector was in a difficult position and confronting the prospect of a more competitive future as the crawling peg devaluation continued, as subsidies and protection levels were being reduced, and as more restrictive demand policies were being implemented by the GOE.

C. Social and Institutional Context

Poverty. In spite of substantial social progress during the last 20 years,

Ecuador still has most of the characteristics of a severely underdeveloped country. Basic poverty indicators remain high and social services are inadequate. The infant mortality rate is still one of the highest among countries of similar levels of development, and nearly 50 percent of all mortality occurs in children under five. Around 40 percent of children under five years of age are malnourished. Diarrheal diseases and respiratory infections--both preventable, controllable problems--are the two leading causes of child death. In addition, the housing deficit reached over 900,000 units in 1983.

Rural poverty, while occurring throughout the country's 20 provinces, is concentrated in the Sierra. USAID estimates that two thirds of all farm families have holdings of less than five hectares. This land ownership pattern contributes to low incomes. According to IDB estimates, currently about 65 percent of the rural population, or 2.6 million people, live in poverty. The per capita income for this group in 1983 is estimated at $295, which is 25 percent of the average income for the rest of Ecuador's population. In some areas infant mortality runs as high as 150/1,000 in contrast with a national average of 71/1,000, the adult literacy rate is around 40 percent compared to 82 percent nationally and significantly lower for women, and about 70 percent of all rural children drop out of school by the fourth grade. In rural areas, housing with facilities for excreta disposal, electric light, and piped water amount to 12.5 percent, 13 percent, and 11.5 percent, respectively, of all housing.

To deal with these problems of rural poverty, the GOE has pursued two primary approaches: agrarian reform and integrated rural development. The agrarian reform program, initiated in the 1960's, focused principally on land ownership. According to GOE reports, beneficiaries of land reform between 1964 and 1982 generally remained as poor as before. The smallness of the parcels given to recipients accentuated the minifundio problem, and this was compounded by the lack of access to technical assistance and credit for the adoption of modern technologies. These problems were accentuated by inefficiencies in the marketing system and negative GOE price policy that reduced incentives to these farmers to use new technology. In response to these shortcomings, the GOE in the late 1970's adopted an integrated rural development (IRD) approach to provide technical assistance, credit, and marketing services to the rural poor. While it is too early to assess the overall impact of IRD on rural poverty, the institutional system has overcome its early problems and is beginning to improve implementation and provide support services to increase small farmer production and productivity.

Urban poverty is also serious in Ecuador. The slums of Guayaquil and other coastal cities in particular represent some of the worst conditions of urban misery in Latin America, as evidenced by the results of an ECLA study on the largest barrio suburbano of Guayaquil. The urban poor, although they tend to have higher nominal incomes, usually derived from informal sector employment, frequently face higher costs for food and other necessities than do the poor in rural areas. GOE approaches to urban poverty, aside from basic service provision and community development activities, have dealt principally with

the small enterprise and artisan sector, with emphasis on raising production and productivity. The results of these efforts have been minor when compared with the scale of urban poverty, but they indicate viable options to be further developed.

Ecuador's income distribution pattern is very unbalanced. An IBRD study 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 shows that around 60 percent of Ecuadoreans live under conditions of poverty. Moreover, the GOE estimates that around 50 percent of Ecuador's workers are underemployed and do not earn enough to satisfy their basic needs. Recent trends indicate an increasing share of income is being received by the middle class at the expense of both the highest and lowest income groups. Whether this trend has continued into the 1980's is difficult to say, although GOE agricultural sector policies, particularly price controls on basic foodstuffs, would appear to have worked to the disadvantage of the rural poor while benefiting urban dwellers.

During the CDSS period the prospects for significantly reduced levels of poverty are modest. In the short term, the impact of the current economic crisis and the 1983 natural disasters on the poor has been negative. Per capita income declined by more than six percent in 1983 and is expected to decline further in 1984. Many farmers on the Coast have suffered from lost or unmarketable production which also reduced the demand for migrant labor from the Sierra. Landless rural workers and the urban poor have seen their real incomes

reduced drastically because recent wage increases have been far less than the increase in food prices. On the other hand, some rural smallholders outside the areas immediately affected by the floods probably have experienced increase in their real income due to rising prices. Over the medium term, alleviation of poverty will be constrained by Ecuador's critical economic and financial position.

Minorities. 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. Studies have shown that social prejudices and the traditional values of Ecuador's Hispanic culture impose serious barriers to the socio-economic mobility of these groups, making it especially difficult for them to escape from poverty. Economic dependency relationships rooted in the long-standing hacienda system persist, despite major legal reforms. Neither the GOE nor private groups have yet set up adequate institutional mechanisms to promote the role of blacks. On the other hand, the participation of Indians in Ecuador's development is an issue of such pervasiveness that in many aspects it coincides with the issue of Ecuador's poverty as such; thus, progress will depend in large part on achievement of sustained economic growth which also serves to reduce poverty.

Women. 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. However, women's participation in the workforce is growing, especially in the informal sector. A recent study showed that 80 percent of the small vendors in Quito are women. Of working women not more than 30 percent are self employed and the remainder are employees. Of the total number of women who work as employees, 13 percent are in industry and manufacturing, 21 percent in commerce, and 50 percent in services (mostly household domestics). As more women are entering the workforce through choice or lack of choice (i.e., by becoming heads of households or finding it necessary to supplement the household's income), the need for education, vocational training, and day care services rapidly increases. Women are also subject to various forms of open and disguised discrimination, especially female heads of households competing with men for employment and income earning opportunities. Women's access to social security is limited. Educational opportunities, with some exceptions, are also limited to traditional fields, and many of those who succeed in fields dominated by men usually face serious difficulties in advancing their career in those fields. The GOE's Women's Office, created in 1980, lacks the internal GOE support needed to promote significant change. Private groups are still in the initial stages of consciousness raising and are largely ineffective. Efforts to analyze and address the problems of women are further hindered by the lack of gender disaggregated data.

Population Growth Trends. Between 1974 and 1982 Ecuador's population growth rate declined gradually to an annual rate of 2.9 percent according to the provisional 1982 census results. Females now constitute 50.6 percent of the total population. Rural population grew at a rate (0.9 percent) which was slower than expected while urban growth (4.8 percent) was unexpectedly rapid. As a result, by the end of 1983, Ecuador's population was 50 percent urban as compared with 28 percent in 1950. The most important growth since 1974 has been in Ecuador's secondary cities on the Coast. The growth of the Coast follows the pattern clearly visible since at least 1950 and is largely due to the agricultural expansion of the 1960's and early 1970's. USAID analyses indicate that the major factor in the differential growth rates has been rural to urban migration with destinations influenced by perceived employment opportunities.

The population growth perspective for the CDSS period is for continued moderately high growth in the absence of a clear national population policy. Religious and cultural factors, together with vocal anti-family planning elements, make population programs in Ecuador sensitive. Nevertheless, demand for family planning services is high as more women are becoming heads of households and entering the labor force. The recent census results indicate that low-key efforts are beginning to have some results. However, the rapid growth of secondary coastal cities will continue because of internal migration.

Housing Sector Trends. Recent estimates place Ecuador's housing deficit at 900,000 dwellings of which some 600,000 correspond to urban areas. The

deficit for Guayaquil and Quito accounts for some 275,000 dwellings. The housing deficit in rural areas is essentially a qualitative one requiring selective improvements and upgrading. It is estimated that 1,400,000 additional dwellings will be needed by the year 2000 in addition to the current deficit and normal loss to the housing stock.

At the same time that the need for low income housing is increasing, Central Bank figures indicate that construction activity decreased 15.4 percent in 1983. The sector is expected to end this decline by 1985 but remain sluggish throughout the CDSS period. This trend has negative implications for employment and income distribution. Eleven percent of the economically active population in urban areas - primarily unskilled and semi-skilled workers in the lower income brackets - depend on construction for their livelihood. Since housing has been a significant component of total construction activity in Ecuador, large infusions of resources into low income housing construction would have a significant employment impact as well as reduce the housing deficit. In addition, women have relatively high participation rates in the construction labor market in rural Sierra areas and would therefore share in the benefits from increased low income housing activities.

The problem facing the construction industry has various causes. On the supply side, for example, construction costs have risen rapidly with the general price index. The average cost per square meter of construction jumped from S/3,708 in 1981 to S/15,000 in 1983. GOE efforts to control the prices of construction materials have only resulted in scarcities. In view of these

trends, innovative technical, institutional, and financial approaches are required to meet the needs for affordable low income housing over the CDSS period.

In recent years, the principal GOE housing agencies, the National Housing Board (JNV) and the Ecuadorean Housing Bank (BEV), have made significant policy strides towards opening the shelter market to low income families. These have included developing low cost standards based on sites and services, basic core, and other progressively developed solutions as well as home and community upgrading programs. However, much needs to be done to improve the weak institutional and implementation capacity of the JNV/BEV which has restricted their ability to carry out these new programs. Furthermore, opportunities to attract other developers in the low income shelter market, such as cooperatives, private developers, municipalities, and the savings and loan system (Mutualistas), have not been pursued.

In addition, financial limitations have restricted the JNV/BEV from increasing its efforts to address the growing deficit. International donors and A.I.D. have helped bridge the gap, but improved domestic resource mobilization is required. Domestic resources applied to housing have been restricted partly because of a lack of coordination between the principal sources of shelter finance--the BEV, the Mutualistas, and the Social Security Institute (IESS). The mobilization of financial resources by the BEV and the Mutualistas has also been restricted by GOE interest rate policy. Progress on rationalizing interest rates is necessary to finance an increasing supply of low income

housing, at the same time that new approaches are sought to maintain the affordability of that housing.

Housing is an increasing national concern in rural areas, where the majority of Ecuador's poor live. Most of the rural dwellings are owner-constructed or contracted by households with a minimum of financial resources. Traditional building systems of bamboo, adobe, wood, and rammed earth, based on local resources and customs, provide Ecuador's rural population with its basic shelter. While these systems offer cost and other advantages, they also present serious qualitative and health problems. Although past efforts to improve rural housing have largely failed for a variety of reasons, the JNV recently initiated a rural housing program building on new strategies to improve and construct rural dwellings.

Health Sector Trends. While there have been some improvements in the overall health status of Ecuadoreans over the past decade, poor health continues to be a serious problem, especially in rural areas. Key indicators of this situation include the following:

- The infant mortality rate of 71/1,000 is still among the highest rates in the Americas.
- Nearly 50 percent of all deaths occur in children under five even though this cohort constitutes less than 20 percent of the total population.
- Gastro-intestinal infections and diarrheal diseases are the leading cause of mortality in the under five population. In 1979, Ecuador had the third highest age-adjusted death rates from infectious and parasitic diseases of 21 countries in the Americas. An estimated 95 percent of the population is infected by at least one parasite variety.

- Malaria is an increasingly serious problem in coastal areas. Severe flooding throughout the Coast in 1982-83 has contributed to a resurgence of this disease. The total number of diagnosed cases increased by 350 percent in 1983 over 1982. In addition, there are growing signs of resurgence of other vector borne and parasite diseases including yellow fever, leishmaneasis, and onchocerciasis, which can be expected to become increasingly serious problems during the CDSS period.

- Available studies estimate that over 40 percent of children under five suffer from protein-calorie malnutrition.

These indicators, in turn, reflect levels of health-related services which remain inadequate:

- There are only about .4 - .5 consultations per capita per year in the total Ministry of Health system.

- Only 20 percent of all births are attended by professional personnel.

- Only four percent of children under five receive any modern medical care.

- Water and sanitation services are critically scarce; rural access to clean water (12 percent of the population) is among the lowest in the Americas.

The Ministry of Health, organized in 1967, is one of the youngest such Ministries in Latin America and is generally not well organized to deliver the type of low cost, primary care services required to deal with the health problems noted above. Planning is highly centralized and ineffective. Information, logistics, and supervisory systems are weak. A requirement that all graduating physicians devote one year to rural services (at Ministry expense) diverts a large share of the Ministry budget which could be used to develop more cost-effective approaches. Nurses, for example, are in short supply and are primarily trained in curative services rather than community health programs, a reflection of the low status and inadequate preparation provided to this traditionally female profession. Health services in general are curative and

provided in fixed facilities; community outreach is almost non-existent. Nutrition concerns are the province of a small, poorly qualified Nutrition Division exclusively occupied with the administration of an unwieldy, ineffective maternal and child feeding program. A small nutrition research institute is understaffed, underfunded, and has little influence on the day-to-day operations of the Ministry.

The Ministry's share of the GOE central budget increased from about 2.6 percent in 1972 to around six percent in 1983, a portion which is not expected to increase significantly during the CDSS period. In fact, inflation is resulting in a real decrease in public resources available. Similarly, the Ministry's coverage in terms of both facilities and personnel, which expanded considerably during the 1970's, is expected to remain fairly static for the forseeable future. Thus, Ecuador will be faced with a fixed public resource base from which to deal with a series of mounting problems.

Private sector alternatives to publicly financed care have not been explored on a significant scale. Approximately 133 private companies and a very small number of cooperatives provide limited and highly variable amounts of curative care for their members, mostly in urban areas. Eleven PVO's operate health service delivery programs among small target populations; their impact on Ecuador's total health problem is negligible.

Institutional Development. The weakness of institutions, as organizations, continues to be one of Ecuador's main constraints to development. Human

resource deficiencies and other factors contribute to the inability of organizations to conceive and implement policies and programs to support socio-economic development goals; to coordinate development activities; to develop, adapt, and diffuse appropriate technologies; and to effectively utilize limited resources.

At the central level of the GOE 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. Resource mobilization capacity, especially revenue collection, is notably weak.

At the provincial, regional, and local levels, municipalities and other decentralized organizations have the legal authority to implement development activities. However, they lack the ability to generate their own resources, and the control of GOE transfers is concentrated in central institutions. Moreover, local government personnel are generally underqualified and their outlook tends to be parochial, and national level organizations responsible for promoting local level development are often paternalistic and lack the technical capacity to respond to local needs.

Private sector institutions are affected by the same human resource constraints that affect public institutions. Significant training needs exist for both men and women. The demand for qualified managers in private enterprise far exceeds supply. 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. The private sector is well aware of this problem but lacks the capacity and support to address it effectively. Recent USAID studies of the private sector indicate the need to strengthen the capacity of productive sector representative organizations to interact effectively with the public sector on policies and sectoral issues and to provide services to their members.

In agriculture, the shortage of well trained staff for both public and private sector entities is due to the inadequacies of the present agricultural educational institutions. There are insufficient numbers of agricultural professors with advanced training. This, in turn, reflects the absence of graduate programs in agricultural science.

Institutions, considered as established patterns of behavior, show other weaknesses, especially in relation to the needs of a more efficient, market oriented economy in Ecuador: public organizations and private orientations which have developed in response to import-substitution policies which are inefficient; socio-cultural patterns which limit private sector management efficiency (e.g., excessive use of ascriptive criteria for top management selection, the tendency to centralize decision-making and low entrepreneurial motivation); low level of acceptance of social responsibility by some elements of the private business sector; the weak capacity of the private sector to carry on a policy dialogue with the public sector; and a resource allocation bias in favor of large-scale units.

A final institutional weakness, is that the poorer segments of the population remain largely unorganized and powerless. They are often functionally illiterate, inarticulate, and ignorant about the vehicles they could use to influence public policy and to obtain services and resources which might improve their socio-economic situation. This situation is particularly true for women.

II. DEVELOPMENT NEEDS AND A.I.D. STRATEGY

A. Major Development Needs

The major development needs of Ecuador over the CDSS period will be output increases in agriculture (food, exports, raw materials) and industry (at all scale levels), increased exports in all major categories (petroleum, agricultural commodities, and manufactures), and a more equitable distribution of development benefits. Meeting these needs will require structural adjustments and presupposes the success of the stabilization program initiated in 1983. The development impact of meeting those needs will be greatly reduced unless gains are made simultaneously in reducing the national population growth rate and improving health conditions among the poor.

The import substitution strategy combined with the short-lived oil boom of the mid-1970's left Ecuador with an economy in which public sector interventions in private markets are many, and where competitiveness and productivity are low. Structural adjustment to enable improved distribution will require a reduction in factor market interventions which create a capital bias (thus reducing employment) and institutional improvements to increase the efficiency and effectiveness of the GOE's revenue and basic service capacities. The

major constraints to meeting these development needs (output, exports, distribution) over the CDSS period are:

- o Policy. The principal policy constraints are those related to exchange rates and prices; trade (quantitative restrictions, tariffs and foreign exchange allocations); subsidies (e.g., fuel prices are now at less than 50 percent of international prices); negative real interest rates; and legal and administrative requirements for productive, particularly export oriented, firms.

- o Institutional. Ecuadorean organizations - both public and private - lack the capacity to conceive and implement the policies and programs which support socio-economic development goals; to coordinate development activities; and to mobilize effectively domestic resources. Human resource deficiencies at management and technical levels are a principal cause of weak organizations. Finally, deeply rooted socio-economic structures and attitudes limit the opportunities for women and minorities to participate in and share the benefits of development.

- o Technology. In manufacturing, undervalued capital and import replacement marketing strategies have led to excessive capital utilization and high import intensities in production units not in line with relative factor proportions. Conversely, in agriculture and related fields technology levels are generally very low. The technology within the most dynamic private sector area (shrimp) has been based on extending production over wide areas and is incompatible in the long run with natural resource base management. There is a weak capacity within the public and private sectors to access and develop technology, including technologies related to improved management.

Many of the major policy constraints are the subject of discussion between the GOE and the major donors, and during 1983 many key policies began to be addressed, for instance under the IMF Agreement. However, the medium term expectation is that the economy will continue to operate with markets restricted by significant public policy interventions. Sectoral level constraints - policy, institutional, and technological - as yet largely unaddressed, appear to present the major obstacles and the major opportunities for USAID efforts for achieving structural adjustment over the CDSS period.

B. Other Donors

USAID's strategy of structural adjustment will be greatly enhanced through close cooperation with the other international development organizations active in Ecuador, particularly the major donors. USAID's institutional strengthening and technology transfer activities will create opportunities for the effective utilization of large, follow-on resource transfers from the major donors. In the policy area, USAID will focus on improving policy analysis skills and information systems while allowing the major donors to take the lead in the policy dialogue where their larger resources can have a positive leveraging effect. To this effect, there is an exceptionally strong consensus among USAID and the other major development agencies about the proper course of action.

The major providers of development assistance to Ecuador are the World Bank and the IDB. Ecuador over the past eight years has contracted 60 credits from these organizations for a total of $1,200 million, $922 million of which were undisbursed at the end of 1983. An estimated 37 percent of Ecuador's external public sector debt is with these organizations.

The World Bank at the end of 1983 had 17 credits for ongoing projects in Ecuador with an undisbursed balance of $266 million. In addition, the IFC had seven active loans with an undisbursed amount of $72 million. The resource transfer programs of the IBRD include agricultural and industrial credit, rural development, vocational training, and low income housing. According to its official documents the World Bank expects to continue to assist in

infrastructure and in expanding key productive sectors through large resource transfers. The World Bank is currently making a number of recommendations in the field of industrial, agricultural, and energy policy. These recommendations address the needs for increased domestic resource mobilization, including: gradual deregulation of interest rates; reduced levels of industrial protection; export expansion and diversification, including continued adjustment of the exchange rate; and more efficient pricing mechanisms, particularly in agriculture.

The IDB has been the largest single lender to Ecuador. At the end of 1983 it had 26 ongoing projects with an undisbursed balance of $563 million. The IDB is financing primarily large infrastructure; its active portfolio includes hydropower generation and power transmission, irrigation, schools, sewerage and water supply, rural electrification, industrial credit, agricultural credit, and integrated rural development programs with heavy infrastructure components. This pattern is expected to continue.

The UNDP's program in Ecuador together with those of some nine other UN agencies was $8.6 million in 1983. This assistance is being provided principally to the health (36 percent) and agricultural (33 percent) sectors. Of particular interest is UNICEF's long term support for oral rehydration therapy centers, immunization programs, and health promoter training, activities which will be supportive of pilot efforts initiated by A.I.D. In addition, UNFPA support to the population policy unit of the National Development Council (the GOE planning board), complements USAID's program to strengthen family planning

services while helping to develop opportunities for policy dialogue in the population sector. FAO has been providing long term technical assistance to the IRD Secretariat, thus complementing USAID's institution building efforts with that organization.

Bilateral assistance in 1982 was $18.76 million according to UN statistics with A.I.D. being the largest single source. Major areas of bilateral assistance are agriculture (32 percent), health (18 percent), and natural resources (13 percent). USAID coordinates with these programs where there are common sectoral interests. For example, Belgium's $1.2 million goiter research/control project will help identify activities appropriate to include in the primary health care component of USAID's health project. Also, West Germany has indicated interest in providing financing of agricultural investments in IRD areas for which A.I.D. financed studies have been prepared.

The Peace Corps program in Ecuador is directed primarily to the agricultural sector. Of a total of 226 PCVs, over half are working in this sector, a priority which is in line with the Mission's analysis of Ecuador's major development needs and constraints. The Peace Corps also has a large health program, including several engineers working in rural water and sanitation. A growing element in the Peace Corps effort is in the development of small scale enterprise, a program development which will complement the Mission's planned activities in this sector. The Mission, through the Special Development Activity Authority (SDAA) and the Special Projects Assistance (SPA) provides direct support to Peace Corps initiatives. In addition, skilled PCVs are providing

needed technical support in the field for several bilateral activities, including alternative energy, soils conservation, forestry, and health.

C. USAID Strategy

Overall Objectives. USAID's program strategy in Ecuador over the CDSS period will support the process of structural adjustment identified in the analysis as Ecuador's major medium term challenge. While stressing production and productivity gains through increased and better focused private sector activities, USAID's strategy will include efforts to improve the distribution of opportunities and social sector activities to maximize the development impact of economic growth. Given the relative size of the Mission's program as compared to other donors and as compared to the scope of Ecuador's development constraints, USAID's efforts will be targeted on key sectors in which the Mission has a clear comparative advantage. Within these sectors, activities will be focused on resolving selected policy, institutional, and technological constraints and promoting private sector participation.

The basic development goals of A.I.D. in the LAC region are to achieve per capita growth rates of 2.5 percent, to increase employment and productivity, and to raise the levels of basic social indicators for men and women. USAID's program emphasis on increasing the output and competitiveness of the economy's productive sectors while simultaneously increasing the efficiency and effectiveness of the basic social services will contribute directly to meeting the LAC regional goals. Key indicators of satisfactory progress in Ecuador (and the comparative LAC regional goals) would be: (1) productivity increases of

at least 2.5 percent per year (identical); (2) an annual increase in agricultural sector output of five percent (regional target is 3.3 percent); (3) a growth of urban employment of 3.5 percent per year (identical); (4) a reduction in population growth to 2.4 percent (regional target is 1.9 percent, Ecuador's current rate is 2.9 percent); and (5) a reduction in mortality for infants and children by 15 percent (identical).

USAID's strategy will:

- Stimulate the private productive sector and assist it to expand and diversify into more competitive activities, thereby strengthening Ecuador's base for long term growth.
- Improve the efficiency and cost effectiveness of development programs directed at the poor, and simultaneously increase the mobilization of domestic resources.
- Help mitigate the damage to the productive base and to social infrastructure caused by the 1983 flooding.

Program Composition and Emphasis. To best address the continuing needs for structural adjustment during the CDSS period, USAID's program will emphasize programs in the productive sector activities. Major attention will be directed at agriculture, including natural resource utilization, and selected private sector initiatives. Energy will also be included because of its underlying importance to the required structural adjustments; but only a small portion of USAID program resources will be allocated to energy.

Agriculture is of primordial importance because of its large employment function and the potential for growth in production of food, agroindustry inputs, and export commodities. Activities are planned early in the CDSS period to address the GOE's and the private sector's policy analysis and formulation

constraints. Activities to stimulate private sector investment in agro-industries are also planned for implementation during the first half of the CDSS period. At the same time, USAID will improve and strengthen private sector agricultural service delivery structures, initially through pilot efforts. These activities are expected to help generate follow-on efforts of larger scale impact during the second half of the CDSS period. Also during the last half of the CDSS time frame, USAID expects to be involved in strengthening the agricultural education system in order to address underlying human resource constraints.

Utilization of Ecuador's productive natural resources, e.g., forestry and shrimp, represents important potential for employment and foreign exchange. Without improved management capability, Ecuador risks losing the full advantage of these resources. USAID's existing Forestry Sector Development project will help address some of these issues; successful project implementation during the first half of the CDSS period will likely lead to a major follow-on effort to promote private sector forestation and wood products manufacture in the last part of the decade. Beginning in FY 1984 USAID will jointly fund an S&T applied research effort on coastal management resources. The project's major focus will be Ecuador's burgeoning private sector shrimp industry. These initial efforts could lead to a subsequent bilateral project designed to improve the technology and management of this resource, an important earner of foreign exchange.

In private enterprise, USAID will initiate innovative efforts in selected areas such as agri-business, non-traditional export promotion, small scale enterprise, and skills and management training during the initial years of the CDSS period. Initial inputs are likely to support expanded absorptive capacity of key private sector groups. Programs in these fields will have important impacts on employment, output, and investment, and will pave the way for future productive sector assistance on an expanded basis.

Proper management of the energy sector can have an important, positive impact on Ecuador's foreign exchange earnings within the medium term. Consistent with the LAC Regional Strategic Plan, emphasis will be on building institutional capacity for energy policy planning and management. Funding will be largely provided from a bilateral project already in place and continued collaboration with S&T programs. As described in past policy documents, IBRD and IDB will be encouraged to take the leadership the policy dialogue with the GOE in this sector.

USAID's social sector program, aimed mainly at a less distorted distribution of opportunities, will be concentrated in three areas: health and population; low income shelter; and domestic resource mobilization.

During the CDSS period, no new large scale A.I.D. inputs are planned for primary health care. Implementation of the existing rural health project which will continue through the initial years of the CDSS period will establish an improved institutional framework for delivery of primary health care as well

as potable water and sanitation services. Limited additional funding will likely be needed to help expand the ongoing pilot testing of oral rehydration therapy (ORT) dissemination techniques and community based health promoters on a national scale. Limited funding is also planned to help GOE nutrition planning efforts as well as pilot interventions designed to make GOE programs more effective and better targeted. Studies and pilot programs for increasing private health care programs will be undertaken during the first half of the CDSS period. These may require follow-on technical assistance and training, but it is unlikely that any major infrastructure would be considered for A.I.D. financing. The population program will continue throughout the CDSS period with greater emphasis being directed at expanding private sector delivery of services.

Low income shelter Housing Guranty programs will remain at current levels with the principal limiting factors being Ecuador's institutional absorptive capacity. USAID is addressing the absorptive capacity bottleneck by promoting greater participation of the private sector in low income housing programs. If successful, at least a doubling of the current HG levels would be appropriate given the size of Ecuador's potential housing demand.

USAID's revenue generation project currently under implementation will continue into FY 1985. If the new GOE administration indicates that it has the political will to further these efforts to improve tax administration and local revenue administration, a follow-on project will be proposed. USAID has already been approached by the GOE for technical assistance in analyzing certain

aspects of the financial market. A research and training effort in this area to develop opportunities for improving private domestic resource mobilization might be recommended if GOE interest continues.

The emergency rehabilitation program cuts across both the production and the social sectors of USAID's portfolio. Implementation began in FY 1984 and will continue through FY 1985. Also, during FY 1984 USAID will provide delivery of PL 480 Title II food to help alleviate temporary food shortages. Despite other donor assistance, further needs have been identified, including controlling the resurgence of malaria and other vector-borne diseases in the flood stricken areas. Additional funding for the rehabilitation program may be forthcoming in FY 1984, which would likely extend the implementation period through FY 1986.

Doing More With Less. With limited financial resources and staffing, USAID must rely on programmatic approaches, intensive use of in-house staff, and the leveraging of other agency resources (especially PVOs and the major donors) to achieve its objectives. USAID's relatively small program must continue to emphasize low cost approaches that demonstrate affordable models. USAID is successfully using pilot or area specific approaches funded by grants or grant/loan packages to test and develop model activities in key sectors. These activities often have important institution building components involving technical assistance, training, and learning-by-doing. Effective implementation depends on the success of these institution building efforts which require substantial monitoring and management by USAID staff, particularly during the

early stages of projects. Through modest initial investments, USAID promotes cost-effective models that can be replicated on a national scale using domestic or other donor resources, and creates institutions capable of absorbing and effectively utilizing these resources. Evaluations have proven to be an extremely useful tool to assist USAID staff and GOE counterparts manage their projects. During the CDSS period, implementation and evaluation will be given even greater attention to ensure that USAID resources continue to be efficiently used toward program objectives.

Increasingly, USAID's in-country resident technical staff are being considered by host country counterparts as sector authorities in addition to monitors of project funds. This role enables USAID staff to become more actively involved in implementation, as noted above, and to engage the GOE in the discussion of important sectoral issues. Given position level constraints, continued progress during the CDSS period will require increased use of project funded specialists as well as technical support and backstopping such as that available from the Science and Technology Bureau.

The active participation of U.S. and indigenous PVOs will continue to be a key element for enhancing program implementation. PVOs have proved to be an effective mechanism for testing new technologies and delivery systems. In addition, PVOs carry out programs in areas not well covered by the public sector (e.g., family planning, environmental education, technical skills training, WID activities). During the CDSS period, PVOs will be further integrated into the USAID strategy in two ways. Based on evaluations, USAID will seek to

strengthen the development impact of ongoing PVO activities. At the same time, PVO involvement will be extended into new sectors and activities where private sector participation is critical (e.g., housing, small scale enterprise, agricultural services).

USAID will also leverage its resources by seeking improved coordination with the major donors, especially IBRD and IDB. The assumption of a new GOE administration in August 1984 provides an opportunity to establish a more systematic coordination mechanism. Specifically, USAID encourages the initiation of the trilateral meetings involving A.I.D., IDB, and IBRD as suggested in the LAC Regional Strategic Plan. Such meetings would be particularly useful for the agricultural sector. USAID has already had field meetings with IDB and IBRD representatives to identify potential for coordinating future financing for this sector with needed policy improvements. The development of hydrocarbon sector and related energy policies is also a crucial area for donor coordination, given its importance to Ecuador's growth over the medium term. Other priority areas for improved coordination include rural water supply and sanitation, where follow-on IDB financing may be feasible as a result of USAID's institution building activities, and agro-industry and non-traditional export promotion, where common interests are shared.

The relative flexibility of USAID provided by its in-country staff, grant funded technical assistance, and general ability to take calculated risks is recognized and appreciated by the GOE. These features enable USAID to respond fairly quickly and to serve as a catalyst. During the CDSS period USAID will

continue to serve this function and individual programs will be designed accordingly. Specifically, the grant element of USAID's total funding will need to be a relatively high share to permit the technical support and risk taking essential to USAID's strategy.

While USAID will continue to use the mechanisms described above to achieve its objectives in the most efficient manner, modest adjustments will be needed in USAID staffing to carry out the program changes envisaged. Some adjustments are already underway, others have been identified. USAID has eliminated the second direct hire position in its health office and has used the position to create an engineering office to monitor the emergency rehabilitation program, including the supervision of a small professional office in Guayaquil funded under the program. Two consultants have been hired to help develop USAID's private sector program (one is a generalist with experience in policy/programmatic aspects, the other is an agro-industry specialist). A Joint Career Corps officer has been recruited to help with USAID's increased policy emphasis in the agricultural sector. A personal services contractor with experience in nutrition policy/programming has been hired to help sharpen the nutrition impact of USAID activities. During FY 1983 the position of regional energy advisor was assigned to Quito and the incumbent on board by year end.

Two new direct hire positions are needed in FY 1985 to strengthen USAID's implementation capacity. The first priority is for a private sector officer to provide project management supervision of the private sector activities (as the current contracts with the private sector consultants expire). The second

is for a forestry officer (to be filled by the USAID's current IDI in forestry) to help see the ongoing Forestry Sector Development project through to completion. Also, an IDI has been requested for the USAID's Development Resources Office to further strengthen its project design and implementation capacity. Finally, USAID is recruiting a professional Ecuadorean to serve as a full-time evaluation officer given the anticipated increased workload.

III. PROGRAM

A. Productive Sectors

1. Agriculture and Natural Resources

Introduction. While agricultural sector production performance since 1970 has been generally inadequate, agriculture has the potential to be one of the main engines of growth over the next decade. There is ample opportunity for increased production for exports, including non-traditional export commodities, as well as for import substitution. The requirements for the achievement of this growth potential are: (a) improved GOE price and investment policy; (b) elimination of marketing, storage, and handling bottlenecks; (c) improved and expanded input delivery and credit systems; and (d) improved technology generation and transfer system. Also, problems of resource degradation are growing and threaten major public investments (e.g., hydroelectric facilities) as well as private sector productive activities (e.g., shrimp and forestry). The Mission's agricultural sector strategy will include new and existing activities to address the above needs. The focus of these activities will be the coastal area. In the Sierra the focus will be on completing the ongoing IRD project which addresses problems of rural poverty and tests ways to provide

needed services and inputs to small farmers to permit them to increase their production and incomes. Consistent with the LAC Regional Strategic Plan, fundamental deficiencies in the human resource base of the sector will also be addressed during the CDSS period.

Strategy. The Mission's agricultural sector strategy is to support the structural adjustment process by assisting Ecuador to exploit its potential to substantially increase agricultural production and exports while addressing problems of rural poverty and resource degradation. The targets for the end of the CDSS period for the agricultural sector are: (1) annual growth in production of five percent; (2) average annual productivity growth for the 20 largest crops of two percent; (3) growth in agricultural exports of five percent per year.

Policy Objectives. Revitalization of the sector will require policies that provide incentives to the private sector to expand investment and production. In addition, the GOE needs to balance its agricultural policy to the realities of two major agricultural zones with differing problems and potentials. Policy analysis in the Ministry of Agriculture is dispersed and given low priority. The Mission is working with the GOE on a FY 1985 project that would improve the policy analysis capability of both the public and private sectors. The project would also help strengthen the capability of the Ecuador private sector to participate in sustained policy dialogue.

The Mission is also supporting improved policies for the management of Ecuador's natural resources. Building on the success of an Ecuadorean PVO (Fundación Natura) in raising awareness about the degradation of productive resources, other activities are helping the GOE address policy and programmatic concerns in such areas as irrigation, watershed management, reforestation, and integrated pest management. A new program, jointly funded with S&T, will address policy concerns affecting the degradation of important coastal resources, including shrimp production.

Finally, the Mission is developing a program of socio-economic research on the agricultural sector utilizing PD&S funds. This program will focus on developing background data topics such as agricultural price policy, the analysis of the present marketing system, consumption and production trends, a review of existing production cost data, and the role of women in the agricultural economy. This data will improve understanding of the functioning of the agricultural economy and critical constraints.

Institution Building Objectives. USAID is strengthening the managerial and technical capabilities of key institutions in the agricultural sector through components of existing and proposed programs:

- Through USAID's ongoing public sector management training project and the proposed new agricultural policy project, the Ministry of Agriculture will be strengthened in management skills training and in information gathering, analysis, and policy formulation.
- Through the current Rural Technology Transfer System (RTTS) project, Ecuador's National Science and Technology Council will have an improved capacity for setting agricultural research priorities and coordinating research and the dissemination of results.

- Through the IRD project and the S&T funded Campesino Training program, the GOE will have a strengthened capacity to promote the development of interinstitutional linkages and the coordination of field level support programs in agricultural research, extension, input delivery, irrigation, and credit to small farm families.

- Through USAID's Forestry Sector Development project, the National Forestry Program will have increased management and technical capacity to promote improved private sector utilization of forest resources and more effective protective forestation and conservation practices.

Consistent with the recommendations of the LAC Regional Strategy, USAID also proposes to address the underlying deficiencies in the preparation of agricultural sector professionals. In allocating LAC Regional Training resources, highest priority will continue to be given to agricultural sector needs. However, the inadequacies of the existing agricultural universities are so great that they must be addressed directly. Accordingly, the Mission proposes a program of support to strengthen university agricultural education that would be carried out during the last half of the CDSS period.

Technology Transfer Objectives. The low increases in productivity over the last decade show that the process of technology generation and transfer is not functioning well. USAID's on-going RTTS project is developing a system that: 1) identifies rural development constraints and determines priorities; 2) develops and finances subprojects to reduce these constraints; 3) identifies and channels appropriate internal and external (Title XII) technical expertise to these subprojects; and 4) identifies, mobilizes, and finances sources of technical training to develop in-country staff capabilities. A follow-on activity in on-farm water management technology development and dissemination is tentatively planned.

The Forestry and IRD projects also have important technology transfer components. The Forestry Sector Development project finances applied research and pilot demonstrations with public and private sector organizations to help test and disseminate forestry technologies. The IRD project is developing technology packages appropriate for small farmers; given their high participation in small farm agriculture, women benefit widely from these technologies.

Components of other USAID agricultural sector activities are specifically targeted at providing technologies to enhance the economic position of women. Under the IRD project, the production of guinea pigs - a traditional occupation of poor women in the Sierra - has been improved and women's incomes substantially increased. An OPG with the 4-F Foundation includes innovative activities to respond to the training needs of young women in rural areas. USAID will continue to seek out and promote appropriate technologies for women, as part of its broader technology transfer efforts.

Private Sector Participation Objectives. USAID emphasis on sector policy is aimed at improving incentives for private sector agricultural activities in ways that contribute to the solution of rural poverty (e.g., expanded markets, improved job opportunities, more efficient services, etc.). Improved public sector cooperation with private agribusiness is being promoted through specific components in the RTTS and the Forestry projects that can finance research and demonstrations carried out by private groups. During the first part of the CDSS period, USAID's joint Coastal Management Resource project with S&T will address the serious problems faced by Ecuador's private shrimp

producers. The project will bring about the public-private sector coordination and collaboration so necessary to resolve the problems of the shrimp industry.

USAID will develop direct contacts with selected private organizations based on their ability to contribute broadly and efficiently to the development of the agriculture sector. These relationships can be developed initially through small grants and technical assistance to local chambers of agriculture, regional cooperatives, and other organizations that meet USAID's development criteria. The FY 1984 proposed agro-industry development project will encourage private sector investments in activities that will bring about increased sector production.

2. Private Sector

Introduction. The three productive sectors chosen for A.I.D. private enterprise interventions are agro-industry, non-traditional exports, and small scale enterprise. Agro-industry, and many of those non-traditional exports for which Ecuador exhibits a comparative advantage, are of special interest because of the potential for domestic value added and for structural linkages with other sectors of the economy. Small scale enterprise interventions offer the possible additional benefit of widening the distributive base of the market economy while, at the same time, achieving goals of employment (the cost of creating a job in small scale industry is less than 20 percent of the cost in larger scale industry) and capital formation, especially among women heads

of households. In addition, USAID will support human resource development activities to address management, skills, and behavioral constraints which cut across all three productive areas. Human resources for the private sector have been identified in Ecuador as a limiting factor to increases in output and productivity and success in this area would increase the potential for long-term impact.

Strategy. USAID's private sector strategy is to support structural adjustment with a series of export and production oriented program activities designed to strengthen the capacity of private enterprise to respond effectively to a gradually more market-oriented policy environment, and to develop private sector capacity to participate effectively in policy formation. As a key indicator of progress in this area, USAID expects that the private sector share of total gross fixed capital formation will increase to at least 50 percent (as compared to 33 percent in 1983) by the end of the CDSS period.

Policy Objectives. The important macro-policy changes initiated in 1982-1983 will need to be accompanied over the CDSS period by changes in microeconomic policies which affect sectoral markets. It is in this latter area that the Mission will be seeking to achieve a significant impact. Through discussions with the other donors and with sectoral policy leaders, the Mission will advance its analysis of the microeconomic policy constraints to the effective functioning of private markets in the targeted production sectors. The Mission will seek changes required in areas such as documentation and price interventions which constrain investment and performance in those sectors. The

policy and institutional changes needed to strengthen private capital markets and to mobilize long term securities and equity for enterprise investments will be the foci of a series of investigations and policy dialogue activities.

In addition, USAID will seek to develop the capacity of Ecuadorean private sector organizations themselves to participate effectively in policy formation. Private sector organizations at both sectoral and macro levels are weak in experience in policy formation, have inadequately developed information systems, and lack creativity in their approaches to policy dialogue with the GOE. These constraints will be addressed through: (a) participant training to expose private leaders to policy influence strategies employed by business people in the U.S. and in the CBI countries; (b) involving business people and private sector organizations in a wide array of A.I.D. activities; and (c) improving private sector leadership through management training for men and women.

Institution Building Objectives. Fundamental to USAID institution building objectives for this sector will be increased private sector capacity to upgrade its own pool of human resources. USAID will continue throughout the CDSS period to support local PVO and other private sector skills training programs for men and women that are employer driven. Similarly, private sector initiatives to improve management education will be supported.

Institutional strengthening components will be included in the three productive areas selected for USAID attention - agro-industry, non-traditional

exports, and small scale enterprise. Agricultural producer associations, industrial chambers, and other private groups will be upgraded through small grants during the initial part of the CDSS period. Activities proven by evaluation to have significant production and benefit distribution impacts will then be replicated on a national scale during the second half of the CDSS time frame. A small but dynamic private sector association of exporters, FEDEXPORT, has already been identified as a potential entity to receive A.I.D. support. A small grant is planned for FY 1984/85 to strengthen its institutional capacity in such aspects as export marketing and promotion of linkages with firms in importing countries. Several mechanisms currently are attempting to serve small scale enterprise. None are very effective. An OPG to a U.S. PVO (AITEC) is planned in FY 1984 to test approaches that have been highly successful in meeting the credit needs of small women-owned enterprises which compose 70-80 percent of the program target group in Ecuador. Successful results will likely lead to larger efforts later in the CDSS period. In addition, USAID is supporting the S&T funded Entrepreneurship and Small Enterprise Development project which will develop methodologies for stimulating entrepreneurial behavior in the small enterprise sector. USAID will seek opportunities to integrate these results into its program later in the CDSS period.

Technology Transfer Objectives. USAID will, through pilot-demonstration efforts, work with the private sector to resolve some of the constraints that are limiting the development potential in the three areas of USAID concern. For agro-industries, these constraints include: poor distribution systems,

high product losses, and high handling costs; weak capacity of individual firms to access and select technology; low quality control; inadequate standardization and packaging that reduce competitiveness in external markets; and inadequate supply of both pre-investment and long term financing. In export development, constraints include: inadequate provision of services for assisting or training exporters in the commercialization of non-traditional exports; and limited supply of "export-quality" technology advice at the production stage. The major constraints to small enterprise development have been identified as the shortage of financial resources; skills deficiencies at management and technical levels; and limited access of small firms to production, engineering, design, and market skills. During the CDSS period USAID, jointly with the private sector, will develop specific project interventions to eliminate some of the above constraints.

3. Energy

Introduction. Ecuador's economic recovery will remain highly dependent on petroleum export earnings throughout the CDSS period. Changes in energy policy, particularly pricing, are needed to encourage conservation and substitution with renewable sources in order to maintain adequate oil export levels. At the same time, non-conventional energy technologies can play a growing role in improving energy availability for development, especially among the rural poor.

Strategy. USAID's strategy during the CDSS period will be: (1) building public and private sector capability to do energy analysis, energy management, and energy planning and policy development; (2) initiating conservation

programs aimed at increasing energy awareness and efficiency; and (3) promoting improved identification and exploitation of indigenous energy resources - from hydrocarbons to renewables to fuelwood. These efforts, coupled with small expected increases in overall production, are expected to maintain oil exports in the range of 120,000 to 140,000 barrels per day through 1989. This level of oil exports will support the necessary hard currency income and at the same time permit a moderate (4-5 percent) annual increase in domestic energy use, indispensable for productive growth throughout the economy.

Policy Objectives. Unless more realistic energy pricing policies are adopted, distorted cost signals will continue to be given to the private sector, discouraging conservation and development of other energy sources. The IBRD and the IDB are Ecuador's major donors in the energy sector. They, together with the IMF, have taken the lead in discussing energy sector pricing policy with the GOE. Because of the local sensitivities regarding domestic pricing of petroleum products and USAID's minor role in this sector, USAID will address this policy concern principally through the institution building process described below.

Institution Building Objectives. Energy institutions and their policy development capability are weak. National energy planning is inhibited by lack of competence and poor coordination among various GOE offices. USAID is addressing these constraints through the Alternative Energy Sources project, initiated in FY 1981. The institution building component of this project has been a primary factor in the strengthening of the National Energy Institute (INE),

established only in 1978. As a result of its constitutional mandate, INE is presently preparing a national energy planning document and policy recommendations for the new government to take office in August 1984. As INE's capabilities and experience grow through the implementation of the project, INE's credibility as an institution and as a key participant in the energy planning process will increase.

USAID is cofinancing with S&T/EY U.S.-based technical training for key staff of the Department of Hydrocarbons in the Ministry of Natural Resources. Using regional and bilateral funds, USAID will continue to match needs for technical training with appropriate sources in the U.S. Priority will be given to Ecuadorean individuals and institutions that can multiply the technology transfer process, such as university professors, the state oil corporation, the national electrification institute, etc.

Technology Transfer Objectives. Under the current A.I.D. project, INE also is facilitating the transfer and adaptation of alternative energy technologies, and establishing a comprehensive energy information data base. In addition, USAID has received requests for specialized technical assistance in energy related matters. In the absence of project funding, USAID's role is largely one of a broker, drawing on the regional energy advisor stationed in Quito to seek AID/W or other donor support for warranted requests. Particularly as the INE project draws to a close, USAID plans to augment PD&S funding slightly in future years to facilitate positive responses to technical assistance requests that offer potential for important transfers of energy technology.

The Mission links energy technology concerns with other sectors of USAID's program. For example, aerobic digestion of urban wastes is being planned as part of the Secondary Cities Housing Guaranty project. In the IRD project, irrigation systems are being studied for their hydroelectric potential and solar dryers, fuel efficient stoves, and solar assisted processing of bees' wax are anticipated. Solar hot water and photovoltaic refrigeration are being used in rural health programs. The role of women in wood collection has been surveyed as part of INE's wood consumption studies in rural villages. Environmental programs and fuelwood problems are being linked through USAID efforts with GOE entities and indigenous PVOs.

Private Sector Participation Objectives. The single most important role the private sector can play in Ecuador's energy sector is the provision of external venture capital to help identify and exploit new petroleum reserves. Through its training activities, USAID will contribute to the development of the GOE institutions that negotiate and deal with the international oil firms. More mature and self-confident Ecuadorean institutions in the energy sector will help bring about productive and positive relations with these private sector firms.

Through the INE project, USAID is assisting the two national Polytechnic Universities in developing an energy conservation service for the private sector. Industries are already beginning to appreciate the benefits of increased energy efficiency and demand for these services will multiply as energy prices are adjusted upwards with respect to non-conventional energy. INE also makes

a practice of turning over to private firms the manufacture and marketing of its successful prototypes (e.g., solar hot water collectors) thus strengthening private sector participation in alternative energy development.

B. Social Sectors

1. Health and Population

Introduction. Despite significant expansion in publicly financed health services over the past decade, the utilization of these services has remained low. Ecuador continues to suffer from high rates of infant/child mortality, highly prevalent gastro-intestinal infections, scarce water/sanitation services, and a growing vector borne disease problem. Malnutrition is a serious problem with significant collateral health effects, especially on mothers and children. The Ministry of Health is poorly organized to cope with this situation, and is likely to face continuing financial constraints during the CDSS period. GOE provision of family planning services is limited; however, private sector efforts hold considerable promise for expanding cost-effective coverage.

Strategy. USAID's strategy is to: (1) improve the GOE's capacity to deliver low cost, decentralized, primary care services including water and sanitation services, especially in rural areas; (2) explore and promote private sector mechanisms; (3) increase the provision of family planning services, especially through the private sector; and (4) integrate nutrition components into its health and agriculture programs. For the end of the decade, USAID's goals for health and population are: a reduction in mortality among infants and children by 15 percent with a reduction of the infant mortality rate to 65/1,000;

and a reduction in annual population growth from 2.9 to 2.4 percent. Additionally, the health sector will have achieved:

- o Implementation of a national, decentralized administrative structure within the Ministry of Health, including Area Health Chiefs.
- o An increase in population covered by rural water systems to 40 percent and sanitary waste disposal to 30 percent of the rural population.
- o The utilization of oral rehydration therapy in Ministry of Health facilities with a reduction of child mortality from diarrheal disease by 25 percent.

Policy Objectives. There are no major policy impediments to improving primary health care in Ecuador. Deficiencies lie more in a poor information base, weak institutions, antiquated procedures, and ill prepared personnel and it is here where A.I.D. focus lies. In nutrition, GOE policy has been lacking due to insufficient data and lack of consensus among the multiple institutions that would implement such policy. USAID will actively promote dialogue with the public sector and the PVOs to promote more comprehensive approaches to solving Ecuador's nutrition problems. In the public sector, USAID will phase out Title II inputs to the maternal/child health (MCH) feeding program, thus encouraging its self-sufficiency. At the same time, funds have been secured from AID/W (FVA/PPE) to assist the Ministry of Health's nutrition research institute in a pilot project to evaluate the MCH program, initiate basic improvements, and provide the Ministry with baseline information necessary for making policy decisions to better meet the special nutritional needs of women and children. USAID will also help the GOE to carry out a national nutrition survey which can serve as the major tool for influencing nutrition policy and programs during the CDSS period.

USAID will continue to promote the formulation of a national population policy by the GOE. While initial efforts to move forward in this area have met with little success, USAID expects to continue this direct dialogue with the new GOE administration that takes office in August 1984. At the same time, USAID is broadening and intensifying efforts to sensitize political leaders to the relationship between population and development via other mechanisms, including dissemination of the RAPID presentation through both public and private sector channels, and an information, education, and policy awareness program for leaders carried out by the private sector using seminars, workshops, and mass media. During the CDSS period USAID will continue to work toward formal policy commitments recognizing population implications on development.

Institution Building Objectives. The principal objective of the current rural health project is to assist the Ministry of Health to demonstrate a model of efficient planning and delivery of primary health care service that can be replicated nationwide. Under the same project, the Ministry's water supply and sanitation institute, IEOS, is being strengthened in planning, programming, and implementing rural water activities. Thus, it will be better equipped to attract large infrastructure donors such as IDB before the end of the CDSS period. The improvement in the access to water through household connections will mostly benefit women and children. Water connections improve household sanitation and free the women from the strenuous and time consuming task of fetching water. Additionally, in communities where household water systems are in place, women are widely represented on the community water committees.

Given the planned policy improvement initiatives in nutrition during the CDSS period, institutions whose mandate includes nutrition planning, research, and services will be strengthened. The Ministry of Health's Nutrition Division and the Institute for Nutrition Research will both receive support to improve the supplementary feeding program for mothers and infants and to design new nutrition initiatives.

With regard to population, institutional development priority will be on the private sector. Three private Ecuadorean agencies (CEPAR, CEMOPLAF, and APROFE) are already receiving USAID funding, channeled through a Cooperative Agreement with IPPF/WHR. At the end of this Agreement in mid-1986, USAID expects to develop follow-on population activities which will concentrate on further strengthening these organizations, two of which have women chief executives. Management training, logistic support, and a wide range of technical assistance to these groups will enable them to become more self-sufficient.

A small grant is being considered to assist Catholic University implement a comprehensive and innovative project for reorienting the entire nursing curriculum to produce community health nurses. In addition to improving community health care, it would raise the status, skills, and earnings capacity of nurses who are predominantly women.

Community level health services will also be strengthened, primarily through PVOs such as Catholic Relief Services (CRS) and the Save the Children Federation (SCF). CRS will develop an improved P.L. 480 Title II Program, which

will use food more effectively for nutritional and developmental purposes through its food distribution centers, including mothers' clubs and day care centers. These improvements will have significant effects on the lives of women participants through expanded productive activities and improved child raising. SCF is strengthening community organizations in an IRD project area with a focus on improved nutrition, which will serve as a model for GOE replication.

Technology Transfer Objectives. USAID has been able to serve as a catalyst with regard to health sector research, development, and dissemination of cost-effective, capital saving technologies. These technologies range from hardware innovations to improved management techniques. New technology initiatives including oral rehydration therapy (ORT) and community-based health promoters will continue to be supported.

Additional R&D efforts of the Mission are being directed at development of cost-saving techniques for water supply and sanitation. Local manufacture of plastic faucets, well screens, and pump cylinders, as well as hand pumps and ceramic filters is or will be carried out.

In family planning, USAID will promote technologies for reaching more lower income women at risk with lower cost service delivery mechanisms. Under a follow-on project, a commercial retail sales program for contraceptives will be greatly expanded, as will community-based distribution activities.

Private Sector Objectives. Due to severe institutional and financial constraints, the public sector alone will be unable to provide full primary health care coverage to the population in need. Greater attention will therefore be given to private sector alternatives to meeting this need. USAID is carrying out a detailed diagnostic study of private sector health activities in Ecuador. On the basis of this study, various private sector models may be introduced during the CDSS period. These may involve private health insurance schemes and community health care organizations, and could be carried out by non-profit organizations (cooperatives, PVOs) and private corporations. Also, USAID will continue to support PVOs active in the health and nutrition field (CARE, CRS, MAP, SCF).

Several of the technology transfer activities (particularly the local, private manufacture of water supply/sanitation equipment) represent important means for increasing private sector involvement in health. During the CDSS period expanded markets for these products will be encouraged through increased coordination with public sector health programs which can promote their dissemination and use.

In family planning, USAID will seek to demonstrate the financial viability of commercial marketing programs, aimed at reaching lower middle to middle class users and of private family service organizations, thus laying the groundwork for expanding private sector participation in the population sector.

2. Housing

Introduction. The major challenge in the Ecuador housing sector over the CDSS period will be to increase the supply of shelter for low income families. The current GOE has taken most of the policy decisions necessary to shift to a more open market approach which emphasizes the supply of "solutions" (e.g., expandable core housing and upgrading) covering the demand of lower income families. However, major institutional and financial constraints limit the impact of these policy decisions. In response to these constraints, the National Housing Board (JNV) and the Ecuadorean Housing Bank (BEV) have begun to modify project development and administrative processes to respond to the current situation.

Strategy. USAID's housing sector strategy for the CDSS period is to expand the supply of low cost shelter solutions in both urban and rural areas through policy dialogue, technological innovations and research, and institutional development activities. USAID will continue to assist the JNV/BEV to improve housing sector policies and to increase the use of private developers in urban and rural areas. Over the CDSS period a reasonable target is to increase the supply of shelter options for new construction and upgrading by ten percent annually. This rate of increase assumes continued GOE acceptance and promotion of more cost-effective solution types which permit the available resources to reach greater numbers of low income families.

Policy Objectives. Policy dialogue will continue to address the need to expand the supply of low cost housing by seeking to incorporate resources from

local and regional private groups. USAID will encourage the JNV to involve other public and private sector entities in low income shelter activities and thereby expand its coverage. Through agreements with the Social Security Institute (IESS), the Savings and Loan Associations, and cooperative groups, modes of financial and technical cooperation will be defined and the mechanisms established to design and implement low cost shelter programs. For example, this could result in IESS' participation in the BEV bond market, an important step towards creating a secondary mortgage market.

Institution Building Objectives. The principal focus of USAID's institutional development activities will be to strengthen JNV/BEV at the field level so that the policy improvements get translated into actions. The grant component of the Secondary Cities HG program will provide technical assistance and training on the use of regional materials, the decentralization of program planning and implementation, and the incorporation of private sector participation. Future HG programs during the CDSS period will further strengthen the capacity of private sector organizations to participate in low income shelter projects and to respond to the shelter needs of women heads of households. USAID will continue to complement HG resources with grant funded technical assistance and training to pursue these institutional strengthening objectives.

Technology Transfer Objectives. The Mission has initiated a series of applied research programs that will: help implementing institutions carry out more cost-effective projects; increase the supply of low income family dwelling solutions to the market; and focus on usage as well as production and marketing

aspects. This orientation has been pursued to link building materials supply to small business development opportunities and programs to improve quality control, marketing, and building component development activities.

Other technology transfer efforts will focus on supporting urban upgrading and home improvement as effective methods of reaching low income families, creating an awareness of the resources the existing housing stock represents and incorporating a conservation sensitivity. New research efforts will also address land subdivision issues that relate to infrastructure costs, lot layout, and user responsibility. The need to make low income solutions more accessible to women heads of households will be an important focus of these applied research activities.

Rural housing efforts will emphasize selective improvements to increase the peformance standards of the dwelling. This implies incremental expansion, as family size and needs increase. During the CDSS period, USAID will explore with the JNV practical ways of extending the current home improvement program to the rural sector.

Private Sector Participation Objectives. The GOE's housing institutions have made key decisions to tap the skills available in the private sector. The human, technical, and financial resources available in the private sector represent key elements to JNV/BEV efforts to supply larger segments of the low income shelter demand with an affordable set of dwelling options in a decentralized manner.

The Secondary Cities HG program requires that at least 30 percent of the loan funds be used to finance shelter projects developed jointly with other developers, including private builders, cooperatives, and other private sector groups interested in developing shelter programs for low income families. The concept of "turn key" projects is expected to be one of the principal mechanisms by which private developers will be incorporated into the JNV/BEV project development process. The Mission also is creating private sector professional interest in and ideas related to low cost shelter programs through applied research programs on regional building materials in model dwellings. Future HG projects will continue to be used to create a role for private sector participation in low income shelter.

3. Resource Mobilization

Introduction. Poor domestic resource mobilization poses a major constraint to achievement of the CDSS objectives. With the prospect of continued restricted access to external borrowing during the CDSS period, significantly increased domestic resources are necessary to support increased growth in the private sector. Equally important, improvements in public sector revenue generation, and especially taxation, are critical for achieving a more equitable distribution of income and basic services. Resource mobilization weaknesses are evident at several levels:

- Savings and investment. Domestic savings, relative to GDP, are among the lowest in Latin America and have actually decreased in recent years. Private investment relative to GDP has declined, indicating weaknesses in private capital markets as well as reduced external borrowing.

- Central government internal revenues. Ecuador's tax effort is one of the weakest in the region. Weaknesses in tax administration, including a heavy dependence on consumption taxes, and poor enforcement of income taxes, result in a tax incidence that is effectively regressive.

- Central government oil revenues. Revenues from oil exports have been below budgeted levels in recent years. A fundamental problem has been the GOE's failure to promote increased exploration and development of new petroleum resources. Improved performance in this area is essential to avoid a declining exportable surplus and revenues during the latter part of the CDSS period and beyond.

- Municipal government revenues. Local government in Ecuador grew heavily dependent on central government revenue transfers during the oil "boom" years. These transfers are certain to diminish during the CDSS period.

Strategy. As part of the structural adjustments necessary to stimulate output and improve the distribution of development opportunities, USAID's strategy will: (a) seek to increase the efficiency of GOE revenue generation through small, high-impact activities targeted at key constraints at both national and local levels of government; and (b) mobilize more effectively resources for private investment, by supporting continued adjustments in interest rates, particularly in the housing sector, and through consideration of other capital market constraints.

USAID's activities in resource mobilization will build upon initial efforts undertaken during the FY 1983-85 period. Objectives for the CDSS period include: an increase in income and value-added tax revenues from the present 25-30 percent of central government current revenues to 40-45 percent; and an increase in municipal own-source revenues as a proportion of total municipal revenues from the present 20 percent to 35 percent.

Policy Objectives. The main policy constraints to improved domestic resource mobilization include the following:

- o Inadequate incentives for savings.
- o Excessive reliance on trade-related taxes and duties and regressive consumption taxes as sources of current government revenues.
- o Overcentralized mechanisms for channeling and controlling municipal financial resources, thus reducing the incentives for local revenue generation.

Through its current Revenue Generation for Development project, USAID is laying the groundwork for addressing policy constraints in the public sector. Project-funded internal revenue experts working with the Ministry of Finance are developing insights into overall tax policy and helping to strengthen USAID-Ministry relationships in the tax area. USAID will seek to build upon these relationships and engage the Ministry in a tax policy dialogue during the CDSS period. As recommended in the LAC Regional Strategy, emphasis will be placed on improving internal tax collection and moving toward a more progressive tax incidence In the municipal component of the Revenue Generation project, USAID is establishing working contacts with important national-level organizations which exercise financial and technical functions vis-a-vis municipalities. USAID will continue to work with these organizations to bring

about a reorientation in their functions which promotes decentralization and increased municipal revenue generation.

With regard to private capital markets, USAID will continue to support the major multilateral donors in their policy dialogue with the GOE on the overall interest rate structure. A more direct role will be taken by USAID in the area of housing finance. Large amounts of HG resources will be required during the CDSS period to meet Ecuador's needs for low income housing, and USAID will continue to link these resources to further rationalization of interest rates in the housing sector. At the same time, USAID will address policies related to equity and long term securities markets and to non-banking financial entities (S&L's, cooperatives, credit unions). Through studies and selective training, USAID will seek opportunities to promote the development of these potentially dynamic mechanisms for mobilizing domestic resources.

Institution Building and Technology Transfer Objectives. Resource mobilization efforts suffer from the following institutional and technological weaknesses:

- Tax administration functions within the Ministry of Finance are poorly defined and improperly aligned. Cost-effective techniques for identifying taxpayer non-compliance, including use of automated information systems, are lacking.
- Municipal governments lack adequate human resources and administrative systems for efficiently generating local revenues. National-level organizations are not oriented toward assisting municipalities acquire these capabilities.
- GOE mechanisms for promoting foreign investment for petroleum exploration and development are weak and erratic.

Under the Revenue Generation for Development project, USAID is supporting pilot activities to strengthen the tax administration capacity of the Ministry of Finance. Based on future evaluation of this project and assuming a supportive political environment, USAID will consider a follow-on effort to expand and institutionalize the pilot activities.

The Revenue Generation project also includes a number of pilot activities to improve the capacity of secondary cities to raise and manage revenues from local sources (property taxes, users' fees, etc.). The results of these activities will also be evaluated in FY 1985. This evaluation will serve as the basis for the design of follow-on efforts to institutionalize and expand national-level support for municipal revenue generation and related decentralization activities.

Finally, USAID has recently taken initiatives aimed at improving the GOE's institutional capacity to develop petroleum resources and thus strengthen future export revenues. A critical need is for the GOE to negotiate and administer petroleum contracts in a consistent manner which provides adequate incentives to foreign investment. Toward this end, USAID is planning to provide technical assistance and training to a key unit of the Ministry of Finance charged with the financial analysis and administration of petroleum sector exploration contracts. This effort will help clarify the complex "rules of the game" for the international oil firms.

Private Sector Participation Objectives. The various policy and institutional interventions described above will enhance the role of the private sector in addition to strengthening resource mobilization. A more rational interest rate structure and strengthened capital markets will result in a more efficient allocation of resources to productive activities. Greater efficiency and consistency in the administration of internal taxes will contribute to a more stable and predictable environment in which businesses can flourish. Similarly, improved GOE management of petroleum contracts will provide increased incentives for private investment - both foreign and domestic - in this important sector.

Proposed Assistance Planning Levels
By Functional Account
(U.S.$000)

1. Levels Account	1984	1985	1986	1987	1988	1989	1990
A. Agriculture, Rural Development and Nutrition (ARDN)							
1. Loans	2000	5000	6500	6000	7000	11000	10000
2. Grants	3671	3400	4000	2200	1700	1600	2000
Subtotal	5671	8400	10500	8200	8700	12600	12000
B. Health (HE) Grants	239	600	1000	1500	1300	750	800
Subtotal	239	600	1000	1500	1300	750	800
C. Population (PN) Grants	839	500	1100	1400	1600	1750	1200
Subtotal	839	500	1100	1400	1600	1750	1200
D. Education and Human Resources							
1. Loans					3500	3000	3500
2. Grants	1189	1000	1500	2000	1400	1000	1200
Subtotal	1189	1000	1500	2000	4900	4000	4700
E. Selected Development Problems							
1. Loans		3000		4500	3000	3000	4000
2. Grants	1173	1500	1900	1400	1500	900	2300
Subtotal	1173	4500	1900	5900	4500	3900	6300
TOTAL 1. LOANS	2000	8000	6500	10500	13500	17000	16500
2. GRANTS	7111	7000	9500	8500	7500	6000	8500
COUNTRY TOTAL	9111	15000	16000	19000	21000	23000	25000
PL-480 Title II (non add)	800	800	800	800	800	800	800
Housing Investment Guaranty (non add)	25000			30000		30000	