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INTERNATIONAL
DEVELOPMENT**



ECUADOR

**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
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COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS)

FY 1982 - FY 1986

Table of Contents

AMBASSADOR'S STATEMENT	i
INTRODUCTION AND OVERVIEW	ii - iv
<u>PART I - ANALYSIS</u>	
A. Analytical Description of the Poor	1 - 6
B. The Causes of Poverty	6 - 9
C. Progress and Commitment	9 - 12
D. Macro-Economic Performance and Prospects	12 - 13
E. Government of Ecuador (GOE) Plans and Budget	13 - 15
F. Absorptive Capacity	15 - 17
G. Other Donor Activities and Resource Transfers	17 - 20
<u>PART II - USAID STRATEGY</u>	
Introduction	21 - 24
A. Integrated Rural Development	27 - 38
1. Rural Institutional Development, Agriculture, and Natural Resources/Environment	
2. Basic Services: Health, Nutrition, Environment, Sanitation, and Human Resources	
B. Population/Family Planning	39 - 43
C. Integrated Urban Development	43 - 46
D. Development Administration	46 - 48
E. Non-Conventional Energy	48 - 51
<u>PART III - PROPOSED ASSISTANCE PLANNING LEVELS</u>	52 - 58

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TABLES

Table 1	Summary of Overall Strategy and Program Impact on Causes of Poverty	25
Table 2	Summary of Overall Strategy and Program Impact on Major Constraints	26
Table 3	Proposed Assistance Planning Levels	52
Table 4	FY 1980-81 Projects and Illustrative FY 82-86 Activities	53

AMBASSADOR'S STATEMENT

The Country Team has reviewed and discussed USAID's FY 1982-86 Country Development Strategy Statement and we recommend that it be approved as presented. I and the AID Representative have met with the President and other high level GOE officials to discuss the scope and direction of the renewed AID cooperation in Ecuador. The strategy contained in this CDSS responds to several of the GOE's highest priority objectives, as outlined in its 1980-84 Development Plan, and incorporates specific areas of cooperation personally requested by President Roldós, Vice-President Hurtado and key GOE Ministers. The proposed AID program is directed to critical problem areas and is concentrated only in few geographic locations so as to maximize the impact of AID's limited resources in supporting GOE objectives. I believe that our AID program can be an important force in assisting the Roldós Administration translate its commendable growth-with-equity goals into actions that confront some of Ecuador's most serious socio-economic problems.

The USG actively encouraged and supported Ecuador's return to democratic government. This process was arduous and sometimes painful, but it was successfully accomplished. The new challenge is how the U.S. can cooperate with Ecuador in maintaining and deepening the democratic process which will require dealing with the country's historic development problems.

Ecuador's democracy is still very fragile. The readjustment is proving to be difficult and the consolidation of democracy in Ecuador may prove to be even more complex than the retorno process itself. Expectations are extremely high, especially among the poor. The ability of the new government to meet these expectations and deal with the growing frustrations about the slow pace of change may well determine the future of democracy and human rights in Ecuador in the remaining decades of the 20th century.

The democratization process will require constant support, nurturing and understanding if it is to succeed. The continued goodwill of the USG and a forthcoming response by our bilateral AID program are indispensable. A creditable level of U.S. economic and technical cooperation is not only important for development purposes, but is a vital symbol of U.S. support for Ecuadorean democracy throughout Latin America. I consider the modest programs proposed herein as the minimum required for achieving important U.S. foreign policy objectives in Ecuador and urge that they be approved as proposed.


Ambassador Raymond E. González

January 28, 1980

INTRODUCTION AND OVERVIEW

After nine years of dictatorial rule, Ecuador recently elected a civilian government. The new GOE administration that assumed office on August 10, 1979, has committed itself to major structural and social reforms that can more effectively deal with Ecuador's widespread poverty and other serious development problems.

Throughout Latin America, Ecuador has become a symbol of the return to democracy and of the potential of democratic government to deal with fundamental development problems. What happens in Ecuador and other key countries, particularly regarding their capacity to deal with widespread poverty problems, may well shape the evolution of democratic governments in the LAC region in the 1980s.

This past July, President Roldós made a seven-nation trip, declaring his support for human rights, democracy, and socio-economic reforms directed to the poor. One stop on this trip was the United States, indicating his appreciation for U.S. support to the Ecuadorean retorno process. President elect Roldós received widespread expressions of encouragement and support from the U.S. Congress and from private sector groups. President Carter received President elect Roldós in the White House and expressed the USG's interest in continuing to cooperate with the Ecuadorean Government.

Within Ecuador, the new Roldós Government has been greeted with widespread enthusiasm. The President and Vice-President emerged from the elections with 70% of the vote and the largest electoral majority ever given to any candidates in Ecuadorean history. There has been a great deal of euphoria about a new beginning. President Roldós (39 years old) and Vice-President Hurtado (40 years old) represent the emergence throughout Ecuadorean society of a new group of young, democratically oriented technocrats strongly committed to overcoming

Ecuador's historic development problems. As President Roldós has expressed, he fully hopes that a new page in Ecuadorean history will begin in 1980 with the initiation of the GOE's new development program.

Yet Ecuadorean democracy is very weak. After years of dictatorial rule, the country is currently passing through a difficult readjustment period. Expectations, particularly among the poor, are very high. The GOE must confront these expectations at a time of significant budget deficits, declining oil exports, stagnating agricultural production, continuing drought conditions, rising inflationary pressures and growing social tensions.

Since assuming office, the GOE has concentrated its efforts on preparing a Five-Year Development Plan and complementary sector analytic documents.* Working through its National Development Council (CONADE), headed by Vice-President Hurtado, the new Administration has translated its broad campaign promises (the "21 Puntos Programáticos") into a detailed Development Plan that lays out for 1980-84 an ambitious effort of social and economic reforms. The Plan gives high priority to expanding programs that meet the basic human needs of the 60 percent of Ecuadorean population that is poor and that has been left out of the country's economic growth process.

The GOE's new Development Plan represents a significant commitment to programs that closely parallel AID's emphasis on assisting efforts that provide for the basic human needs of the poor majority. However, to effectively implement its plan, the GOE must overcome serious institutional, technological and human resource constraints that have been major obstacles to expanding the delivery of

* The GOE's new Plan underwent extensive review by the entire Roldós cabinet during a three-day retreat in December. Public debate of the Plan is scheduled for January-February, and it should then be finalized by March.

resources to the poor. Should these limitations frustrate the objectives of the proposed Plan, major questions could be raised in Ecuador about the ability of democratic regimes to undertake fundamental development programs. For these reasons, the U.S. has a strong interest in cooperating with the Roldós Government in translating its socio-economic policies into projects that address Ecuador's most important development problems.

The program proposed in this CDSS will demonstrate U.S. support for democracy and express the U.S. commitment to help the poor and disadvantaged of Ecuador. It will contribute to filling the gap between Ecuador's strong commitment to the poor and its weak institutional and technological capacity for dealing with the country's major poverty problems.

PART I: ANALYSIS

A. ANALYTICAL DESCRIPTION OF THE POOR

The extent of poverty in Ecuador is not immediately apparent from aggregate economic and social indicators, some of which show significant improvements in recent years. Real GDP, for example, grew at a cumulative annual rate of 8.5% between 1970 and 1978, while per capita income in 1978 prices rose from \$593 to \$910 or from \$233 to \$347 in 1970 prices.^{1/} Life expectancy at birth increased from 51 years in 1960 to 62 in 1976; infant mortality declined from 100 per 1000 in 1960 to 57 in 1977; and child mortality (ages 1-5) fell from 22 per 1000 in 1960 to 15 in 1975. Enrollees in primary education as a percent of the 6-11 age group increased from 83 in 1960 to 96 in 1976, and the adult literacy rate rose from 56% in 1950 to 79% in 1979. Electric power served 46% of the population in 1976, compared with only 33% in 1972.

Despite this economic and social progress Ecuador remains a poor country. Its per capita GNP is similar to that of Perú, Guatemala and the Dominican Republic. Only in Guyana and Bolivia, among the South American countries, is the figure significantly lower. The infant mortality rate of 57 per 1000 is above that of other countries at a similar level of development (e.g., 46 in Nicaragua and 43 in the Dominican Republic). The nutritional intake of the population is low, with average deficits of 43% in protein and 14% in calories. About 40% of pre-school age children are malnourished. The 1974 housing census found that 415,000 housing units, or 33% of those that were occupied, were in need of replacement and an additional 360,000 (29%) needed improvements.

Ecuador's income is one of the most unequally distributed in the world. Indeed, the share of its top 20% of income recipients was the highest among 66

^{1/} Source of 1978 PCI figure: 1979 World Bank Atlas.

countries included in a recent World Bank (WB) compilation. WB, IDB, and USAID/Ecuador studies show that about 60% of Ecuador's population lives in poverty, as explained below.

There are also significant rural-urban disparities. Per capita income in 1975 (in 1979 prices) was \$1,435 in urban areas but only \$361 in the countryside. There are only three physicians per 10,000 rural people, compared with 9 per 10,000 nationwide. Adult illiteracy is four times higher in rural areas (34%) than in urban areas (8%). Of every 1,000 students who enter first grade in rural public schools, only 272 complete the sixth, compared with 611 in urban areas. Electricity reaches 84.3% of urban dwellings but only 11.6% of rural dwellings. Whereas 72.8% of urban dwellings have a toilet and 11.2% more have a latrine, 86.8% of rural dwellings have neither. Even so, significant poverty is found in urban areas as well. Indeed, the slums and squatter settlements of Guayaquil are well known as among the worst in Latin America.

In addition to urban-rural poverty distinctions, there are major geographic differences. Two provinces, Guayas on the Coast and Pichincha in the Sierra, have 39% of the population but approximately 50% of the GDP, 79% of the jobs, 79% of the value of manufacturing output, and 76% of bank credit. Yet even these provinces have significant urban and rural poverty. For example, 2 of the 4 poorest Coastal cantones (counties) are in Guayas.

Finally, social, cultural, and racial considerations also have a bearing on poverty in Ecuador.

1. Rural Poverty

Despite rapid urbanization, Ecuador's population is still predominantly rural. In 1979 the rural population was estimated at 4,591,000 or 57% of the country's total of 8,077,000. The figures cited above make it clear that po-

verty is more widespread in rural areas than in the cities.

Of the estimated 860,000 rural households in 1979, some 75% are farm families owning land or working it under some sort of permanent arrangement. The 1974 agricultural census shows that 28% of farm families have less than one hectare of land and 39% have only 1-5 hectares. Thus 67% of these families occupy only 7% of the land in farms. At the other extreme, the 6.5% of farm families with 50 hectares or more control 66% of the land in farms.

Employment data show that 63% of rural labor force are minifundistas; 25% are landless laborers; and the other 12% are either owners and administrators of large farms, nonagricultural employees, or professionals. The mean annual income of the rural labor force in 1974 was estimated at \$647, while the median income was only \$221.

Through 1978, 57,000 families benefited from agrarian reform programs, receiving an average of 8.4 hectares. Nevertheless, most of them have not experienced significant increases in levels of living, and in some cases there is evidence that living standards have declined. The main reasons for this are that (a) much of the redistributed land is of poor quality and (b) complementary activities such as credit, extension, and marketing services have reached very few agrarian reform beneficiaries.

Of the 345,000 farm families in 1974 with fewer than 5 hectares, 73% of them in the Sierra, all but a relatively few who grow high-value crops or who have substantial outside income are members of the target group. Many of the 96,000 families with 5-20 hectares should also be included, since their land is of poor quality, they lack access to markets, or they have few opportunities for off-farm employment. In summary, at least 350,000 farm families with less

than 20 hectares or about 1,870,000 persons, can be considered to have been living in poverty in 1974. The USAID estimates that the 1979 figure is 2,050,000.

In addition, the target group includes the non-farm poor, particularly landless agricultural workers, of whom there were approximately 300,000 in 1974 (and perhaps 330,000 in 1979). Some of these are sons of minifundistas who migrate seasonally to the Coast to work on the large cash-crop farms; they are included in the target population calculated above. Others are from families with no land of their own who have permanent or seasonal jobs on large farms or in other rural enterprises; almost all these workers, and members of their families, should be added to the target population. With a few notable exceptions, agricultural laborers receive low wages (\$3 per day on the Coast, considerably less in the Sierra) and are exploited. The World Bank estimated that 65% of the rural population was living in poverty in 1975, and the USAID sees no evidence that the figure is now lower. This would mean that the total rural target population in 1979 was around 3 million.

2. Urban Poverty

In 1975, 55.3% of the urban labor force, some 491,500 workers, did not earn enough income to cover the cost of a basic family basket of goods and services, calculated by the National Statistics and Census Institute (INEC) to be \$199 per month in 1978 or \$139 in 1975 prices. This is equivalent to \$1,668 annually, or \$307 per household member. The CDSS uses this figure as the urban poverty line. Some 213,600 workers, 21.3% of the urban labor force, fell far below the poverty line, earning \$55 or less per month. From these data it is difficult to determine exactly how many households fall below the poverty levels. With an average of some 1.6 household members in the work force, some households will earn enough to cover their basic needs, even though no one person's

income reaches the poverty line. A reasonable estimate, based on income distribution data, is that 230,000 urban households (47% of the total), or 1,250,000 persons, do not earn enough to meet minimum basic needs. Some 145,000 of those households, with 788,000 persons, earn grossly below that level and are in a state of extreme poverty.

3. Geographic Location of Poverty

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

To identify the geographic areas with the greatest concentrations of rural poverty, USAID has developed a comprehensive level-of-living index, based on 8 indicators (income, incidence of minifundia, mortality, education, and basic services) to rank the 94 counties in the Sierra and Coast. According to this analysis, the 13 poorest counties are located in the Sierra, 8 of them in the southern half. Of the 35 poorest counties, 25 are located in the Sierra, with the greatest numbers in Azuay (6), Chimborazo (5), and Cotopaxi (4). Two of the three poorest are in Chimborazo. Of the 10 poorest counties in the Coast, 4 are in Guayas Province north and west of Guayaquil, and 4 are in the southern half of Manabí Province.

There is also severe poverty in the Oriente. Among the poorest people in Ecuador are 80,000 primitive Indians who are prime candidates for cultural or

even physical extinction as colonization progresses in this part of the country.

4. Social, Cultural, and Racial Distinctions

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

Women constitute an even larger group who face barriers to socio-economic mobility. The participation of women in the rural labor force is in fact much greater than indicated by the 1974 census data, which show only 9% of women 12 years of age and older to be in the economically active population. The USAID has scheduled a study for early CY 1980 to provide a clearer picture of the socio-economic status of Ecuadorean women.

B. THE CAUSES OF POVERTY

USAID has observed seven basic, interrelated causes of the persistence of widespread poverty in Ecuador:

1. The highly skewed distribution of production resources and income. The most significant example of maldistribution of productive resources is land. The smallest 78% of the landholders hold only 12% of the land in farms, while the largest 2% control 48%. This pattern, particularly in the Sierra, is a result of centuries-old social relationships under which campesinos were virtually the property of hacienda owners, creating a life-time of forced de-

pendency. Though such relationships have been formally terminated by law, similar dependency relationships persist because most farmers must seek wage employment to supplement the meager incomes from their own small parcels. Many farmers who once were virtual serfs now work as day laborers for the same large landowners. Both the urban and rural poor lack the opportunities, education, skills, credit and other resources to facilitate their mobility.

2. Job availability and employment creation. While open unemployment is not a serious problem in Ecuador (affecting 5% of the urban labor force and just over 2% of the rural labor force), underemployment is widespread, as in other developing countries; though, it is difficult to measure. An ILO estimate for 1974, showing that 33-40% of available agricultural labor time was unutilized, underestimates labor time devoted to farm and off-farm activities and thus exaggerates underemployment as defined in this manner. But if underemployment is defined in terms of low-productivity jobs that provide insufficient income to meet basic needs, the ILO estimate that the 50-60% of labor force that was in this category can be regarded as realistic.*

3. Sociological and cultural constraints. Ecuador's traditional values impose serious constraints to the social and economic mobility of various disadvantaged groups. The patrón-peón relationship, which keeps campesinos in a position of dependency to a large landholder, was discussed above. The same paternalistic attitudes permeate all aspects of rich-poor relationships. Racial and social prejudices against Indians and Blacks bar these groups from easy mobility.

A further obstacle is faced by women, as separate male and female roles are well defined in Ecuadorean society. This problem is particularly acute for the large number of female heads of household in urban slums and squatter settlements who are seeking productive employment. In rural areas, men are considered

* The GOE's new Development Plan also estimates an underemployment rate in the range of 40-60% of the labor force.

the clear authorities in all matters pertaining to the home and community. But in reality women are often the key decision-makers for the household's economic activities, including planting and marketing. Social and cultural factors have prevented rural women from being adequately trained to carry out this de facto role effectively.

4. Macro-economic policies. Ecuador has followed macroeconomic development policies designed primarily to achieve high growth rates. Rhetoric notwithstanding, these policies have previously not focused on job creation, reaching the poor and reducing income disparities. Both import substitution and export promotion policies have stimulated capital-intensive technology at the expense of investments which could have created more jobs. These policies have tended to increase the concentration of assets, productive resources, and income, and have benefited mostly the upper- and middle-income groups.

5. Resource allocation policies. Ecuador has not allotted significant resources for immediate and direct benefit to the neediest, particularly in rural areas. Instead, it has previously emphasized capital-intensive industries, defense, and infrastructure (particularly roads and hydroelectric power). The heavily subsidized price of domestic petroleum products benefits middle- and upper-income groups much more than the poor. Even within basic needs sectors, public investments have often not benefited the most needy. In education, where public spending has increased rapidly since 1960, the budget has been heavily skewed in favor of the universities. Price controls on basic food items have discouraged domestic production and benefited urban dwellers of all income levels, at the expense of the rural poor.

6. Lack of Participation. Despite some GOE and non-GOE efforts to organize the poor, the poorer segments of the population remain largely unorganized and power-

less. They are often illiterate, inarticulate, and ignorant about the processes and vehicles they could use to influence public policy and to obtain services and resources which might affect their socio-economic situation.

When the government has attempted to mobilize the poor, the highly paternalistic nature of these efforts (e.g., IERAC's activities in cooperative formation among agrarian-reform beneficiaries) has often doomed them to failure.

7. Unchecked population growth. The high rate of population growth (3.4%) and absence of a clear national population policy have aggravated the poverty problems caused by the other six factors described above.

C. PROGRESS AND COMMITMENT

Ecuador's progress and commitment to meeting the development needs of the poor has been determined partly by the country's power structure--both political and economic. Political power has usually been held by weak central governments which have been subject to intense pressures from individuals or groups in which power is concentrated, such as the Chambers of Agriculture, Commerce and Industry, the Association of Private Banks, urban-oriented labor unions and middle-class student groups. The pressures that those influential groups exert on government policies often represent formidable obstacles to meaningful programs that assist the poor and increase their participation in the decision-making process. In the past, such pressures have reduced the impact of programs such as agrarian reform, cooperative promotion and agricultural price increases that could favor the rural poor.

However, it would not be correct to attribute Ecuador's inability to reach its neediest citizens to a "conspiracy" of the upper and middle classes against the poor. Ecuador is a very pluralistic society and there are many progressive groups in both the public and private sectors who are actively promoting more

aggressive development programs that serve the poor. In a number of cases, previous AID assistance encouraged and supported the emergence of many of these groups. Yet their efforts are often frustrated by Ecuador's poor human resources and weak management systems, and technological and financial constraints. Despite the present Government's strong commitment to social change, there remains a serious gap between its commitment to the poor and its weak institutional and technological capacity for dealing with the country's major poverty problems.

Notwithstanding the historical legacy of negative pressures by powerful groups, lack of participation by the poor, the largely topdown approach to development, and institutional/technological weaknesses, there are some encouraging signs and indications of increased concern for the plight of the poor. There is emerging throughout Ecuadorean society a new group of young, democratically oriented technocrats who are strongly committed to overcoming Ecuador's historic development problems.* The new Constitution that became effective August 1979, for example, is heavily oriented toward social equity and popular participation in the development process. Of major significance, it gives illiterates the

* For example, at 40 years of age, Vice-President Hurtado (who will head CONADE), is one of Ecuador's leading development writers and theorists. All of his writings deal extensively with "marginalidad"--the Ecuadorean term for the problems of the rural and urban poor. His three books, Dos Mundos Superpuestos? Ensayo de Diagnóstico de la Realidad Ecuatoriana (1969), La Organización Popular en el Ecuador (1974), and El Poder Político (1978) are the classic works on Ecuadorean development. These books analyze Ecuador's dual economy, describe the importance of popular organizations (e.g., cooperatives, comunas) for Ecuadorean social and political development, and trace the history of Ecuador's economic development. The concepts and analyses contained in these books are emerging in the new planning documents of the GOE.

right to vote for the first time in Ecuadorean history. Among its socio-economic goals are to:

1. Provide an improved standard of living and equal rights and opportunities.
2. Achieve a more equitable distribution of income and national wealth.
3. Attain better utilization and equitable distribution of land.
4. Increase agricultural production.
5. Reduce illiteracy, by mandating that at least 30% of the GOE budget be allocated to education.
6. Improve the health standards of the population.
7. Increase workers' participation in ownership of private enterprises.
8. Increase local participation in the national development process.

There are encouraging signs that Ecuador's new leaders are determined to honor the Constitution and their own campaign promises of social justice. For example:

1. Projects to provide low-cost housing and other social services to poor residents in Guayaquil and Quito are now in an advanced stage of negotiation.
2. A law is under discussion to facilitate access of the poor to long-term credit (30 years) for low-cost housing.
3. The 1980-84 Development Plan represents a significant commitment to rural development and to a decentralization program that can make secondary cities into more effective rural growth and service centers.
4. A new Integrated Rural Development mechanism and a Rural Training System are being created to concentrate on the needs of small farmers and other poor people in rural areas.
5. The National Planning Board (JUNAPLA) is being replaced by a National Development Council (CONADE), headed by the Vice-President, which is to rationalize the allocation of resources and to assure that these are directed toward the largest number of poor people, both urban and rural, in an effective and integrated manner.
6. Plans are being made for a renewed agrarian reform effort, based on a truly integrated approach that deals not only with access to land but also with needs in education, health, access roads, and agricultural production inputs.
7. The public administration system is to be reorganized to deal more effectively with the needs of the poor, especially in rural areas, by decentralizing

those functions which are subject to better administration and implementation at the local level,

8. A program is underway to make primary education more relevant to the needs of the poor through new programs in rural education, vocational and non-formal education, and literacy training.

D. MACRO-ECONOMIC PERFORMANCE AND PROSPECTS

Between 1970 and 1978, Ecuador's GDP increased annually by 8.5% (4.9% per capita), largely because of the initiation of petroleum exports in 1972. In 1979, however, GDP growth slowed to 5%, and most observers believe that during the 1980-84 period covered by the new development plan, it will not be able to grow much faster than this. The Plan itself calls for a 6% rate of growth.

The realism of the 6.0% growth rate is difficult to assess, mainly because of uncertainties regarding trends in the petroleum sector. There is much talk of Ecuador becoming a net petroleum importer by 1985, as domestic consumption catches up with stagnant or declining production; but the Plan is equivocal on this matter. The projected rate of growth of domestic petroleum consumption, 11.9%, seems high in view of the slowdown in economic growth, particularly if domestic prices of petroleum products are increased and other measures taken to conserve energy. Moreover, the Plan takes into account recent (and projects modest future) increases in petroleum export prices. On the other hand, projected growth rates of other exports are optimistic, and the planned import growth rate of only 2.4% seems untenably low, especially since inflationary pressures are likely to be generated by the recent wage increases and proposed public sector spending in 1980 (see below). There is also some reason to be concerned about Ecuador's external borrowing capacity, though the external debt outstanding is probably closer to \$3.7 billion than the \$4.0 billion widely reported.

In summary, the macroeconomic situation is uncertain, as the GOE does not seem to have analyzed the impact of recent increases in wages and petroleum export prices,

and there are mixed signals regarding future petroleum production and consumption.

E. GOVERNMENT OF ECUADOR (GOE) PLANS AND BUDGET

After nine years of dictatorial rule, a democratically-elected government assumed power on August 10, 1979. Simultaneously, a new Constitution, freely chosen by the people of Ecuador in a referendum, became effective.

As mentioned earlier, the new Constitution calls for a development approach based on "growth with equity," on efficiency and social justice. This principle is the basis for the new Government's development philosophy, as outlined in President Roldós' "21 Programming Guidelines." These guidelines call for ambitious social and economic reforms and a substantial expansion in programs designed to meet the basic human needs of the 60% of the Ecuadorean population that is poor.

The "21 Programming Guidelines" have been translated into more specific development plans and programs through sector analyses and strategy statements. These have been aggregated into a detailed national development plan. Drafts of an overall development strategy statement and some of the sector documents have been made available for comments. These will be revised and released in early 1980 as the GOE's new national development plan.

The preliminary statement and sector documents, and USAID discussions throughout the executive branch of the GOE, reveal a widespread consensus on many of the proposed actions, and the general strategy and organizational approach in many of the key sectors is now clear. Of particular significance for the new AID program are the following:

1. A substantial commitment to building a more viable rural sector to stimulate increased exports, domestic foodstuffs, revenues, and employment to offset the effects of declining petroleum exports.
2. A decentralization program aimed at developing selected secondary cities into improved rural growth and service centers.

3. Special efforts to develop new institutional systems for planning, coordinating, funding, and implementing integrated rural and urban development programs. These programs will include a package of productive resources and social services to the poor in specific geographic areas, to be selected by the GOE upon completion of geographic analyses now underway.
4. A new Rural Training Institute to train the rural poor in areas relevant to their environment and needs.
5. The public administration system is planned to be reformed and strengthened (through training, incentives, and other means) to make it more responsive and effective in pursuing the socio-economic goals of the new GOE development plan.
6. Efforts to develop non-conventional energy resources have been initiated and will be intensified.

The centerpiece of GOE planning will be the National Development Council (CONADE), mandated in the Constitution to replace the National Planning Board (JUNAPLA). CONADE will be headed by the Vice-President, an organizational arrangement intended to provide the political support and power CONADE needs to perform adequately its development coordination and resource allocation functions, described below.

It is anticipated that a series of Funds for financing integrated rural and urban development projects will be directly administered by CONADE. A Rural Development Secretariat within CONADE will administer an Integrated Rural Development (IRD) Fund and will facilitate, promote, and coordinate all rural development and agricultural projects. Implementation, however, will be through existing ministries and autonomous agencies. A similar mechanism is likewise planned to address urban poverty. These new mechanisms reflect a major GOE commitment to development and strengthening institutions that can better reach the poor.

The preliminary (pro-forma) GOE budget for CY 1980 reflects the new Government's planning and programming priorities. Social development activities have been increased substantially as compared to the pro-forma budget for CY 1979.

For example, the education budget is 37% higher; labor and social welfare allocations are 30% higher. Allocations for industrial development and natural resources are also sharply higher (43% and 51%, respectively), but their combined share of the budget is only 2%. (The Congress and the President have just approved a 45.0 billion Sucre budget for 1980, but a sectoral budget breakdown is not available yet.)

Total debt servicing for CY 1980 is 61% higher than in CY 1979 and now represents 18.0 of the approved budget. Still, World Bank projections show that Ecuador will remain creditworthy.

F. ABSORPTIVE CAPACITY

As in other developing countries, two major constraints limit Ecuador's capacity to effectively utilize external assistance and carry out development programs: (1) the lack of sufficient trained and experienced public sector personnel and institutional weaknesses; and (2) the scarcity of financial resources.

1. Human Resources and Institutional Constraints. The key GOE agencies charged with the socio-economic development of the country are weak and do not have enough trained, experienced personnel with the planning, managerial, and technical skills to effectively plan and carry out appropriate development activities. Planning and management weaknesses are especially note-worthy, and these hinder the GOE's ability to (1) establish clear, consistent, national priorities to guide planners, program developers, and implementors; (2) coordinate inter-sector and intra-sectoral activities, to prevent duplication and conflict; and (3) rationally utilize and allocate human and financial resources.

Since the projects which USAID proposes for addressing the basic needs of the poor will be more administration-intensive and more difficult to implement than physical infrastructure projects, the human resources constraint may be the

most critical bottleneck faced by the USAID program. To alleviate it, the USAID will not only provide TA and training, but also will make a special effort to carefully analyze institutional and human resources limitations.

2. Financial Resources Constraint. The pro-forma preliminary budget for CY 1980 calls for a 38% increase in central government expenditures. An increase of this magnitude is deemed necessary to cover an expected rate of inflation of 15-20%, significantly higher debt service obligations, and the initiation and expansion of programs benefiting the poor. Current revenues are projected to increase by only 19%, though this figure may be conservative in view of the recent increase in the price of Ecuador's petroleum exports. Still, since economic growth is estimated by the USAID to be only 4.9% in 1980, and the volume of petroleum exports may decline, revenues should still fall well short of planned expenditures. This presents the GOE with a special challenge as it allocates its limited resources among many competing demands.

In late 1979 the Central Bank had estimated that the projected increases in public sector expenditures, and the additional resources required to meet new minimum wages, would result in a budget deficit in 1980 of \$494 million. Although this figure now seems too high, since the recent increase in petroleum prices will add perhaps \$200 million to GOE revenues, the deficit will still be substantial. One way to lower it would be to eliminate or greatly reduce the subsidy for domestically consumed gasoline. To date, the government has been cautious in moving to take the unpopular step of increasing gasoline prices, a measure that would improve the budgetary picture and rationalize energy consumption, but also may increase social tensions. The World Bank has strongly urged action along these lines, and there are encouraging signs that the GOE will soon implement its announced intention to do so.

Even with this improvement in the budgetary picture, however, there is a danger that new social development and institutional development programs will be sacrificed to hold the budget deficit to manageable levels. The USAID believes that the assistance program proposed in this CDSS can contribute to encourage the GOE to retain its plans to shift more resources to activities directly benefiting the poor.

G. OTHER DONOR ACTIVITIES AND OTHER RESOURCE TRANSFERS

Very little is being done through other donor activities, private capital flows, and trade flows to deal with the institutional, financial, technological, and socio-cultural constraints which affect the urban and rural poor. Rather, these sources of foreign exchange concentrate on resource transfers, and with few exceptions they do not focus directly on the needs of the poor.

The USAID strategy proposed in this CDSS is intended to cover the most important aspects of this gap by assisting the new democratic government in developing and strengthening viable institutions, systems, and mechanisms for effectively attacking the critical poverty situation described above. In the past, USG bilateral development projects have supported some of the most significant institution-building efforts in Ecuador. A large number of Ecuadorean development institutions* were initiated with modest USG development loans and/

* For example, to name only a few: the Central Bank, the Agricultural Research Institute (INIAP), the Agricultural Extension Service, two Industrial Development Banks (COFIEC, CFN), the Ecuadorean Housing Bank (BEV), the Savings and Loan system, the Cooperative Bank, Federations for Credit Unions (FECOAC) and Agricultural Cooperatives (FECOPAM), the National Water and Sewer Company (IEOS), the Malaria Eradication Service (SNEM), the Industrial Research Center (CENDES), the Ministry of Education's School Construction Unit, (DECE), an Educational Credit and Scholarship Institute, a Center for Motivation Training (CEMA), rural electric cooperatives, University Schools of Public Administration and Nursing, 4-F Club Foundation (like 4-H Clubs in U.S.), the first regional development agency (CREA), a Central Bank Rediscount and Guaranty Facility (Fondos Financieros), the Medical Center for Family Planning Orientation (CEMOPLAF), the Center of Promotion of Responsible Parenthood (CEPAR). No other international development agency has a similar track-record in Ecuador.

or technical assistance grants. Many of these institutions are now being used by other donors to channel their larger resources into Ecuador. In the 1980s the program proposed herein aims to fill the institution-building technology transfer gap that has not been met by other donor agencies and thereby to increase Ecuadorean capacity to channel increased resources to the poor.

The following paragraphs summarize other donor activities and other resource flows and demonstrate that they pay insufficient attention to institution-building and poverty concerns--much needed activities which AID is better equipped to support than any other external sources.

1. IDB Assistance

The IDB is by far the largest individual lender in Ecuador. As of September, 1979, IDB lending to Ecuador totalled \$594.6 million. Most of these funds have financed physical infrastructure projects in potable water and sewerage systems, irrigation, electrification, fisheries, agriculture and livestock development, and health. New and projected IDB loans, including that for the recently approved \$165.0 million Daule-Peripa Project, seem to continue the physical infrastructure orientation. The USAID understands that the IDB is considering new loans for hydro-electric facilities, rural electrification, a cement plant, rural roads, and sites and services in Guayaquil.

2. World Bank Assistance

The IBRD and IDA have extended 29 loans to Ecuador, totalling US\$334.7 million. The International Finance Corporation (IFC) has made eight loans and investment commitments in Ecuador totalling \$22.4 million. IBRD and IDA lending in Ecuador was originally concentrated in transport and power, with transport alone accounting for 34% of Bank Group lending to date. Other loans have supported increased agricultural and livestock production, fisheries, industrial development, education, and water supplies. The latest IBRD loan to Ecuador is

\$31.0 million for an integrated urban development project in Guayaquil. Future Bank lending will continue to assist in the creation of a physical and social infrastructure base to foster development, the expansion of productive capacity in crucial sectors, urban development projects, and petroleum development.

3. UN Assistance

The UNDP coordinates most of the assistance provided to Ecuador by the various UN agencies--UNDP, FAO, UNESCO, WHO, and WFP. Most UN activities are small projects emphasizing technical assistance and training. The UN's indicative planning figure for the period 1978-1982 is \$15.0 million, which the GOE has requested the UNDP to allocate as follows: agriculture (26.7%), industry and artisanry (14.0%), education and training (17.0%), science and technology (4.7%), rural development (11.0%), development planning (15.3%), and other consultants and contingency (11.3%).

4. OAS Assistance

Assistance provided by the OAS amounts to approximately \$1.0 million per year. It covers numerous training and technical assistance activities but it is not based on any clearly defined development strategy.

5. Other Bilateral Sources

Information available for the period 1969-1979 indicates that a total of 14 loans amounting to \$113 million were extended to Ecuador from other bilateral sources. Japan's electrification loan for \$55.0 million represents about 50% of this total. West Germany has provided \$41.0 million, mostly for the metal transforming industry. The major providers of training and technical assistance, in order of importance, are the United Kingdom, Switzerland, France, Germany, Israel, Japan, and Italy. This assistance is concentrated in agricultural research and industrial development. The U.S. Peace Corps is providing 200 vo-

lunteers at a cost of around \$2.0 million a year. Primarily volunteers are involved in various aspects of rural development (e.g., agriculture, forestry, health, etc.) and in special education.

6. Private Loans

The GOE's outstanding external commercial debt totals \$3.7 billion, of which about 70% is from U.S. sources. These loans have financed mainly budget deficits and large infrastructure projects.

7. Direct Private Investment

Cumulative foreign investment through 1978 amounted to \$840.0 million, of which 62% was from the U.S. The sectoral distribution of these investments is as follows: manufacturing, 64.3%; financial institutions and real estate, 22.4%; agriculture, forestry and fisheries, 5.7%; and trade and tourism, 5.0%. No OPIC Investment Guaranty Agreements have been signed since 1970.

8. Foreign Trade and Other Mechanisms

Export earnings have increased sharply since 1972, due largely to the initiation of petroleum exports and to increased revenues from the sale of commercial crops grown mainly by large farmers. This has permitted a rapid expansion of imports of raw materials, intermediate goods, and capital goods by local manufacturing firms, as well as increased imports of consumer goods by middle and upper income groups. Few of these imports have directly benefited the poor.

The ultimate beneficiaries of the resource transfers just described have been mainly the upper 40% of Ecuador's income recipients. It is also evident that the emphasis has been on macroeconomic growth and not on social development. Electrification, primary roads, large manufacturing industries, fisheries, exports, imports, and petroleum production are activities that have provided few direct benefits to the poor majority of Ecuadoreans.

PART II: USAID STRATEGY

INTRODUCTION

After a seven-year phase-out process, the AID program is being renewed to support the socio-economic aspirations of Ecuador's new democratic government, which assumed power August 10, 1979. A continuous, frank dialogue with the new leaders has been initiated. The USAID is consciously pursuing a collaborative style, carefully crafted not to threaten the sense of national self-assertion so deeply desired by the new leaders and to create a working relationship that can overcome past misunderstandings. The Ambassador and USAID officials have (1) ratified the USG willingness to cooperate closely with the new GOE in translating its highly commendable growth-with-equity goals into concrete action programs; and (2) apprised the new leaders of AID's mandate, and its potential for cooperating with them in building and strengthening institutional structures, transferring technologies and filling gaps not now covered by the IDB, IBRD, and other large resource-transfer agencies and mechanisms.

The GOE, based on its understanding of the distinct strengths of the USAID and other donors, and acting through CONADE, has selected four areas for initial USAID cooperation in support of its highest development priorities:

- (1) The multiple problems of the rural and urban poor, through integrated rural and urban development programs;
- (2) Ecuador's severe deforestation and environmental problems;
- (3) The energy shortages the country may face by the mid-1980s as oil consumption threatens to exceed production; and
- (4) The major constraints in the government's public administration system which impede the development and implementation of its socio-economic policies and programs.

Although not specifically listed as a GOE priority, the USAID will also increase its support for population programs (a) as part of the integrated develop-

ment programs discussed below; and (b) separately through multilateral organizations, local and U.S. Private Voluntary Organizations (PVOs), and the private sector, as explained under the population strategy.

The assistance program envisioned in these areas cannot attempt to eliminate poverty in Ecuador or address all of the poverty problems discussed in Part I of this CDSS. The needs are too great for the limited resources which are expected to be available. Nevertheless, the AID program can make a vital contribution toward attacking the causes of poverty by: (1) encouraging changes in policies through provision of highly skilled advisors to help Ecuadorean institutions think through complex policy questions, (2) supporting the emergence of new institutional and planning mechanisms, and new delivery systems that increase Ecuador's capacity for meeting the needs of its poor, (3) assisting with the development of new technologies and approaches for dealing with Ecuadorean poverty problems, and (4) strengthening the progressive elements in the public and private sectors so that they can better address the specific constraints listed under the sectoral strategies.

The role that the USAID proposes to play during the CDSS period is that of collaborator with the GOE in pioneering new approaches to key Ecuadorean development problems. U.S. economic and technical cooperation will seek to transfer ideas and technical knowledge, to support new approaches and progressive forces, and assist the GOE fill institutional, planning and technological vacuums.

AID's modest projects--integrating research, training, technical assistance, institution-building, management systems, community organization and modest capital inputs--together with matching local contributions, will aim to create the absorptive capacity that Ecuador needs to better deal with its critical poverty problem. As in the past, the AID program will assist in providing the "venture capital" for pioneering new development approaches and testing

new technologies that often cannot be done with other funding resources.

(Table 1 shows the degree of impact the strategy can have on the causes of poverty. Table 2 shows the expected degree of influence that it will have on the sectoral constraints.)

The overall AID strategy proposed herein is not based on a resource transfer rationale. Nevertheless, a critical amount of resources is essential to provide a creditable response and to attain the ultimate goal of the USAID strategy--to find appropriate policies and delivery systems that will enable the GOE, following termination of AID support, to overcome the constraints faced by the Ecuadorean poor. The proposed AID strategy seeks to attain the following targets in GOE priority areas:

- (1) Develop innovative, low-cost delivery systems for basic services, and strengthen and/or create implementing institutions, to facilitate an effective attack on the poverty problems described in Part I;
- (2) Influence key GOE institutions, especially CONADE and the operating agencies, to develop new policies addressing poverty problems and to allocate more resources to programs directly benefiting the poor;
- (3) Help the GOE to deal with the energy shortage anticipated by 1985;
- (4) Improve the ability of GOE administrators to efficiently manage and utilize public resources for programs benefiting the poor;
- (5) Establish a system to combat on a sustained basis the serious deforestation and other environmental problems which affect not only the poor but also the country's long-term economic growth prospects; and
- (6) Develop appropriate policies and a low-cost family planning delivery system, as an integrated component of related basic service delivery systems, to help lower the population growth rate.

The major focus of the USAID strategy will be on integrated rural and urban development programs that benefit the poorer segments of the Ecuadorean population, initially in carefully selected geographic areas and; once these programs are tested, on a national basis with GOE and other donor funding. The other programs for which the GOE has requested USAID cooperation have both national

and area-specific focuses right at the outset. But to the maximum extent possible, all USAID-supported activities will be integrated with each other within specific target areas selected by CONADE and the operating agencies.

A major information gap that the USAID will soon address concerns the socio-economic situation of women in Ecuador. A study has been scheduled for early CY 1980 to define precisely their role in Ecuadorean society, clarify their situation, and recommend specific ways to increase their participation in the development process: Appropriate mechanisms will then be designed and incorporated into the specific projects proposed in this CDSS.

Achievement of the targets identified above depends on four important assumptions: (1) that the new GOE will be able to overcome the traditional political travail that has afflicted the country in previous democratic periods; (2) that the new leaders in the legislative and executive bodies will work together to achieve the objectives set forth in the 21 Programming Guidelines and the new Development Plan; (3) that Ecuador's economy will grow at an acceptable rate during the next five years; (4) that the new GOE will actually allocate resources in accordance with its stated development priorities; and (5) that AID will continue to operate in Ecuador on a continuous basis during this CDSS period.

TABLE 2

SUMMARY OF OVERALL STRATEGY AND PROGRAM IMPACT ON MAJOR CONSTRAINTS 1/

Major Program Elements	Human Resources			Financial Resources			Institutional			Technological			Policy			Socio-Cultural			Production/Productivity				
	H	M	L	H	M	L	H	M	L	H	M	L	H	M	L	H	M	L	H	M	L		
A. Integrated Rural Development System - Rural Technology Transfer (Title XII) - Agricultural Development - Agro-Industries - Rural Jobs - Environment, Forestry, Natural Resources - Health, Nutrition, Environmental Sanitation - Non-formal and Vocational Education	X																						
		X		X			X			X			X			X				X			
		X		X			X			X			X			X				X			
		X		X			X			X			X			X				X			
B. Population/Family Planning		X																					
C. Integrated Urban Development System - Shelter Solutions - Social Services - Employment Creation			X																				
			X																				
			X																				
D. Development Administration - Public Sector Training System - Training	X																						
	X																						
E. Non-Conventional Energy		X																					

1/ H = High, M = Medium, L = Low

A. INTEGRATED RURAL DEVELOPMENT

The problems of the rural poor are multiple and interrelated, and the GOE has decided to address them through an integrated rural development (IRD) strategy that combines growth and equity objectives. This strategy will recognize the fact that most of the rural poor are not so much "small farmers" as they are multiple jobholders whose opportunities lie not just in agriculture but also in other economic activities. A focus on these other activities, and on their interrelationships with agriculture, is essential for achieving the GOE's objective of providing a more equitable geographic distribution of the benefits of economic growth.

The USAID will support these GOE objectives through a package of activities designed to develop, test, and establish low-cost delivery systems. These systems are expected to strengthen national institutions; provide basic services and inputs to the neediest groups in rural areas; strengthen community-level institutions so that the rural poor can better contribute to the solution of their own problems; address natural resource and environmental problems that affect Ecuador's long-term development prospects; raise rural incomes; create jobs in both agriculture and other economic activities; and provide rural residents with the education and training that will make these jobs productive. The ultimate goal of USAID support is to leave behind, upon termination of AID assistance, an institutionalized capability--both in the GOE and at the community level--to deal with rural poverty problems on a sustained and effective basis.

At the area-specific level, an IRD approach will be adopted, consisting of a series of interrelated activities in (1) rural institutional de-

velopment, agricultural production and marketing, non-agricultural production and employment, and environment/natural resources; and in (2) health, nutrition, environmental sanitation, and education. These will be complemented by activities in population, development administration, and non-conventional energy, described under separate sectoral strategies.

1. Rural institutional development, agriculture, other productive activities, and natural resources/environment

(a) Overview: The rural sector represents some 57% of Ecuador's population and over 50% of its labor force. The agricultural sector accounts for some 40% of total exports, contributes 20% of the country's GDP, and still represents the backbone of Ecuador's economy. Despite their importance to Ecuador's present and future development, agricultural and rural development have suffered through a long period of neglect. As a result, rural poverty remains intense and widespread, and Ecuador's agricultural production and employment potential is not being realized.

USDA data show that food production for the domestic market increased at an annual rate of 3.2% between 1968/70 and 1976/78. This is higher than the 2.6% figure between 1959/61 and 1968/70 but still slower than the 3.4% rate of population growth and much slower than the annual increase in the demand for food, which during the 1970s was probably close to 6%. Moreover, small farmers have not benefited as much from the recent improvement in food production as medium- and large-scale farmers. Livestock production, in which the latter dominate, has been growing about twice as rapidly as food-crop production, where small farmers are relatively more important (farmers having fewer than 10 hectares produce more than half of Ecuador's basic food crops). More-

over, medium- and large-size farmers dominate the production of bananas, coffee, and other major export crops.

The value of food and beverage imports has increased rapidly in recent years, from \$13 million in 1970 to \$118 million in 1978. Non-food agricultural imports rose from \$20 million to \$64 million during the same period. As petroleum exports decline during the 1980s, Ecuador cannot afford to let these trends continue if it wants to meet its growth and equity objectives.

Rural underemployment is high. It is estimated that the current level of agriculture production can be maintained with about 50% of the current labor force, though this would require some changes in production technology since labor shortages still occur during certain periods of the crop cycle. Underemployment in agriculture, coupled with limited rural investments, the lack of relevant education opportunities, limited non-agricultural employment opportunities in most rural areas (reflecting, in part, low incomes and thus small markets), and the lack of basic services are interrelated problems which must be attacked in a coordinated manner to significantly alleviate rural poverty.

Rural areas are also facing widespread environmental degradation and general misuse of natural resources. The GOE estimates that about half of the land used for crop production is affected by soil erosion, and in some areas desertification is underway. Ecuador's highland areas have been denuded of trees, and unsound agricultural practices are becoming a serious problem in the fragile tropical forests of the Oriente and Coast.

- (b) Major Constraints: Apart from climate and other largely uncontrollable factors, there are several closely interrelated constraints that must be overcome:
- Weak national and regional institutions which lack resources and qualified, motivated persons. Public sector functions are dispersed, and there is little coordination among institutions. Although this situation is attributable in part to the country's political culture, much of it is due to Ecuador's poor human resource base.
 - Weak base-level institutions, a function of the country's long history of feudalistic patrón-peón relationships, the fragmentation and weak leadership of the popular participation movement, and the paternalistic nature of past GOE efforts to organize cooperatives and other community organizations.
 - Lack of appropriate technologies and management systems for dealing with the problems of small farmers and other poor rural residents. Agricultural programs have tended to focus on a few selected inputs such as credit and irrigation, usually in isolation. Agricultural research does not have a small-farmer or poverty orientation, and there is little diffusion of research results. The extension service is weak and its activities are not well coordinated with other GOE services and policies. In addition, little attention has been given to developing more appropriate technologies for dealing with problems of agrarian reform, small-farmer marketing systems, more effective participation of women in production and marketing processes, and alternative employment opportunities.
 - Policies which serve as disincentives to agricultural investment, including controlled prices which favor urban consumers; ill-timed imports

of foodstuffs, which have depressing effects on prices; and heavy export duties.

- Limited access of small farmers to land and other inputs. GOE services in research, education, land reform and colonization, irrigation, marketing, and credit are limited in scope or directed mainly to medium and large-size farmers. This is attributable to scarce human and financial resources, weak institutions; an emphasis on export-oriented cash crops, and the geographical isolation of many small farmers. In addition, cultural factors, including language barriers, racial and class distinctions, and campesinos' distrust of outsiders (for good historical reasons), make small farmers particularly difficult to reach.
- The GOE has not developed a coherent policy nor the mechanisms needed to effectively address the country's severe soil erosion and other environmental problems.

(c) Proposed Response: To address the above constraints, the USAID will support a series of interrelated activities falling into two broad categories: (1) institutional development activities designed to develop and/or strengthen the linkages between national, regional and local organizations and the rural poor and (2) area-specific action programs of a demonstration nature designed to test innovative approaches to raising agricultural production, increasing agricultural and non-agricultural incomes and employment, and satisfying other basic needs such as those in education and health.

All of the USAID's proposed projects will contain elements of both of these categories. For example, the Title XII project will be preparing key development institutions to establish close linkages with other aspects of the multi-faceted, area-specific programs and to increase agricultural production.

Beginning in 1980, and continuing into the CDSS period, the USAID will support a Title XIII Technological Transfer System Project, whose objectives are:

- (1) to strengthen rural-sector institutions and their capacity to reach the rural poor through (a) effective linkages among research, extension, and education institutions; (b) training and assistance to the proposed new Rural Training Institute; and (c) improved management and delivery systems; and
- (2) to develop technologies appropriate to the needs of small farmers and the rural poor.

These efforts will be complemented with a series of interrelated, sequentially implemented loan and grant projects, each of which will focus on the same pilot geographical areas designated by the GOE. Within the IRD framework, to the extent possible, special emphasis will also be given to agricultural commodities considered strategic by the GOE because of their importance in the food basket of the poor or their export potential.

The IRD aspect of the USAID strategy will begin in FY 1980 with an Integrated Rural Development (agriculture) project which will support an interrelated package of services, including: (1) improved access to land, (2) expanded extension services utilizing local para-professionals, (3) development and dissemination of technological packages appropriate for small farmers, (4) credit, (5) improved marketing facilities, (6) self-help construction of infrastructure such as irrigation systems and access roads, and (7) community organization. Agricultural production and employment activities are being emphasized first because these are the most important for ensuring self-sustaining area development.

These activities will be followed in FY 1981 and subsequent years by complementary activities, in the same geographic areas, in environment, forestry and natural resources, health, nutrition, potable water, education and training, off-farm job creation (especially in agro-industries perhaps through the Productive Credit Guaranty Program or other mechanism), energy, education and training, and related social services for the rural poor.

2. Basic Services: Health, Nutrition, Environmental Sanitation and Education

- (a) Overview: As explained in Part I. A., the health status of the rural population is considerably worse than that of urban dwellers. Infants in rural areas face particularly great risks. CELADE calculated an infant mortality rate of 122 per 1,000 live births for rural dispersed populations during 1970-74, compared with 67 per 1,000 in large cities.

The leading causes of death--including diarrheal diseases, respiratory illnesses, measles, nutritional deficiencies, and pneumonia--are related to lack of services and to poor environmental conditions. Only 15% of the rural population has access to public water systems (but not necessarily to safe drinking water), and the same percentage has access to some form of sewage disposal.

The most serious nutritional problem is protein-calorie malnutrition, particularly in women and children. Nutritional surveys conducted during the past ten years show that 45-65% of preschool children have below-normal weight or height for their age. At least 10% of preschool children are estimated to suffer from second- and third-degree malnutrition. Marked urban-rural differences in birth-weight and growth of children during the first year of life suggests that maternal malnutrition is also a significant problem in rural areas. Despite efforts to iodize salt, iodine defi-

ciency and goiter are still major problems in the Sierra. Recent investigations found a 30% incidence of goiter in some regions.

Rural-urban disparities in education remain pronounced, despite recent progress. Adult illiteracy in rural areas is 34%, compared with only 8% in the cities. Only 66% of primary-school age children attend in rural areas, while in urban areas nearly all do. At least 70% of all rural children are estimated to drop out of school by the fourth grade, compared with 46% nationwide.

The national educational system has done little to consider the unique learning needs of the large cultural and linguistic minority groups. Within the indigenous cultures, schools are still widely viewed as alien institutions representing the values of the dominant hispanic culture. Moreover, the curriculum for all rural residents remains urban-biased and does little to promote increased productivity in agriculture and other rural occupations.

- (b) Major Constraints: Institutional, financial, and policy constraints which contribute to the serious health problems faced by the rural poor include:
- low GOE priority to preventive medicine;
 - insufficient financial resources and qualified human resources;
 - the lack of an effective low-cost health delivery system to maximize the impact of the GOE's limited resources;
 - a weak outreach capability, as auxiliary personnel are poorly trained and lack motivation and proper supervision;
 - inadequate food production and uneven distribution of food at the family, community, and national levels.

Poor health and nutrition are also related to constraints in the educational system, which likewise affect agricultural and non-agricultural

production, incomes, and employment. The Ministry of Education (MOE) has done little to develop strategies for achieving qualitative improvements in the rural educational system, e.g., by orienting curricula toward productive skills and the transfer of practical knowledge about health, nutrition, and family planning. The few rural vocational schools serve only limited needs. The neglect of the needs of the indigenous population, particularly the large numbers of Quichua-speakers in the Sierra, is a major reason why a high percentage of this population continues to live in extreme poverty.

- (c) Proposed Response: AID-supported activities in health, nutrition, environmental sanitation, and human resources development will be designed to support other activities benefiting the poor within the IRD framework. One of the ultimate goals of USAID assistance will be to develop a replicable, low-cost health delivery system that will: (1) better utilize and coordinate existing resources; (2) maximize the use of "outreach" health workers, midwives, and paramedics, to compensate for the scarcity of doctors serving rural areas; (3) integrate nutrition education, breastfeeding campaigns, demonstration gardens, production of fortified foods, family planning, and village water systems into the health delivery system; (4) develop and establish effective linkages between small communities and referral networks in secondary cities; and (5) increase the emphasis on preventive services.

Ultimately, the low-cost delivery systems to be developed are expected to be replicated on a national scale. Initially, however, they will be tested and demonstrated largely in the same limited geographic areas where AID-supported integrated rural development programs are being implemented. Indeed, they will constitute one component of these IRD programs.

USAID discussions with the new Minister of Health, who assumed office in early December, are still embryonic. Based on these preliminary contacts, the USAID plans to focus its initial assistance on three major areas:

- (1) Strengthening of the Ministry's overall health delivery system by filling the gaps not covered by other donors (IDB, PAHO, and UNFPA) financing or planning to finance major health programs. These gaps are primarily in the areas of field program supervision, information systems, logistic support, training of health field personnel, health education, and communication;
- (2) Strengthening key MOH and Ministry of Education programs in supplementary feeding and nutrition. Specifically, the USAID anticipates support for (a) GOE studies in nutrition, to more precisely determine Ecuador's nutritional status and the specific actions needed to attack the most serious nutritional deficiencies; (b) MOE/MOH activities in food fortification, including a food processing plant which is being assisted by CARE, UNDP, and the German Government; (c) the MOH food-supplement distribution program, including the "leche avena" program, currently assisted by AID, which is reaching the most vulnerable population groups among children and lactating mothers; (d) nutrition surveillance activities; and (e) health and nutrition education;
- (3) Potable water and environmental sanitation activities at the community level, based to the maximum extent possible on community participation and local resources.

In all activities it supports, the USAID will seek to maximize the MOH's capability to utilize human and other resources available at the community level. USAID-financed inputs such as hand water pumps, materials for latrine construction, food-production supplies, and modest financing for community-based health and family planning projects will be used to mobilize community resources, all as part of efforts to strengthen health delivery systems and to contribute to the objectives of integrated rural development programs. USAID efforts will include support for GOE family planning efforts as an integral element of health delivery system and IRD programs.

Assistance in the above areas will be initiated with a Health, Nutrition and Potable Water loan/grant project in FY 1981, which will be complemented with PL-480 Title II Commodities, Family Planning, and OPG/PVO activities within the selected IRD pilot areas. This initial effort will be followed by similar activities during this CDSS period.

With respect to education and human resource development, discussions have been initiated but the specific areas of assistance in this sector have not been fully defined. The Ministry of Education traditionally has been one of the most difficult GOE counterpart institutions. However, the USAID still foresees an important role for AID in developing and implementing education and skills training programs that reinforce other activities undertaken as part of the IRD programs. Tentatively, the strategy is expected to focus on nonformal and vocational education and support to the "nuclearization program," all within the IRD target areas.

Nonformal education will focus on the generation of skills and knowledge outside the traditional classroom approach. This is expected to include agricultural extension, rural community development, apprenticeship training for

adults, development of handicraft skills, and training in health, nutrition, family planning, basic household economy, and leadership.

The GOE intends to create a Rural Training System that may include a Rural Training Institute (RTI) which would develop and implement nonformal training programs covering broad rural needs. In addition to developing and expanding existing rural nonformal programs, the RTI would train paraprofessionals working in health, agriculture and other fields. The Mission views the creation of a Rural Training System as an important step in addressing non-formal education needs and intends to support it. A project for making it a strong, viable institution could be developed early in FY 1981.

The USAID also expects to support public and private vocational education efforts among rural youths with some academic education but lacking sufficient skills to obtain productive employment.

Finally, USAID expects to support the MOE Nuclearization Program, initiated in 1976, which seeks to involve communities in socio-economic activities conceived at the local level and carried out through "education centers for rural development." The key innovative elements of this concept are (1) an integrated, concerted approach among teachers, community groups, and students, and (2) the multi-disciplinary participation of the various GOE agencies concerned with rural development. Again, USAID support will be concentrated in the IRD project areas.

As indicated earlier, the USAID's education and human resources strategy is still evolving. The USAID expects to complete discussions with the MOE during the next 12 months, and a more precisely defined strategy will be included in next year's CDSS.

B. POPULATION/FAMILY PLANNING

1. Overview: Ecuador's population growth rate of 3.4% is one of the world's highest. Fertility has remained nearly constant since the 1930s, while infant mortality has declined sharply from 180 per 1,000 in 1915 to the current rate of around 60. Life expectancy at birth has increased by 11 years since 1960. Only 12% of married women of reproductive age regularly use contraceptives.

GOE projections show that Ecuador's population will double from 8.1 million in 1979 to 16.2 million by the year 2000. The implications of this growth are alarming. The economically active population will increase by 4.6 million and the number of school-age children by 2.3 million. The GOE will be hard pressed to create enough jobs, produce enough food, and provide sufficient education and other basic services to this increased population.

Several public and private-sector institutions are supporting population/family planning programs. The public institutions include the Ministry of Health (MOH), the Ecuadorean Social Security Institute (IESS), and the Armed Forces. The private institutions include the Center for the Promotion of Responsible Parenthood (CEPAR), the Ecuadorean Association for Family Well Being (APROFE), and the Medical Center for Family Planning Orientation (CEMOPLAF), which are supported by international organizations such as Family Planning International Assistance (FPIA), Pathfinder, and the International Planned Parenthood Federation (IPPF).

The MOH has sought to provide family planning services at some 500 health centers, hospitals, and health sub-centers. But it reported only 28,680 new family planning acceptors in 1978, a mere 2-3% of the women in fertile ages.

The MOH is planning a major expansion of its programs in rural areas. With the help of a \$9.5 million loan from the IDB for construction, equipment,

and technical assistance, and a 3 to 5-year United Nations Fund for Population Activities (UNFPA) grant in maternal and child health, it is anticipating 61,000 new acceptors per year by 1984.

The Armed Forces operate 31 medical clinics, which administer family welfare and cancer-detection programs. New FP acceptors for 1978 totalled 3,484. In 1978, the IESS program reported nearly 2,000 new acceptors, mainly urban working women.

Vertical family planning programs are carried out by the three principal private groups: CEPAR, APROFE, and CEMOPLAF. While their total impact is relatively small--only 15,600 acceptors among the latter two in 1978--they are important in specific geographical areas:

2. Major Constraints: The major constraints to widespread family planning are:

- A passive GOE posture on population/family planning.
- Lack of a comprehensive population policy. The Constitution charges CONADE with developing a population policy "in accordance with the principles of respect for the sovereignty of the State and the self-determination of the parents."
- The GOE view of family planning only as an integral part of health delivery services, not as a demographic control measure. Under Ecuadorean law only physicians or obstetric nurses may prescribe oral contraceptives or insert IUDs.
- The weakness of the overall health delivery system of which family planning is a part. While the other public and private organizations offering family planning services do not have these serious delivery system problems, their coverage is limited to a small population, which is mostly urban in the case of private-sector groups.

-- Opposition by leftist groups and by one of the most historically conservative and influential Catholic Church traditions in the Americas.

3. Proposed Response: Because population/family planning activities address a major cause of poverty, they will receive high priority in the overall USAID strategy. The ultimate goal of USAID efforts is to help the GOE develop and establish a system for the effective provision of family planning education, information, and services to its population, especially the urban and rural poor.

Assistance in this area is highly politically and culturally sensitive and must be cautiously managed to conform to GOE policy and sensitivities. In view of GOE awareness of political and cultural factors, a population policy may not even be developed and published as mandated by the new Constitution. However, CONADE, in concert with the National Polytechnic School and the other public and private agencies (including UNFPA), is organizing for late CY 1980 a Workshop on "The Interrelationships Between Population and Development in Ecuador," which may provide the basis for such policy. Also, ministerial discussions on the subject have taken place during the course of reviews of the new development plan, and the USAID understands that some GOE Cabinet leaders recognize the need to undertake more aggressive programs that address the population growth problem. Although these programs may not be publicly sponsored and supported, the GOE would informally encourage cooperation from the international agencies, especially if it could be channelled through PVOs. Although this posture is encouraging, the USAID believes that a long-range solution to the population growth problem requires a more comprehensive approach. Therefore, keeping in mind GOE sensitivities, the USAID will seek to develop and carry out a four-pronged program strategy based on activities that:

- (a) Develop and Implement Appropriate Policies. The USAID is proposing to carefully but actively support new GOE and public-opinion leaders who are now or may be in position to influence policy. This will be done through awareness activities designed to educate and motivate elites in the public and private sectors to develop a comprehensive national population plan and provide the key resources necessary to implement it. This effort will be initiated with a Population Grant Project in FY 1980. Similar efforts will continue throughout this CDSS period.
- (b) Expand and Improve the Family Planning Services Delivery System. The USAID will seek to facilitate the access of rural and urban poor to the family planning services necessary to plan their families. Assistance will be provided: (1) as an integral part of the public health delivery system in the MOH in accordance with this Ministry's policy and will be closely coordinated and linked to USAID-supported integrated rural and urban development, (2) through the IESS and Armed Forces, and (3) through increased support to private organizations. The aforesaid FY 1980 population project will initiate this aspect of the strategy, to the extent possible in the same areas selected for implementation of the IRD program. Future activities during the CDSS period will expand geographic coverage in an attempt to significantly increase the number of FP users;
- (c) Stimulate and Expand the Demand for Family Planning Services through activities that inform and educate all sectors of society on the modern means available to determine the number and spacing of children. Initially, these activities will be carried out under the aforementioned FY 1980 population project; and
- (d) Integrate Population Concerns into all other elements of the overall USAID strategy and programs.

It should be noted that this sector strategy is still evolving and should be considered tentative until the USAID is able to negotiate the details with recently-designated GOE Ministers and other key officials.

C. INTEGRATED URBAN DEVELOPMENT

1. Overview: Over the past 30 years Ecuador has been experiencing rapid rural-to-urban migration. In 1950, 28% of the total population lived in urban areas; by 1978 the figure had risen to an estimated 43%. While the total population grew by 3.2% annually over this period, the urban population increased by 4.9%, more than tripling to 3.4 million.

While most migrants have gone from rural areas to small urban centers, many have gone directly to Quito and Guayaquil. There has also been migration from smaller to larger urban centers. Of the 43% of Quito's population born elsewhere, almost half migrated from rural areas, while the remainder have come from other urban centers. Both the World Bank and a recent Gallup survey confirm that the majority of the migrants are poor, unskilled persons who come to the cities to fulfill economic aspirations.

The cities have been hard pressed to cope with this influx. The urban housing deficit is estimated at some 234,000 units, affecting some 45% of the urban population, invariably the neediest, for whom adequate housing at affordable costs is unavailable. These people seek shelter in depressed urban settlements characterized by overcrowded, unsanitary housing units with limited or no access to water, sewerage, and electricity. There is no mechanism to provide them long-term credit for low-cost housing, nor is housing affordable by such families being constructed in any sizable quantity or organized way.

Social services are also lacking, and there is no system to deliver social services to those who need them most. Public schools are often overcrowded and

difficult to travel to; health-care facilities are inadequate; and day-care institutions and other community facilities are limited. Compounding the problems of the urban poor, institutional mechanisms for creating productive jobs for the growing urban labor force are nonexistent or are at best very weak. Though open unemployment is low (4%) there is a large mass of underemployed.

2. Major Constraints: There are four major interrelated constraints which have impeded an effective response to urban problems:

- The GOE has not developed appropriate policies nor allocated sufficient resources to deal with the problems of the urban poor;
- Concerned institutions have not concentrated on the problems of families in the lower 50% of the urban income spectrum. The Ecuadorean Housing Bank and the Saving and Loan System now provide financing almost exclusively for middle-income housing;
- Ecuadorean institutions have resisted innovative approaches to low-cost housing; and
- There is no effective mechanism to carry out urban development projects in an integrated and coordinated fashion by providing physical infrastructure, employment, social services, and housing solutions to poor communities.

3. Proposed Response: The USAID's approach to these problems and constraints converges with that of the new GOE, whose leaders have expressed their determination to address the problems of the urban poor in an integrated fashion that combines (a) the provision of low-cost housing, water, sewerage, electricity, schools, health care, jobs, and other physical and social services, and (b) new institutional arrangements and approaches for undertaking urban projects in a systematic way.

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

Over the next five years, the USAID plans to help the GOE finance a series of integrated demonstration projects that will serve as models for a new system that addresses urban poverty problems on a national scale. Model integrated projects will include low-cost housing (including home improvements where appropriate) under the HIG program; employment expansion through small enterprises, financed with AID and/or local loan resources; GOE-financed infrastructure; social services financed through OPGs, and local resources; and AID-financed technical assistance, training, and institutional strengthening activities for national and municipal agencies. It should be emphasized that the AID concessional resources required to implement this strategy are very modest, averaging only \$1.0 to 2.0 million annually. The great bulk of the financing will be provided under the HIG program and by the GOE itself, as in the FY 1980 Integrated Urban Development (Solanda) project.

The focus of USAID's initial effort in FY 1980 will be in Quito, as initial demonstration of the system in one visible place is thought to be most effective. Subsequent efforts during this CDSS period will focus on secondary cities, consistent with the GOE's decentralization policy and its attempts to develop secondary cities into improved rural growth and service centers that better support regional development. These USAID-assisted projects, starting in FY 1981, will complement other donor activities such as the large IBRD-financed project in Guayaquil. While the system is being developed, AID assistance will benefit directly up to 20,000 poor urban families during the CDSS period.

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

D. DEVELOPMENT ADMINISTRATION AND PLANNING

1. Overview: A 1977 study conducted by the GOE National Directorate of Personnel (DNP) concluded that deficiencies in Ecuador's public administration system represent a major barrier to achieving the GOE's development objectives. Specifically, the study found that:

- (a) While many public sector employees are excellent technicians in their respective fields, they are often deficient in managerial and administrative skills;
- (b) Training programs have been organized within 23 different GOE entities. These programs focus mostly on technical areas and do not meet the management training needs of the public sector;
- (c) Public sector training should emphasize planning, financial management, personnel administration, management techniques and methods, applied research, and manpower planning;
- (d) Coordination among the entities which have established their own training programs is minimal and is carried out only on an ad hoc basis.

The absence of a coherent national training system impedes better coordination;

- (e) The serious internal organizational weaknesses of local training entities diminish the effectiveness of their efforts; and
- (f) There are major discrepancies between the requirements of the public sector and its administrative capacity to successfully carry out the GOE's development plans.

Similarly, a 1978 United Nations study on the problems of the Ecuadorean public administration system argued that government performance was seriously hampered by (a) the scarcity of human resources sufficiently qualified to effectively carry out direction and management, technical and programming analyses, and supporting functions; and (b) critical deficiencies in organization, motivation, incentives, systems, and procedures.

Most recently, a 1979 World Bank report on Ecuador concludes that "improvement in the efficiency of the public sector would have a beneficial impact on the identification, preparation and execution of development projects in Ecuador."

These studies have greatly increased GOE awareness of the magnitude of the human resources problem in its public administration. Specific actions recently taken to overcome the problem include (a) allocation of increased resources to the DNP, which has undertaken specialized and more comprehensive training programs for public sector personnel; (b) completion of an assessment to better understand the situation of the public sector; and (c) development of a basic framework to establish a Public Administration Manpower Training System to attend to civil servants' needs.

2. Major Constraints: While the GOE has taken steps to correct some deficiencies, further progress is hindered by the following constraints:

- Lack of a coherent national training policy and system;
- Poor interinstitutional coordination which severely limits effective utilization of scarce resources and results in fragmented, ad-hoc training

with limited impact on major development problems;

- Inadequate budget appropriations;
- Technological constraints which lead to inappropriate training methodologies and programs; and
- A shortage of qualified trainers.

3. Proposed Response: The USAID will support the GOE's efforts to establish a Public Administration Manpower Training System. The ultimate USAID goal in supporting this system is to improve GOE efficiency and facilitate planning and implementation of a wide range of development activities directed to the poor. It is expected that once the system is established, the GOE will be able to:

- (a) carry out manpower training analyses to continually assess public sector training needs;
- (b) establish priorities for training, and implementing in-country training programs;
- (c) develop training methodologies and technologies responsive to changing needs;
- (d) effectively coordinate all training activities for public sector employees; and
- (e) carry out continuous evaluations of training impact as a basis for improving the system.

This effort is starting in FY 1980 with a Training for Development Project to be carried out over a five-year period. Other USAID support in this area, including policy planning studies will be considered during this CDSS period. Such assistance will evolve as a result of the experience gained during the implementation of this project and will be included in subsequent CDSS documents.

E. NON-CONVENTIONAL ENERGY AND APPROPRIATE TECHNOLOGY

1. Overview: Ecuador, now an oil exporter, is faced with the possibility of not being able to meet its own oil needs by the mid-1980s. Domestic consumption of gasoline is increasing at 15% per year, and a number of new oil-burning

electric generating plants are being put into operation, or soon will be. Unless significant new petroleum reserves are discovered and exploited (and little exploration is now underway), or measures taken to restrict domestic consumption, the export surplus may soon disappear.

Wood is another major energy source in Ecuador, accounting for an estimated 30% of total consumption. More than 50% of all homes use firewood or charcoal for cooking and heating, and wood is also used for industrial processes. However, wood is becoming increasingly scarce, and deforestation is a serious problem in many areas.

To avoid major economic, social, and environmental problems, Ecuador must reduce its dependence on these two sources. Current energy plans rely heavily on macro-hydroelectric generation and also on natural gas. These can help meet some but not all of Ecuador's energy needs; they are costly and not appropriate for meeting the needs of all the poor, especially in rural areas.

Ecuador has reasonably large quantities of low-grade coal, oil (tar) sands, oil shale, and biomass (crop and animal wastes, garbage) resources, hardly if ever utilized for energy. It also has considerable micro-hydro, geothermal, solar, and wind energy potential. Moreover, there is considerable energy conservation potential, particularly regarding the use of wood. To date, there have been only sporadic and isolated uses of or experiments with alternative technologies. However, the new GOE is becoming increasingly aware of the problem and has taken some initial steps, including (a) creation under the Ministry of Natural Resources of a National Energy Institute (INE), and (b) attaching high priority in its development plan to non-conventional energy resources.

2. Major Constraints: The main constraints to addressing the problems of the energy sector are:

-- The inadequacy of the institutional base (the new INE is not yet able to

adequately plan or coordinate sector activities); and

-- The inadequacy of the technical knowledge base needed for planning and decision-making.

Until there is adequate knowledge of alternative technologies appropriate for Ecuador, and until INE is able to systematically plan and coordinate sector activities, rational energy planning and investment decisions will not be possible.

3. Proposed Response: The USAID will support GOE efforts to address the above problems and constraints primarily through (a) institutional support to INE, which is to coordinate all energy activities; and (b) support to other public and private entities to execute non-conventional energy programs, particularly those responsive to the needs of the poor.

The ultimate purpose of USAID assistance is to create and/or strengthen viable institutions which can locate, adapt, test, demonstrate, and disseminate (a) processes for producing energy from nontraditional sources, and (b) farm and household technologies which utilize traditional and nontraditional sources more efficiently. Achievement of this goal is expected to contribute to both growth and equity goals.

The first part of the strategy is expected to begin in FY 1980 or 1981 with a project to (a) assist INE in completing a national energy balance, a prerequisite to any national energy planning; (b) assist INE in carrying out alternative energy resource assessments; (c) provide INE and the various implementing institutions with appropriate training, and with communications and library resources; (d) assist INE in carrying out feasibility studies and end-use demand assessments for various potential technologies; (e) help INE establish a data-management system; and (f) help finance a series of alternative-energy re-

search efforts, adaptations, and demonstrations. The last element will be coordinated by INE, with much of the implementation carried out by regional development authorities, universities, the National Electrification Institute (INECEL), and other institutions.

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

Under the second phase of the sector strategy, to take place under one or more projects during the CDSS period, the GOE will be assisted in disseminating the technologies deemed appropriate under the first phase.

PART III: PROPOSED ASSISTANCE PLANNING LEVELS

CATEGORIES	Fiscal Years (\$000)					TOTAL
	1982	1983	1984	1985	1986	
A. RURAL DEVELOPMENT (F&N)						
1. Loan	5,000	9,000	10,500	14,000	15,000	55,300
2. Project Grants						
a. Training*	500	500	800	600	600	3,200
b. Research	300	500	800	200	300	2,300
c. Production				1,000	1,000	2,000
d. Institution Building*	400	1,000	1,100	600	700	4,400
e. Nutrition		500	500	300	300	1,600
f. PD and S	200	200	200	200	300	1,100
g. OPGs	400	600	600	700	900	3,200
SUBTOTAL	6,800	12,300	14,500	17,600	19,100	73,100
B. HEALTH/POPULATION (HE/POP)						
1. Loans	2,000	3,000	6,100	9,000	5,000	27,100
2. Project Grants						
a. Training*	400	300	600		500	2,000
b. Institution Building*	500	400	600	600	400	2,700
c. Population	1,340	1,700	1,800	1,800	1,800	8,440
d. PD and S	100	100	200	200	200	800
e. OPGs	660	700	700	800	600	3,460
SUBTOTAL	5,000	6,200	10,000	12,400	8,500	44,500
C. EDUCATION (EH)						
1. Loans	2,000	2,000			4,300	9,300
2. Project Grants						
a. Training*	500	500	500	400	400	2,300
b. Nonformal Education	500	400	400	400	300	2,000
c. PD and S	100	100	200	100	200	700
d. OPGs	300	300	400	400	600	2,000
SUBTOTAL	3,400	3,300	1,500	1,300	5,800	16,300
D. SELECTED DEVELOPMENT PROBLEMS (SD)						
1. Loans	4,000	3,000	5,000	3,000	3,000	20,000
2. Grants						
a. Environment**	300	300	200	200	200	1,200
b. Energy	200	200	300		300	1,000
c. Land Tenure				200	200	400
d. PD and S	100	100	100	100	100	500
e. OPGs		200	400	200	200	1,000
SUBTOTAL	4,600	3,800	6,000	3,700	4,000	24,100
TOTAL	<u>19,800</u>	<u>25,600</u>	<u>32,000</u>	<u>35,000</u>	<u>37,400</u>	<u>158,000</u>

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

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

FY 1980 - 81 Projects and Illustrative FY 82-86 Activities

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
A. Integrated Rural Development							
- Rural Technology Transfer (Title XII)	300	500	1,000	1,000	1,000	1,100	
- Agricultural Development	6,200	200	3,400	5,200	9,900	11,600	12,000
- Agroindustry-Off-Farm Employment			2,000		2,500	2,000	2,500
- Environment, Forestry, Natural Resources	80	2,260	300	3,100	500	2,200	3,200
- Health, Nutrition, Environmental Sanitation	130	2,120	3,000	4,700	8,000	9,900	7,000
- Non-formal and Vocational Education			2,600	2,500	600	500	4,800
Other:							
PL 480 (Non add)	(1,350)	(1,500)	(4,500)	(5,000)	(5,000)	(4,000)	(3,000)
PVOs	550	700	1,360	1,600	1,700	1,900	2,100
B. Population/Family Planning							
- Supply and related services	120	470	840	1,000	1,000	1,000	1,000
- Policies/Demand/Awareness		400	500	700	800	800	800
C. Integrated Urban Development							
- Shelter solutions ('HIG') - Non add	(20,000)	(20,000)		(25,000)		(25,000)	
- Social Services		500	50	100	50	50	50
- Employment Creation		1,000	4,050	3,000	250	3,250	3,250
D. Development Administration and Planning							
- Public Sector Training System	200	300	400	400	300	200	
- Training		100	100	100	200	200	400
E. Non-Conventional Energy and Appropriate Technology							
	270	2,230	200	2,200	5,200	300	300
TOTALS	7,850	10,780	19,800	25,600	32,000	35,000	37,400

Justification of Planning Levels

The Proposed Assistance Planning Level (PAPL) shown above is part of the USAID's first package of developmentally meaningful programming in support of the new democratic Government, after the near phase-out of AID assistance to Ecuador in the mid-1970s. As such, a minimum funding level of the magnitude proposed herein is essential to: (1) achieve the program objectives set forth earlier; (2) support desired changes in the GOE priority assignment process; and (3) influence GOE allocation of resources toward basic human needs. As previously noted, Ecuador remains a poor country where about 60% of the population is below the poverty line. With the end of the petroleum boom in sight, prospects for the poor are not bright unless the above-mentioned changes in priorities and resource allocation take place through the GOE's own initiative, in concert with AID and other donor inputs.

The new Ecuadorean administration faces a formidable array of economic, social, and administrative problems. The USG, which actively encouraged the return to constitutionality, should be as helpful as possible in working toward the solutions that address the most crucial problems and facilitate the socio-economic progress of the poor majority. Even the modest program recommended in the CDSS would contribute to strengthening the emerging democratic system and demonstrate the USG's solidarity with it.

The composition of the PAPL, based on the analysis in Part I and the specific proposed strategy discussed in Part II, is heavily oriented towards integrated rural development, because of the extreme complexity of addressing Ecuador's rural poverty and rural environmental problems. The PAPL also reflects the relatively high priority given by the GOE to integrated urban development and non-conventional sources of energy. The new democratic leadership of Ecuador has

expressed its desire for AID participation in these areas. The sectoral allocations are intended to enable AID and the GOE to undertake moderately-sized development projects which will respond, in a comprehensive and integrated manner, to the basic social and economic development needs of the poorest segments of the rural and urban populations. The resulting development projects are intended to be primarily of an institution-building and of a demonstration nature. While causing significant and direct changes in the lives of tens of thousands of Ecuadoreans, they will demonstrate the need, feasibility, and viability of continuing and expanding these activities on a national scale.

PL-480 Title II and HIG Programs

Ecuador currently has one of the highest rates of population growth in Latin America (3.4%). For the last two decades the volume of agricultural production has increased more slowly than the population. As the GOE begins to undertake measures to encourage greater food production, particularly among small farmers, there is a need to encourage production of those crops which will have the greatest nutritional benefit for the population.

PL-480 Title II programs can play a particularly important role in meeting nutritional objectives. The USAID's proposed program has been carefully designed so as not to discourage domestic production, particularly by small farmers.

PL-480 Title II soy flour imports may have helped stimulate domestic soybean production, which increased from 111 metric tons (MT) in 1968 to 26,000 MT in 1979. Local production, however, is totally being absorbed by the edible oils industry, in which there is still considerable import substitution potential. There appears to be a continued need to import soy flour until it begins to be processed in Ecuador (unlikely for at least the next five years). Milk, which

will continue to be imported under Title II, remains in chronic short supply, particularly in rural areas, largely because of domestic price controls. Even if these controls were lifted to stimulate production, total milk imports are so substantial that a small PL-480 program is unlikely to discourage domestic production for a number of years. Oats have not been produced in quantity in Ecuador, and most local production has been used as animal feed. However, through the MOH's maternal and child health-care programs, oats are becoming a popular food product and, again, domestic production may be stimulated by the small volume of PL-480 imports of this commodity.

The products supplied under the PL-480 program are being distributed to groups unable to compete economically. If the donated food were not available, recipients would not be able to purchase a substitute. In the medium term, a combination of strong efforts in domestic production and continued imports will be required to meet the demands of a growing population.

The PL-480 input, although projected at modest levels, will contribute to overall food requirements by serving as a food supplement and nutritional aid to the poorest segments of society. The USAID expects the composition of PL-480 inputs to shift gradually to combinations which could eventually be filled by domestic production. The ultimate objective is that Ecuador becomes self-sufficient in fortified foods.

The USAID is presently discussing with the MOH a comprehensive, Integrated Health, Nutrition, and Potable Water program, within the framework of the IRD program, which may require additional PL-480 inputs. Also, the Ministry of Education is developing a comprehensive National School Feeding Program which the USAID may support as part of its assistance to the GOE's IRD program. These inputs have not yet been determined, but it is expected that they will have been defined in time to include in next year's CDSS.

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

1982 - 4,500	1985 - 4,000
1983 - 5,000	1986 - 3,000
1984 - 5,000	

The role of Housing Investment Guaranties over the planning period was discussed in Part II, Section C. HIG levels are tentatively planned at \$20.0 million in FY 1980, \$20.0 million in FY 1981, \$25.0 million in FY 1983 and \$25.0 million in FY 1985.

Staffing Requirements

The USAID is conscious of its staffing limitations for carrying out its proposed strategy. Accordingly, it will use various mechanisms available for facilitating its implementation, including: (1) utilizing to the maximum extent possible the staff resources of qualified PVOs, an effort that is already underway; (2) building into contracts with participating U.S. universities and other private firms all necessary logistical support; (3) increasing the participation of Peace Corps Volunteers in selected USAID activities in which PC has particular expertise; (4) increasing the participation of Ecuadorean professional staff in program planning and implementation; and (5) carefully recruiting USDH employees to carry out multiple responsibilities.

Nonetheless, to achieve the objectives of the program strategy at the PAPLs, the USAID is projecting for FY 1982 a core staff of 10 USDH, which should be increased to 14, plus 3 IDIs, by 1986. By June 1980, 8 USDH and 2 IDIs are expected to be on board (modes have been approved). Recruitment of the other USDH employees will depend on how the program evolves during the next couple of years. These staffing levels are fully consistent with the strategy proposed in Part II

and will be subject to normal mode clearance procedures.

(in work years)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
1. USDH	10	10	12	12	14
2. FNDH	20	20	24	24	26
3. PD and S	6	6	5	5	5