

USAID/ECUADOR
Country Development Strategy
Statement
FY 1990 - 1994

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Attachment 1: AID/W CDSS Review Cable

GLOSSARY

ADC	Advanced Developing Country
ANDE	National Association of Businessmen
APROFE	Association for the Well-being of the Ecuadorian Family
CEMOPLAF	Medical Center for Family Planning and Orientation
CEPAR	Center for Population Studies and Responsible Parenthood
COF	Family Obstetrics Center
CONADE	National Planning Council
DINAF	National Forestry Directorate
FNJ	Our Youth Foundation
FUNDAGRO	Foundation for Agricultural and Livestock Development
IBRD	World Bank
IDB	Interamerican Development Bank
IDEA	Institute for Agricultural Studies
IEOS	Ecuadorian Institute for Sanitary Works
INCAE	Central American Business Administration Institute
INIAP	National Institute for Agricultural Research
INSOTEC	Institute of Socio-Economic and Technological Research
MAG	Ministry of Agriculture and Livestock
MOE	Ministry of Education
MOH	Ministry of Health

EXECUTIVE SUMMARY

The tragic aspect of Ecuador's development process over most of the past two decades has been the country's inability to capitalize on the prolonged prosperity which accompanied its emergence as a petroleum exporter. Even if petroleum prices were to rebound, Ecuador would still be faced with serious structural and institutional impediments to broad-based economic expansion and to the narrowing of the sharp divisions in incomes and access to productive employment and social services among its population.

Unlike many Latin American countries, Ecuador enjoys a generous natural resource base and domestic tranquility which provide the country with a relatively favorable environment for handling its structural problems -- assuming it can muster the necessary political will and commitment. Despite the recession it is struggling to leave behind, there is some optimism for the future. The development of this CDSS coincides with the advent of a new democratically-elected government, thus providing a timely opportunity for AID and the GOE jointly to review development priorities and to agree on areas for collaboration over the next four years.

The immediate challenge faced by the Borja administration, which assumed power on August 10, 1988, is to stabilize an economy racked by unprecedented inflation, a massive fiscal deficit, increasing debt arrears and negative foreign exchange reserves. This situation, coupled with stagnation in the non-petroleum sectors, has seriously affected incomes, productive employment

opportunities and the extension of basic social services to the majority of Ecuador's population living at the margin. The incidence of poverty is substantial and the cost of stabilization and readjustment, at least during its initial stages, will fall heavily on disadvantaged segments of the population. Such circumstances heighten growing social unrest and undermine the country's ability to deter narcotics trafficking and the related corruption otherwise endemic to the Andean region.

The package of emergency economic measures adopted by the new government represents a pragmatic first step towards stabilization and, if the thrust of these measures is maintained, the macroeconomic outlook for 1989 will be moderately optimistic. To assist Ecuador to achieve economic stabilization over the short-run (goal number one), AID's policy dialogue efforts will focus on the interdependent management of key macroeconomic issues such as the reduction of inflation and the fiscal deficit, maintenance of rational interest rate and exchange rate structures, reduction of subsidies (principally fuel and wheat), and resumption of serious discussions with the international banking community on Ecuador's debt service situation.

Ecuador must look beyond the stabilization process, however, and begin now to respond to fundamental development problems in macro as well as sector policy formulation, technology transfer and institutional restructuring. Thus, the second goal of AID's strategy is to encourage the adoption of policies which will stimulate self-sustaining economic growth and greater productive employment opportunities (especially in agriculture and small business)

necessary to broaden access to basic housing and urban infrastructure, child survival, family planning and education services. Without growth, the sharp income disparities will widen and the cycle of poverty will continue.

A wider sharing of the benefits of growth is the third goal of the USAID strategy. But, in this area as well, it is incumbent upon the GOE to avoid concentrating solely on the short-term social cost of readjustment.

Strengthening delivery of services and greater investment in the well-being and development of the nation's human capital require long-term solutions, not stop-gap measures. Non-petroleum revenues must be generated on a larger scale to finance needed public services, and institutional strengthening must occur to improve efficiency and mobilize the nation's human and infrastructure resources so as to best implement priority interventions.

Key to accomplishing this strategy is fostering a constructive working partnership with the GOE, elected local officials, the private sector and the PVO community based on a shared commitment to address the priority development constraints identified. The Mission is encouraged by the cooperative spirit and coincidence of views on a number of development issues which has emerged with the Borja administration. Yet, while there is substantial agreement, there also exists a large policy agenda which has not yet been fully engaged. The modest AID funding levels expected for the CDSS planning horizon dictate a much more focussed approach than has been the case for the Mission portfolio in the recent past. Resource levels will not necessarily limit the

impact of the AID program, however. The Mission's experience and track record at the sector level have permitted access to and influence with policy-makers beyond what the portfolio size would lead one to expect. The challenge facing AID is to capitalize on the very positive relations which exist with the new government in order to maximize the impact of its development assistance and help Ecuador redirect its future growth toward a more equitable sharing of growth's benefits during a critical juncture in its history.

I. OVERVIEW OF THE ENVIRONMENT FOR DEVELOPMENT

Over the next four years, the Borja administration faces a severe financial crisis as well as a series of structural, institutional and political impediments to the achievement of broad-based, self-sustaining economic development. Despite Ecuador's strong growth over the past quarter-century (second only to Brazil among the major Latin American countries), due mainly to its 1970's oil boom, sharp declines in per capita income have been registered in recent years. While GDP per capita in constant prices grew over 350 percent between 1960 and 1987, the 1980-87 period actually witnessed a decline of 33.5 percent.^{1/} GDP per capita, expressed in constant U.S. dollars, increased from \$213 in 1960, to \$613 in 1975, to \$1,445 in 1980. By 1985 it had declined to \$1,268 and to \$960 in 1987. For 1988, due to the persistent devaluation and slow GDP growth, the per capita level will remain below \$1,000 and become approximately equivalent to that for 1977.

Since the early 1980s, the employment situation has also deteriorated. New opportunities for employment slowed as the growth of petroleum revenues stopped, inflation accelerated, and overall economic growth decreased from an average annual rate of 4.5 percent during the 1970s to an average of 1.2 percent between 1980 and 1988. The high population growth rate (2.8 percent per annum) has thus outpaced economic growth during this decade and will continue to do so over the medium term. The combination of rural-to-urban migration and the increased participation of women and young people in the labor force will continue to place severe pressures for employment generation

^{1/}Source: Central Bank of Ecuador National Accounts.

on Ecuador's urban economies in particular through the turn of the century.

While important efforts have been made in Ecuador to improve the coverage of social services, relatively large segments of the population are still totally or partially uncovered. It has been estimated that about 50 percent of the urban population and as much as 95 percent of the rural population fall below the threshold of relative poverty. Many poor urban families continue to live in communities without water, sewage disposal or electricity. In rural areas, only about 30 percent of the families have access to potable water and 40 percent to health services. Ecuador's infant mortality rate is about eight times higher than in the United States. Malnourishment is common among infants, while more than two-thirds of rural children leave school by the end of the fourth grade.

It is now widely recognized that Ecuador's development strategy during the oil boom contributed directly to the stagnation of output in both the industrial and agricultural sectors of the economy. Aspects of that strategy which impeded employment generation and led to structural deficiencies limiting growth included:

- 1) a good part of oil-generated revenues was used to increase public sector employment and for consumption subsidies, including food and fuel, rather than being channeled into productive investments. Considerable infrastructure was created, but it has not generated direct or indirect output proportionate to its cost.
- 2) the real exchange rate appreciated significantly, which created disincentives for production of agricultural and industrial exports.

3) industrial protectionism was used to foster import-substituting manufacturing production for the domestic market. Policies that protected inefficient manufacturing industries oriented to the domestic market have also limited the growth in agriculture and export-oriented manufacturing production. Since the latter are more labor-intensive than the former, employment generation has suffered.

4) financial market policies, including controlled low interest rates and selective credit allocations, reduced the cost of capital and encouraged capital-intensive production, and lowered domestic savings generation.

5) minimum-wage and other labor protection policies benefitted workers with formal-sector jobs but discouraged job creation, especially for young and unskilled workers and women.

6) government regulations and restrictions created an anti-export bias and impeded growth along a path that would continually shift employment to production activities with higher levels of worker productivity.

The foreign debt was expanded and borrowing while the sucre was overvalued meant particularly heavy future debt service obligations. Also, public sector finances were allowed to become overly dependent on petroleum. As long as the price of petroleum remained above \$25/barrel, the problems were manageable but, at current prices, oil revenues are insufficient to pay for all the benefits previously available. Each one dollar drop in the price of a barrel of oil represents about a 0.6 percent of GDP decline in public sector revenues.

The GOE policies which accompanied the oil boom contributed significantly to the decline in agriculture's share of GDP from 25 percent in 1970 to 14.3

percent on average during 1981-83. Except for the favorable response to improved policies in the sector over the past four years, agricultural per-capita GDP has stagnated since the 1950s. Ecuador is well-endowed with agricultural resources that are not being fully utilized. Yields are low relative to those achieved by neighboring countries, and also to experimental results in Ecuador. Low wages and incomes in rural areas and the low productivity of labor in agriculture are strong indicators of an excess supply of labor.

Ill-conceived macro-economic and industrial policies have led to stagnation of manufacturing output as well. The growth rate for the 1982-87 period was -0.1 percent, and manufacturing's share of GDP fell from 19.1 percent in 1982 to 16.9 percent in 1986. GOE policies have also led to a situation in which manufacturing is not concentrated in those subsectors for which Ecuador has a comparative advantage.

As the Borja administration took office, Ecuador's economy faced a state of near-crisis. The inflation rate (63 percent for the year ended August 31 -- very high by historical standards) was accelerating and the value of the sucre on the foreign exchange market was falling (the sucre fell approximately 114 percent during the first six months of 1988). Political uncertainties related to the presidential elections contributed to increased capital flight and negotiations to reschedule Ecuador's debt to international commercial banks were suspended by the Febres Cordero government. Excessive government spending and failure to keep prices of products and services supplied by the government (especially energy prices) at realistic levels led to a fiscal deficit which is estimated by the World Bank to approach 12 percent of GDP.

The current crisis was exacerbated by a series of setbacks in 1986 and 1987 which were largely of an exogenous nature (low world oil prices and the March 1987 earthquakes). However, a principal contributing factor to the 1988 situation was an irresponsible fiscal policy adopted in its last year in office by the Leon Febres Cordero administration (1984-88). Rapid monetary growth to finance the fiscal deficit became the primary source of the accelerating inflation during the first half of 1988 and also an important factor in the rapid devaluation of the sucre.

Preliminary government statistics indicate that real GDP declined 5.2 percent in 1987, mainly due to the 43 percent decline in crude petroleum output after the March 1987 earthquakes, which caused a six-month rupture of the trans-Andean oil pipeline. The decline of oil exports in 1987 led to a negative merchandise trade balance for the first time since 1978. The resulting balance-of-payments crisis was met by increased arrearages of debt-service payments (which had reached \$800 million as of October 1988) and considerable new borrowing.

Against this backdrop, the Borja administration has adopted a package of emergency economic measures designed principally to arrest the burgeoning fiscal deficit and the accelerating inflation rate. These measures represent a positive step towards economic stabilization. Nevertheless, the social costs of readjustment will be high and the government is under substantial political pressure to adopt reflationary policies -- efforts to stimulate growth by strengthening domestic demand. Far-reaching structural reform will also confront significant obstacles (if the Borja government decides to pursue

them) in the form of Borja's own, largely middle-class political party, the Izquierda Democratica; the bloated and inefficient public bureaucracy; a highly protected private industrial sector; and corrupt administrative practices which could worsen with increased money-laundering from narcotics.

While there exists a high degree of coincidence in views between the Borja government and USAID on a variety of development issues, especially social concerns, a healthy skepticism must be maintained as to the degree of GOE commitment to structural reform necessary to resolve these issues. The Izquierda Democratica and other center-left parties supportive of the Borja government are mainly comprised of middle class voters who have directly benefitted from the subsidies and public sector employment opportunities made possible by the oil boom. Between 1970 and 1984, for example, public employment increased at an annual rate of 7.3 percent, compared to three percent for overall population growth and 2.8 percent for the labor force. Middle-class interests and those of the disadvantaged majority are often at odds, and this conflict could easily undermine the Borja administration's social agenda.

Ecuador's relatively weak democratic processes and institutions, societal attitudes, and the apparently low level of commitment of many of the country's public and private sector leaders to far-reaching changes that would further national - as opposed to more parochial - interests also pose serious constraints to development progress. "The extent of popular participation inspired by democratization has been to a great degree limited exclusively to the electoral process and even in this area it is quite reduced and in many

cases manipulated."* This is true even though Ecuador, in 1979, was the first Latin American country to return to democracy in the current renaissance and has had three peaceful presidential elections since then -- including the transfer of office to opposition candidates in both 1984 and 1988 -- and has weathered a border war with Peru and a Presidential kidnapping by the military. Human development in Ecuador has been frustrated since colonial days by a worldview that impedes political pluralism, social equity and dynamic economic progress. Mistrust permeates the society from the court system down to the corner street-vendor. In addition, a series of vested interests obstruct efforts to broaden and improve the development process:

- Private industrialists accustomed to a protected market will oppose efforts to make the economy more outward-oriented and competitive.
- Labor unions, likewise, seek to protect the interests of their membership to the detriment of the majority of workers outside the formal sector.
- And the public sector bureaucracy resists streamlining and efficiency measures.

It has often been suggested that Ecuador be included within AID's Advanced Developing Country (ADC) Strategy. The Mission believes that, given the country's rich natural resource endowment, this is certainly possible over the medium term, but it cautions against such a position now based on growth indicators largely achieved during the oil boom period. The above analysis (and that which follows) details how deceptive the country's growth was during the 1970s and how complex are the constraints limiting rapid and sustainable growth in the future.

*Osvaldo Hurtado, Political Power in Ecuador, p. 232.

II. PROBLEM DESCRIPTION AND ANALYSIS

A. Inadequate Income Growth

1. Macroeconomic Environment

To arrest the economic crisis it inherited, the Borja administration has adopted a package of emergency economic stabilization measures, including an initial 56 percent devaluation of the official exchange rate, further devaluations through a crawling-peg mini-devaluation system, a significant reduction in domestic fuel subsidies and the elimination of wheat subsidies, a concerted effort to reduce the fiscal deficit through revenue-enhancing measures as well as by spending reduction, and a commitment to reduce official borrowing from the Central Bank. More recently the GOE has announced the elimination of protective tariffs for certain domestic industries such as tire manufacturing. The net effect of these measures is predicted to be a reduction in the 1988 fiscal deficit from over 12 percent of GDP to 9.5 percent and the possibility that the 1989 deficit can be lowered to 7 percent of GDP. Additional measures will be required in order to reduce the deficit to a more acceptable 3 to 5 percent of GDP. The GOE has established an inflation target of 30 percent by the end of CY 1989 (versus an anticipated rate of nearly 100 percent for CY 1988).

To reduce the fiscal deficit to manageable levels, control inflation and achieve stabilization, the GOE must be prepared to take corrective measures when needed in order to avoid an erosion of the positive measures taken to date. In particular, public spending must be reduced in real terms and the

exchange rate must be sufficiently competitive to raise export earnings. Public spending reductions are especially important given the GOE's commitment to alleviate the painful adjustments imposed upon the country's disadvantaged groups of the overall package of emergency measures. A realistic exchange rate is vital, both to develop the country's export potential, and to achieve self-sustaining economic recovery through improved industrial efficiency and faster growth. A more outward-looking policy matrix is also important in improving returns to agricultural exporters and to domestic food producers facing competition from imports.

Foreign Commercial Debt. The Febres Cordero government suspended payments on its debt to foreign commercial banks in January 1987. The Borja economic team has reopened discussions with these banks on the \$6.5 billion debt to them (of the total \$11 billion official debt), including \$800 million in arrearages. It is the Mission's assessment that this group of pragmatists intends to negotiate seriously, seeking innovative solutions to lower the service burden over the next several years at least. Improving the country's external position will require continued progress with the IBRD on securing \$300 million in new resources under an industrial sector loan, an export sector loan and Japanese official co-financing. This would be in addition to \$305 million yet to be disbursed under 22 active World Bank programs, as well as over \$300 million in both sector and project loans pending from the IDB.

Fiscal Policy. Ecuador is faced today with an oversized public sector, poorly-focused public spending, financially-unsound public enterprises, and an inadequate public-pricing and tax base to support them.

This public sector financial performance -- despite, at least until recently, substantial oil revenues -- reflects not only a poor non-oil tax effort, but also basic institutional weaknesses. These include inadequate capacity to administer income and value-added taxes; an earmarking system--linked to oil exports-- that allocates about a third of total revenues on a predetermined, inflexible basis; a fragmented, cumbersome and loose budgetary control system; no mechanism to cushion the public sector's financial position from swings in oil prices; inadequate control over the efficiency and financial operations of public enterprises; and no prioritization of expenditure decisions, particularly those relating to investments in education, health and infrastructure.

2. Income Growth of Lower Income Groups

There is a relatively large number of Ecuadorians who are in a state of poverty. Approximately 20 percent of urban people and 25 percent of rural people were below the threshold of critical poverty in 1975. Reliable recent data do not exist; however, empirical evidence indicates that, despite notable improvements in social service coverage, poverty indices have not improved dramatically over the past 15 years. The survey demonstrates that these people below the threshold of critical poverty could not even meet their minimum nutritional requirements. Another 30 percent of urban people, and as much as 60 percent of rural people, were in a state of relative poverty, with enough income to meet their basic food needs but not enough to purchase other basic necessities. Thus, about 50 percent of urban people, and as many as 85 percent of rural people fall below the threshold of relative poverty.

In 1982, over 37 percent of all housing units had no electricity and in rural areas lack of access was 67 percent. Over 70 percent of rural houses had no toilet facilities, compared to 40 percent for the nation as a whole; over 83 percent of rural houses had no sewage disposal facilities.

Those whose incomes fall below the threshold of critical poverty tend generally to be the indigenous populations, especially in rural areas, and those working in the informal sector, primarily in self-employment, and outside the minimum wage structure in urban areas. They are most likely to be illiterate, have large families, be recent migrants and be part of woman-headed households. These factors tend to perpetuate the conditions in which poverty breeds.

The rapid industrial growth during 1974-82 was highly capital-intensive: labor absorption was low relative to growth in output. The Ecuadorian economy exhibits a large fraction of the population engaged in low-productivity activities and, thus, earning low incomes. The downturn of the Ecuadorian economy since 1980 has both enlarged the fraction of the population engaged in these low-productivity activities and reduced their incomes. Income distribution is highly unequal. The World Bank estimates that the bottom two quartiles of the population received only 11.9 percent of income in rural areas and 18.9 percent in urban areas.

B. Agricultural Sector Deficiencies

Agriculture recovered from its very poor performance of the 1970s and early 1980s to become the fastest growing sector during 1984-87. Agricultural GDP

grew at an average annual rate of 9.1 percent per year in real terms since 1984, compared to only 0.7 percent for the economy as a whole. This very rapid rate of growth, although somewhat inflated because of the 1982-83 El Niño disaster, is a major reversal since the petroleum-boom era of 1973-82, when agriculture grew at only 3.2 percent, compared to 5.5 percent for total GDP. Production has increased from an all-time low of 14.3 percent of GDP on average during 1981-83, to 17.3 percent in 1987, thus becoming again one of the most important sectors in the Ecuadorian economy.

Agriculture's importance in the economy is evident from the perspectives of contribution to GDP, linkages to other productive sectors, domestic food production, foreign exchange earnings, and employment. Moreover, it clearly has been responsive to specific macroeconomic and sector policy reforms implemented by the Roldos/Hurtado and Febres Cordero governments, and generally continued by the Borja government, although the latter's policy direction in this regard may still be in flux.

Basic constraints to more rapid and equitable growth of agriculture still remain, including: 1) low productivity and high costs due to dependence on traditional technologies; 2) distorted incentives to produce and invest due to inappropriate economic policies; 3) widespread rural poverty and inequitable distribution of income; 4) degradation of the natural resource base; 5) ineffective institutions and inadequate investment in human capital; and 6) others, including transportation, storage and marketing bottlenecks; inefficient marketing; and inefficient management of irrigation resources.

Agriculture in Ecuador is characterized, generally, by utilization of

traditional technologies based largely on exploitation of natural resources, as opposed to more modern, science-based technologies. Yields are low relative to those achieved by most neighboring countries, and also to experimental results in Ecuador. The low levels of wages in rural areas not only indicates excess labor but also reflects the relatively low productivity of labor, which among other things is affected by the inadequacy of complementary inputs.

The agricultural science base, comprised of the set of scientists, technicians, and associated institutions involved in accessing, adapting, generating and diffusing new and improved technical practices for agriculture, is especially deficient, because of: a) relatively low and ad hoc investments in research and technology transfer; b) loss of most of the few senior agricultural scientists previously in the system; c) inadequate salaries and recognition to attract and hold top-notch people; d) inadequate link up with international research and technology transfer centers; and e) woefully inadequate investments in agricultural education. These deficiencies, in turn, have contributed to: a) a naive reliance on imported "shelf" technologies; b) lack of focus and priorities; c) discontinuity of effort and short-term focus; d) inadequate, uncoordinated, and largely ineffective technology transfer efforts; and e) almost no linkages, coordination, or communication among research, education, and extension institutions serving agriculture.

The agricultural sector still is subject to a complex set of macroeconomic and sector policies which distort incentives for investment. The current policy matrix continues to discriminate against agriculture, although it is an improvement over that of the 1970s. Of major concern to the Mission are: a)

trade policies which continue to protect and subsidize industry; b) a still overvalued official exchange rate; c) controlled consumer prices for some items; d) lack of liquidity in the banking system; e) the possibility of reimposing taxes on agricultural exports; and f) low resource levels and efficiency in the agricultural research and extension system.

Rural poverty and the very unequal distribution of rural income are serious constraints to more rapid growth in agriculture, and concomitantly are reflections of the other underlying problems and constraints. That is, poverty is both a cause and a result of underdeveloped agriculture, correlating with limited ownership of resources. Poor people own only small amounts of land, or no land at all, and titles are often tenuous. Their savings are very small or non-existent and they have little capital. The poor generally have few skills, and can get only very low wages because of their low productivity.

Another major constraint is overuse and mismanagement of natural resources. Proper management of natural resources is integral to sustainable agricultural growth. Land and water problems impact on agricultural production: increasing exploitation of marginal lands; soil erosion, especially in the Sierra; destruction of watersheds and increased urban water needs; mismanagement of irrigation resources; pesticide contamination of rivers; and destruction of mangrove swamps.

C. Degradation of Natural Resources

Each of Ecuador's four geographic regions (Amazon, Highlands, Coast and the

Galapagos) has varied topography, soils and microclimates, resulting in great ecological variation. Inventories of flora and fauna suggest Ecuador has exceptional species numbers, surpassing all other Latin American countries on a unit area scale. Most of this natural wealth is contained within unique and fragile forests, highlands, wetlands and marine habitats, where arbitrary decisions have already resulted in serious degradation and the extinction of many species endemic to Ecuador.

One of Ecuador's major problems is soil erosion, especially on steep slopes in the Sierra. Primary causes are lack of soil conservation practices and the exploitation of marginal lands because good quality arable lands are not available to small farmers. An estimated 25 percent of Ecuador's surface area is affected by moderate-to-severe erosion (losses of from 12 to 240 tons of topsoil per hectare per year).

Population pressures and land tenure patterns have pushed more small farmers and landless campesinos to cultivate steeply sloping, high altitude areas. Approximately 65 percent of the nation's territory, 25 percent of its population and significant portions of domestic food production are located on slopes of greater than 8 percent.

Another major problem is deforestation, estimated from 34,000 to 300,000 hectares per year. Such rates are alarming and, if either the high or the low rate continues, Ecuador could be completely devoid of its forests by the mid twenty-first century. Much of the deforested land is unsuitable for sustained agricultural use. As soils are depleted, the pressure to deforest more land continues. The problem is magnified by the fact that much of the remaining

forested areas, especially on the lower slopes of the Andes, represents some of the most biologically diverse areas in Ecuador. Poor watershed management practices have also led to deforestation and soil erosion in many of Ecuador's important watersheds. As a result, both the quality and quantity of water used for hydro-electric power, irrigation and domestic water supplies are endangered.

A fourth major problem is the mismanagement of coastal resources. Mangrove forests are disappearing at an alarming rate due to rapid expansion of shrimp farms. To date, over 20,000 hectares have been converted to shrimp farms. Ironically, mangroves provide a breeding ground for wild shrimp larvae which have been critical to sustaining growth for the industry. Destruction of mangrove forest could lead to serious economic problems because shrimp accounts for 15 percent of all exports.

Other serious problems include deterioration of water quality caused by urban domestic/industrial wastes and pesticides; overcultivation and grazing of paramos (highland pastures); and inadequate protection of the country's rich biological resources.

Constraints to conserving the country's natural resources include:

- Factors related to inequitable access to appropriate "sustainable use" technology, off-farm employment opportunities, educational opportunities and good arable land;
- Institutional limitations -- public and private institutions involved in natural resources management work at cross purposes, are under-funded and inappropriately staffed, have conflicting and overlapping mandates, and are inefficient and ineffective. In addition, public institutions

are unable to attract and retain well-trained capable personnel because of low salaries and other incentives. Finally, while there are laws regarding the protection of natural resources, many of these laws are overlapping and contradictory and enforcement resources are inadequate;

- Policy limitations -- There is no explicit national conservation policy. In addition, many policy decisions in other sectors are made regardless of their impact on natural resources;
 - Lack of information and research on Ecuador's natural resources as well as on technologies required to ensure their sustainable use; and
 - Lack of public awareness -- Ecuadorian leaders and the public are not convinced that natural resource degradation is an important problem.
- Their economic importance often goes unnoticed, even by economists.

D. Obstacles to Private Enterprise Development

The low and unstable overall growth in the economy since 1980 has led to increased open unemployment along with supply-pushed, low-productivity underemployment. The lack of economic growth both constrains demand for labor in general and restrains the transformation process whereby more labor is absorbed in higher productivity employment in the economy.

The overall employment/output elasticity for Ecuador during 1974-1982 has been estimated at 0.46, one of the lowest in Latin America. The primary sector is achieving modest growth in output per worker but is failing to absorb additional labor. As noted earlier, output per worker in industry during 1974-1982 grew more rapidly than elsewhere in the economy. After 1974, most

labor absorption took place in the services sector -- at stagnant levels of output per worker. Much of this labor came from rural areas and represented migrant workers finding whatever self-employment or low-productivity jobs were available. Thus, a large pool of underemployed urban workers was created.

Ecuador needs to diversify production and exports to protect against world-price fluctuations of oil and other traded commodities and to establish a base for a post-oil era. The share of manufacturing in GDP (less than 17 percent) is currently very low largely because SGE policies have inhibited sustained industrial development. During the 1970s and 1980s, the value of manufacturing exports to the total value of manufacturing production has stagnated at 9 to 10 percent. Moreover, as a result of such policies, manufacturing is not concentrated in subsectors in which Ecuador has a comparative advantage, such as agribusiness, garment-making, and wood and wood products.

Manufacturing firms in Ecuador are still typically quite small. The average number of employees determined by a 1980 census was only five. Firms with less than five employees accounted for 86 percent of the total and firms with more than 100 employees for under one percent. Small-scale enterprises (SSEs) are typified by poor planning, inadequate financial management, production problems (e.g., in the areas of quality control, technology choice, product design and access to raw materials), and marketing difficulties (e.g., market identification, promotion and pricing strategies). SSEs in 1984 received only 2.0 to 2.5 percent of formal credit to the private sector and 6.5 to 7.5 percent of credit to the manufacturing sector. SSEs are also constrained by an inadequate supply of technically skilled persons due to insufficient

training facilities, ineffective training methodologies, weak coordination between training institutions and employers, and general deficiencies in levels of basic education among the poor who largely occupy these positions.

With the notable exception of shrimp and fish exports, no new products of any importance have appeared in Ecuador's export ledger since the country became an oil exporter. Exports of fresh and processed fruits, vegetables and juices, and cut flowers have increased by over 150 percent between 1984 and 1987. However, their absolute values are still quite low. Small and medium agribusinesses are at a particular disadvantage in obtaining reliable, up-to-date information on marketing opportunities, production technologies, and potential foreign investors that would assist them in expanding output and penetrating new markets.

The large majority of agribusinesses cite lack of access to credit as their main constraint, whether for production, export or expansion. Export storage and transportation facilities, especially cold storage units for perishables are also lacking. Technical and managerial skills for agribusiness are widely deficient.

Finally, to the list of constraints must be added the private sector's own attitudes toward business, government, equity and risk-taking. Previous mention was given to the likely opposition by private industrialists to any attempts to dismantle the high tariff protection they enjoy. Related to this attitude is the widespread lack of an entrepreneurial spirit and a fear of the international market place, which strengthens inward-looking bonds with the government.

E. Rapid Population Growth

Ecuador's population more than tripled between 1950 and 1988, from 3.2 million to 10.2 million today. Ecuador's population growth rate was well above the Latin American average, which was 2.5 percent annually between 1961 and 1970 and 2.4 percent between 1971 and 1982, while Ecuador's rate was over 3.0 percent during these periods. The urban population growth rate increased at a 4.5 percent annual rate between 1950 and 1982, quadrupling from 913,000 to close to 4.0 million and representing a jump from 23 to 49 percent of the total population. By 1995, the urban population is expected to pass the 7.0 million mark, or 59 percent of the total population. Total population is expected to grow to almost 14.0 million by the year 2000. The projected population growth rate of 2.86 percent for the 1982-90 period is expected to decline to 2.51 percent between 1995-2000.

The average number of children per family has declined from 5.3 in the late 1970s to less than 4.0 today, which is still relatively high when compared to other countries in the region. The contraceptive prevalence rate has increased steadily over the last fifteen years to around 45 percent of the sexually active population today. Modern methods of contraception -- sterilization (15 percent), the IUD (10 percent) and the pill (8 percent) -- are most popular. Demand for contraception is quite high: over 87 percent of married women of reproductive age (MWRAs) either want no more children or want to space their births. Although the gap is narrowing, contraceptive use in the rural areas (33 percent) continues to be much lower than in urban areas (53 percent). However, almost the same percentage of MWRAs in rural areas want no more children as those in urban areas. However, demand for

contraception in rural Ecuador greatly exceeds availability.

Women under age 25 have the highest fertility rate and the lowest contraceptive prevalence rate. Almost one-half of all births in Ecuador are to women under age 25, and the proportion is increasing.

Programmatic and policy constraints to family planning include restrictions against the non-professional provision of medically-related services, including contraceptives, and the less than aggressive implementation of population programs and policies due to Church opposition to the use of artificial means of birth control.

F. Health Deficiencies

The public sector has not been able to provide reliable basic health services on a sustainable basis to the population most at risk. The Ministry of Health (MOH), by far the largest provider of basic health services, reaches only about 40 percent of the population, with the more remote rural and marginal urban areas being neglected. Furthermore, MOH rural service centers, which are often not easily accessible, are plagued by a lack of supplies, undertrained and temporary staff as well as excessive vacancies. The Ministry's traditional focus on expensive curative care in major urban areas contrasts with epidemiological realities which indicate that major disease problems are preventable and are located in the more remote rural and marginal urban areas. Cheap, cost-effective technologies exist which can be used to address these problems. This is especially important given the fact that health expenditures are low by international standards. More than 80 percent

of the MOH budget, which represents only 6 percent of the total government budget, is for salaries -- with little money left for program expenses.

Infant and young child deaths continue to be the most significant mortality problem. While there have been substantial reductions in mortality in these age groups, the infant mortality rate (IMR), 51 deaths per 1,000 live births, and the child mortality rate (CMR) of 73 deaths per 1,000 live births remain high. Children under age five represent only 16 percent of the population, but suffer 29 percent of all deaths. Compared to other countries in the region, Ecuador's IMR is in the middle range. When the national rate is disaggregated by province, however, substantial internal variation can be found in IMRs, varying from a low of 27 per 1,000 to a high of 106 per 1,000.

The major causes of death in order of significance are neonatal causes, infant/child malnutrition, acute respiratory infections, diarrheal diseases, and vaccine-preventable diseases. As mortality rates have declined, neonatal deaths, that is, deaths during the first month of life, have become a much more significant proportion of infant and young child deaths. Today, almost one-half of all deaths of infants and young children occur during the first month of life. High neonatal mortality is directly associated with high risk births, that is, related to birth spacing, total number of births, age of mother, maternal nutrition, and the nature and quality of pre-natal and delivery services.

Malnutrition of mothers, infants, and children is an underlying factor in at least one-half of all reported deaths. The worst problem is protein-calorie malnutrition in children under age 5, a situation which is particularly acute

for the 6 - 24 months age group. While the underlying causes are complex, factors of particular importance contributing to malnutrition are: 1) feeding practices (breastfeeding, weaning and supplementary feeding) during the first two years of life and 2) recurrent infections. More than 40 percent of children under 5 are malnourished, with the worst problems in the rural highlands where more than two-thirds are malnourished. However, acute malnutrition is worse in the rural coast. Acute respiratory infections (more prevalent in the Sierra) and diarrhea (which is worse on the coast) account for almost 45 percent of all infant and young child mortality.

Along with fertility measures, maternal education is closely correlated with infant and young child mortality levels. The CMR for children of mothers with no formal education is almost three times as high as that for those of mothers with some secondary education. Another important factor related to diarrheal diseases is access to a clean water supply and sanitation facilities, which remains a problem, especially in rural areas. Only 30 percent of the rural population and 76 percent of the urban population have access to potable water systems. Even a smaller percentage of the population has access to adequate sanitation facilities: 19 percent of the rural population and 60 percent of the urban population.

G. Lack of Access to Basic and Higher Education

Based on a recent USAID assessment, the major constraints to human resource development in Ecuador can be grouped as follows: politics and policy, performance, budget and organization/administration. Politics has come to dominate policy in the education sector, especially considering the role of

the Marxist-dominated teachers' union. Between 1970 and 1980, education expenditures as a percentage of total GOE expenditures grew from 23.2 percent to 33.6 percent. Although it dropped to 19.6 percent in 1988, it is still among the highest in the region. Unfortunately, sound investment strategies have consistently been ignored. Teaching jobs are perhaps the major source of political patronage, which has led to an increase in the number of unqualified teachers for new schools in areas where school construction was not necessarily called for, excessive school construction with no rational planning, and proliferation of expensive secondary, university and technical training facilities with no cost-benefit analysis.

Teachers' salaries consume the lion's share of the budget. In 1988, 90 percent of the education budget was spent on operating costs, mainly salaries. Distribution of the budget and the setting of clear priorities to address critical problems is an issue. When comparing 1988 budget figures for primary and secondary levels, investment levels are almost the same in spite of the large difference in enrollment and coverage. In Quito alone, the 77 different departments and agencies of the Ministry are housed in 25 different buildings. The MOE's organization is a complex structure of legally recognized and decentralized organizations, each responding to its agenda and priorities. There is no integrated planning process and little inter-communication.

In higher education, universities and institutes have proliferated in an irrational manner. Between 1980 and 1987, 11 state university and 3 private university branches were opened. All secondary cities and provincial capitals have either a public or private university or extension branch, or a

combination of the above. The proliferation of universities and branches is equalled only by that of the 59 "superior institutes", again all state-financed, in the areas of education, industrial arts, agriculture, commerce, languages and fine arts. This, coupled with free tuition policies and the increase in the number of unqualified teaching personnel, accounts in large measure for the tremendous flux of students in and out of the higher education system and between disciplines, which generate a great cost to the government and society. Another factor for the flux of the students in the system is the high level of unemployment among youth and the prestige associated with university education which keep otherwise unqualified students in the system. In addition, the high percentage of non-teaching personnel (45 percent of total staff) is a budget constraint that impacts directly on efficiency.

Performance constraints are those related to the efficiency and quality of the education system. Their negative impact varies by levels in the education sector, and the nuances or characteristics of the system's inefficiency may differ from primary school to the university. The major efficiency-related problems are the repetition, drop-out, and over-age rates at all levels, as well as the out-of-school population in Ecuador resulting in lingering illiteracy. In 1987, 28 percent of primary-age children from rural areas were outside the system.

In looking at primary enrollment data, coverage or access does not appear to be as much of a cause for this high percentage as efficiency and quality. Of children entering first grade in urban areas, 75 percent complete primary school. In rural areas, only 42 percent complete primary school. At the secondary level, the first three years continue to show high levels of

wastage. Another critical element of internal efficiency is the student-teacher relationship. Whereas at the primary level in 1986-87 it was 33.1 students per teacher in urban areas and 30.7 in rural areas, at the secondary level it dropped to 15.8 urban and 10.8 rural. This relationship could be viewed as positive at the secondary level, were it not for the lingering wastage and the disproportionate increase in unqualified teaching staff with no preparation for the area of speciality to which they are assigned.

The proliferation of one, two and three-teacher schools (75 percent of all schools), as opposed to multi-grade, has had a serious impact on educational quality, especially in rural areas. Each teacher must handle several grades simultaneously without the necessary support materials or specialized training. Teacher quality is an issue at all levels: between 1982 and 1987 the percent increase in non-titled primary teachers (15.8 percent) was almost as great as that of titled teachers (16.8 percent). At the secondary level this is an even greater problem.

Whereas in the U.S. \$220 per annum is spent per student enrolled on classroom materials and other recurrent investment, in Ecuador the investment is \$9.43 for the same purpose. Because recent World Bank studies maintain that this investment is the single most important factor in educational quality, it can be inferred that in Ecuador the low level of expenditures (outside teachers' salaries) has a negative impact on the quality of education.

H. Housing Shortages/Urbanization

As noted above (p. 20), Ecuador is rapidly becoming a predominantly urban country: its urban population has grown from less than 30 percent of the total in 1950 to slightly more than 50 percent at present. Estimates are that it will reach almost 60 percent by 1995. Urban growth in absolute terms is accelerating. It took 32 years, from 1950-82, for the urban population of Ecuador to grow by three million. In the next thirteen years, from 1982-95, the urban population will grow again by three million.

In 1950, there were only two large urban centers: Guayaquil with 250,000 people and Quito with 210,000. No other city had more than 50,000 inhabitants. By 1995, there will be 13 cities with more than 100,000 inhabitants. Cuenca will be larger than Guayaquil was in 1950. Machala and Portoviejo will be as large as Quito was then.

Basic needs for jobs, housing and services of the urban population are not being met. Combined underemployment and unemployment in Quito in 1987 was 20 percent and in Guayaquil 18.6 percent. Some 70 percent of urban families have had to arrange for their own housing through the informal sector, with resulting problems in land titling, quality of construction and access to basic infrastructure (notably water). Following the decline in oil prices, investments in infrastructure have diminished and gains in water and sewerage coverage are being eroded. From a high of 63 percent in Guayaquil and 84 percent in Quito in 1982, coverage of the potable water system has dropped to 57 percent and 70 percent in the two cities in 1988 (estimated), and future urban needs will have to be addressed in the context of severe budgetary

constraints and limited foreign credits.

The two principal constraints on responding to urban growth are: (a) inefficient management of scarce resources and (b) a dismal municipal financial condition.

a) Inefficient Management of Scarce Resources. The allocation of subsidies to urban residents and of national government transfers to cities has not responded to explicit criteria of need or efficiency. For example:

- Subsidized water tariffs favor middle and upper-income users, while the basic service needs of lower-income families go unmet or are met at higher, unsubsidized costs.

- Long-term financing at subsidized rates is available to purchasers of completed housing units, while lower-income families have very limited access at all to credit for housing.

- The national government has assumed the responsibility for paying municipal debt service without any quid pro quo with regard to improved municipal financial management.

The human and financial resources -- as well as the management expertise and institutional capability -- available through the formal private sector are only minimally applied in meeting urban needs. For example:

- Formal private developers provide no more than 10 percent of housing in urban areas.

- Seventy percent of all housing is built by families or communities themselves, without the services of engineers or architects and without the necessary coordination with municipal authorities to ensure timely

installations of basic neighborhood services (roads, water and sewage, drainage, electricity).

Choices about standards or technology do not deal explicitly with the need to apply scarce resources to meet growing urban needs. For example:

- Land subdivision and urban infrastructure standards are too costly to be applied on a large scale. As a result, the few projects that meet the standards use a disproportionate share of available financing, while a large number of otherwise valid subdivisions are excluded from any financing as "illegal" for failing to meet the standards.

- There is no way that Ecuador could afford to provide housing and services at existing standards to all of the urban population. Just water and sewerage alone to serve 75 percent of the projected urban population in 1990 will cost \$22 million per year.

b) Dismal Municipal Financial Condition. Inflation is eroding the municipal resource base. For example:

- Income from property taxes is not keeping up with inflation.
- Real income from such taxes on the coast was 50 percent less in 1986 than 1974, 30 percent less in Quito and 10 percent less in the other cities of the Sierra.

A combination of diminishing resources and an increasing urban population has caused severe reductions in real per capita municipal expenditures. While real per capita expenditures grew up to 1982, since then they have been declining so that in 1986 they were 20 percent lower than in 1974, on average, for all cities. A close corollary of the financial weakness of municipal

governments is their equally weak administrative capacity.

I. Narcotics Awareness

Thanks primarily to preventive action through a USG-funded eradication program, Ecuador is not a significant producer of narcotics either for internal consumption or export. However, it is a channel for the movement of precursor chemicals to Colombia for the processing of cocaine, some of which then transits Ecuador on the way to the U.S. and Europe. Money-laundering is a potentially serious and growing problem, especially given bank secrecy legislation, well-developed smuggling channels, and ease of investment in property here.

Most Ecuadorians continue to believe that their country is an island of peace in a region of instability and that narcotics production, trafficking and abuse can never cause the societal disruptions that have occurred in neighboring countries in recent years. Large segments of the Ecuadorian population (including elites) refuse to take the problem seriously or to make dealing with the problem a high priority. As a result, too few resources are being devoted to improving an inefficient judiciary, passing narcotics-related legislation to give enforcement agencies the legal wherewithal to counter traffickers, and developing regional political, judicial, and police structures to cope with what, at its roots, is a regional threat.

Perceptions notwithstanding, illicit use of coca-based and other drugs is becoming increasingly serious in Ecuadorian society. Illegal drug consumption is producing increased street crime, losses of worker productivity and a

breakdown in social values. In spite of this, little connection is being made by Ecuadorian opinion leaders between Ecuador's role as a coca-transiting center, increasing domestic drug abuse and economic/social development issues. This information gap has translated into limited public interest for programs in coca eradication, drug enforcement and drug prevention education. Ecuador still needs to go through a process of increasing awareness, acquiring relevant information, analyzing it, and taking action with this information before it can really deal effectively with the drug problem.

III. STRATEGY

A. Summary

Despite contributing rather modest resource levels compared to those of the major donors (the World Bank and the Inter-American Development Bank), USAID/Ecuador finds itself in a position of being sought out by the new authorities to help right the mistakes of the past. Our reputation and track record on a number of development issues provides the Mission with a credibility that transcends whatever philosophical differences may exist between the current US and Ecuadorian administrations. The level of contact and coincidence of views which has developed in the seven months since the current government won the election on May 8, 1988 is all the more surprising given the close proximity of the USAID program to and USG solidarity with the free-market positions of the former Febres Cordero government.

The Mission is encouraged by the dialogue which has emerged with the Borja government in so little time. From the earliest contacts with the Borja transition team, USAID support was sought for the social sectors, particularly child survival, rural water and sanitation, and housing and urban development. USAID positions in the agriculture and natural resource sectors are also shared in large part by the new authorities. Although the August 30th emergency economic measures were formulated without prior consultation with the Mission, they reflect perspectives shared with the transition team and are a positive step towards short-term stabilization. In conjunction with ESF conditionality, constructive dialogue has been established on the need for careful monitoring of economic indices and follow-up measures to assure a full

recovery.

Not all that is contained in this CDSS, however, reflects the complete concurrence of the GOE. While agreement exists in principle on the priority to be assigned to employment generation, for example, growth-inhibiting policies are not currently being targeted by the GOE for reform. The GOE proclaims its support for export expansion, but as yet has done little to dismantle a highly protectionist tariff structure. The new administration announced plans for new micro-enterprise programs, yet subsidized interest rates (for directed credit programs) and minimum wage and labor protection laws serve to promote capital-intensive investment patterns.

The Borja administration is still new and clearly preoccupied with short-term stabilization measures geared to control inflation and the fiscal deficit, on the one hand, and with social programs directed at minimizing the consequences of adjustment on the more disadvantaged segments of the population and fulfilling a political agenda, on the other. USAID's strategy is supportive of this dual approach, but it also recognizes the more basic need for, and places great emphasis on, structural reform leading to self-sustaining economic growth and a more equitable distribution of the benefits of growth. USAID views this growth as the key determinant in Ecuador's prospects for graduating to ADC status and as closely linked to the USG's overriding political interests of strengthening democracy and keeping Ecuador from following in the tracks of its Andean neighbors with respect to narcotics production and trafficking. Growth will also permit the GOE to meet its debt obligations in a responsible manner. A strong commitment by the GOE will be necessary to correct the numerous policy distortions inhibiting growth.

Policy dialogue with the GOE and other donors is expected to play a constructive role in this regard, given the receptivity to such advice demonstrated by the Borja administration to date.

An emphasis on helping the government to move toward a proper set of policies will be a central focus for the Mission's strategy. The Mission is in a unique position among the donor community in that its significant in-country presence allows a greater sense of partnership to develop. Relying less on large sums of ESF resources and the "leverage" such funds may exercise, USAID's programs and influence at the sector level have opened many doors and served to deepen the dialogue beyond the ideological plane. The AID/W CDSS review (see Attachment 1) concluded that "Mission assistance, particularly ESF, should be conditioned on policy reform performance of the GOE. The Mission should submit a concept paper for macroeconomic policy reform which makes explicit what policy reforms it will seek in conjunction with FY89 and FY90 ESF. The concept paper should also identify means of using ESF funding to further its sector goals. Consideration should also be given to additional technical assistance or studies linked to policy analysis support."

With respect to achieving ADC status, the AID/W CDSS review observed that "Ecuador has the potential for achieving ADC status during the 1990s. However, at present, it falls short in terms of the level of institutional development, the strength of the private sector and the country's ability to regain its capacity to mobilize financing on more commercial terms from international and domestic sources. Notwithstanding the Bureau's criteria for graduation to ADC status, AID/W budgetary realities could abruptly catapult

countries to ADC status. In spite of possessing a number of classic characteristics of a developing country, Ecuador's position as a petroleum exporter in the end might be the major factor in determining the timing of its graduation." The AID/W review concluded that "the CDSS outlines a strategy appropriate to Ecuador's circumstances. At the same time, the Mission should be prepared for a shift of Ecuador to ADC status during the 1990s. The issue should be reviewed again in 1992 by which time Ecuador's stabilization process should be complete."

USAID's country strategy will encompass activities directed towards three LAC Goals: Economic Stabilization; Basic Structural Reforms Leading to Rapid and Sustained Economic Growth; and Wider Sharing of the Benefits of Growth. Economic Stabilization is a shorter term goal but one which represents a necessary precondition for the other two. While policy reform constitutes the single most important factor for achievement of the first two goals cited above, program interventions in technology transfer and institution building are needed to support policy dialogue and nurture the partnership nature of USAID's role.

Within this goal structure, the Mission will pursue nine specific objectives, as detailed below. Under the goal of Basic Structural Reforms Leading to Rapid and Sustained Economic Growth, the AID program is organized under three objective categories:

- increase agricultural productivity
- preserve and manage natural resources

- strengthen private enterprise and promote exports

Under the goal of Wider Sharing of the Benefits of Growth, another five objective categories are addressed:

- increase access to voluntary family planning services
- reduce infant and child mortality
- improve housing, basic services and urban growth management
- improve educational opportunities
- promote narcotics awareness

If successful, AID's program concentration in these areas will assist Ecuador to achieve by the end of the CDSS period both economic stabilization and an improved policy matrix facilitating the resumption of dynamic and sustainable, diversified non-petroleum led GDP growth. Concrete benefits should include a more outward-looking and labor-intensive foundation for future growth, improved management of urban growth, and significant improvement in basic services for low income families.

To best support policy dialogue and to maximize the impact of its program activities, USAID/Ecuador has chosen a strategy which attempts to establish clear priorities and enforce greater focus through: a) the avoidance of project proliferation; b) closer coordination with other donors; and c) the reinforcement of cross-sector linkages. The setting of priorities must depend upon three key factors: relationship to Ecuador's principal development constraints; the level of GOE, private sector and PVO commitment; and AID's

comparative advantage vis-a-vis other donors and its own administrative capabilities.

In contrast to USAID's program during the FY 84-87 period, the number of discrete initiatives has been drastically reduced and many on-going activities have been reassessed to determine whether they meet the criteria described above. Through greater focus, the Mission believes that its performance and impact can be more effectively demonstrated. The strategy will require that USAID refrain from responding to many deserving initiatives in order to concentrate on what its limited resources will permit it to accomplish in terms of lasting, self-sustaining benefits. As an example, lack of GOE and private sector commitment were key factors in the Mission's decision to suspend and terminate the Land Titling Project and the Graduate Management Program, respectively. Tourism, general vocational education, control of malaria and AIDS, school feeding, privatization and capital market development are examples of activities USAID has either promoted in the past or seriously considered promoting which will be dropped entirely or receive only minimal attention under the new strategy due to their low priority, lack of host country commitment or inability of the Mission to adequately support them.

Regarding program focus, the AID/W CDSS review concluded that "for a variety of reasons, the mix of objectives set forth, while large for the level of resources anticipated, is appropriate given the constraint analysis contained in the CDSS. As Ecuador moves toward ADC status in the 1990s, the Mission is encouraged to reassess its program focus and seek further consolidation. The Mission should accord highest priority to those objectives supportive of

sustainable, broad-based economic growth and allocate ESF as well as DA and other resources to support such objectives. To the extent possible, the Mission should continue to maximize the use of private sector institutions in the implementation of its program."

Special mention should be made of democratic initiatives, administration of justice, and participant training. Considerations regarding program focus, funding availability and political sensitivities have led to a Mission decision to treat democratic initiatives, as it is currently being defined by the LAC Bureau, only on an ad hoc basis. Short-term training for mayors, for example, will be provided under the Andean Peace Scholarship Program (APSP). Likewise, legislative reform is being pursued in several sectors, including narcotics abuse and control, environmental protection, and child protection, through support to local PVOs and governmental agencies. The Mission will explore a limited response to judicial reform efforts, as appropriate.

The CDSS guidance cable recommended that the Mission "work with the LAC office of democratic initiatives to develop administration of justice activities appropriate to Ecuador and to the Mission's staff and financial constraints and explore ways in which USAID/Ecuador can tap into ongoing and planned A.I.D.-financed democratic initiatives regional projects."

With respect to participant training, the Mission chose not to make this a separate objective, but to treat it as an integral part of its program. We believe participant training to be more a means to an end than an end in itself.

Over 53 activities have received funding from ESF and PL-480 generated local currencies, seriously diluting their potential impact and stretching management oversight too thin. In the future, local currencies will be programmed to help finance only priority programs being supported by USAID. With respect to ESF in particular, USAID is exploring participation in debt exchanges which could significantly expand the amount of sucres that might be available for sector programs, while at the same time heightening their relevance in terms of macro policy dialogue. Increases in the very modest ESF planning levels for the CDSS period are warranted in order to enhance USAID's negotiating position and potential impact.

In terms of other donor coordination, AID's influence can far exceed the size of its portfolio in monetary terms if its experience and program selection are used strategically. A prime example is the water and sanitation area, where for rural areas alone it is estimated that \$130 million would be required to expand access to basic but safe facilities from 30 percent of the population at present to 75 percent coverage. This sum far exceeds what AID is likely to be able to invest even if a major debt exchange arrangement were negotiated. The Mission's rural water programs have broadened coverage from 15 to 30 percent in rural areas, however, and the by-products of experience and strengthened GOE institutional capacity gained as a result can serve as a strong foundation for larger, other donor programs. This in turn will permit USAID to concentrate on complementary services designed to improve water utilization behavior.

Another area where the Mission will attempt to "leverage" other donor support

far in excess of its own financial contribution is in basic education. USAID's proposed follow-on effort to a pilot radio learning project is an example of where its limited resources can be used to demonstrate the advantages of an education intervention which has been proven successful in other developing countries and has received a very favorable initial response in Ecuador. It is hoped that much larger IDB and IBRD programs can profit from the introduction of such USAID-sponsored interventions.

With respect to cross-sector linkages, the Mission will attempt to maximize the impact of its program through greater integration of its activities. While not fully developed at the current time, one approach would be to use a network of cities as a unifying theme for Mission strategy. Given the rapid growth and increasing importance of Ecuador's secondary cities within a process of growing urbanization which affects virtually every sector of the economy, an emphasis on investments and technical assistance to secondary cities could increase the effectiveness and efficiency of investments in each sector. In an integrated manner, physical infrastructure investments and improved municipal management capabilities could reinforce and create greater opportunities for agricultural marketing and agri-processing industries close to the site of their raw materials, and stimulate off-farm employment in towns and smaller cities in rural areas.

While the Mission feels confident that the strategy contained herein is appropriate for the planning period, several elements of this strategy are undergoing an evolutionary process which will further refine USAID's program and may result in certain modifications. A major agricultural sector

assessment is expected to be completed within the next 6-9 months (however, preliminary findings of this assessment corroborate the Mission CDSS strategy). The natural resource management strategy is near completion and its key elements are reflected in this CDSS. The human resource development, women in development, and urban development strategies, however, will require another year or so for full elaboration.

Finally, the Mission program includes a clear emphasis on involving the private sector wherever appropriate as recipients of, and as a means for delivering, its development assistance. Each objective included in the strategy includes assistance channeled to or through private sector organizations. These organizations represent a key element of the Mission's policy dialogue strategy as well. The proposed FY90 Binational Foundation project will serve as the principal means by which the Mission will strengthen the local PVO community and enhance PVO (local and international) involvement in the development process. The AID/W CDSS recommended that the Mission "seek additional opportunities to work with private voluntary organizations (PVOs), in particular indigenous PVOs, in an effort to target benefits more directly to the poor."

USAID anticipates that resource requirements over the CDSS period will be generally the same as the Mission is receiving in its current O.Y.B.: \$17 million in Development Assistance, \$5-6 million in food aid, and \$9-10 million in ESP. ESP resources have been problematic. No resources were made available in FY88 and the FY89 level is dwarfed by the magnitude of the GOE's debt service obligations and foreign reserve deficit situation. A doubling of

ESF resources, especially over the first half of the CDSS period is justified in terms of demonstrating the USG's support for pragmatic stabilization measures to arrest the recession and for movement towards longer-term structural adjustment.

B. Goals and Objectives

1. Economic Stabilization

a. Targets:

- fiscal reform enacted to improve national and local revenue generation and to reduce public spending and fuel and food subsidies, directly contributing to a reduced fiscal deficit which stabilizes at between 3-5 percent of GDP by CY 1990.
- official exchange rate maintained at levels which provide positive incentives to the export sector (alternatively, a unified free-market rate).
- monetary growth controlled.
- inflation rate reduced to under 30 percent per annum.

b. Strategy:

USAID's strategy will consist of maintaining constructive dialogue with the GOE economic team to encourage a consistent and coherent package of stabilization measures, including key policy measures in its ESF cash transfer and food aid conditionality, and providing support to macroeconomic policy analysis units in the Central Bank and the Ministry of Agriculture.

To substantially multiply the impact of ESF dollars, the Mission will explore the possibility of participating in debt buy-backs or swaps, which in turn would substantially increase the amount of sucres generated for addressing priority sector development constraints. If, after further discussions with State, Treasury and AID/W, such debt exchanges become possible, sector programs would be based on a thorough analysis of the policy and other development constraints and prospects in a given sector or subsector. USAID support would respond to a commitment to significant policy changes by the GOE. Dollar disbursements would be keyed to performance on these policy changes, while local currencies generated by the dollar disbursements would be directed at activities that would address the identified sector constraints.

In support of this goal, USAID's current portfolio includes a fiscal administration project designed to increase non-oil revenue generation through improved income and sales tax collection, while at the same time lowering the overall tax rate. The Borja administration has placed a priority on tax reform and has welcomed a continuance of AID project support. It is unclear at the present time, however, whether U.S. assistance will be appropriate beyond 1989 when the current project ends. A major determinant

will be GOE commitment and follow-through in this area and the definition of a possible future role for USAID vis-a-vis other donors.

In the coming months, the Mission will also explore linkages between national and municipal fiscal reforms. Increased local revenue generation, combined with improved cost recovery on municipal investments in infrastructure, may be one of the most promising and viable avenues to reducing the national budget deficit. Movement toward self-financing cities can reduce the current heavy burden of transfers from the national to local governments. Such reforms will become easier for the GOE to implement if they are accompanied by programs to mitigate their adverse impact, particularly on the urban poor. Basic shelter and infrastructure programs such as those proposed in this CDSS can and should be seen in this light.

Assuming no retrenchment on the part of the GOE in its economic stabilization plan and no major new external shocks to the economy, the Mission expects that this goal will have been achieved by early FY91.

2. Basic Structural Reforms Leading to Rapid and Sustained Economic Growth

Overview

This goal is at the core of USAID's strategy over the CDSS period. Assuming stabilization is attainable over the short term, Ecuador's future prosperity will depend on the degree to which it can achieve sustainable, broad-based growth in the non-petroleum sectors of the economy. Drawing upon its rich

agricultural and natural resource base, Ecuador must strive to achieve competitiveness in world markets and forego its protectionist behavior of the past. Productive employment opportunities depend on exploiting its comparative advantage. Greater emphasis on exports in both agriculture and manufacturing must be supported by a policy matrix which provides proper incentives and avoids distortions.

In addition to the three specific objectives supporting this goal which are described below, the Mission also plans to provide modest support for data gathering and analysis of the labor market. Reliable but partial information on employment has only recently been gathered. The GOE needs to institutionalize a process for analysis in this area so that informed policies can be implemented. USAID's own preliminary review of unemployment issues indicates a wide divergence with the popular and official information available and, not unexpectedly, a clear disagreement over the means to increase productive employment opportunities.

a. Increase Agricultural Productivity

(1) Targets:

- Improved environment for investment, productivity and employment through changes in the policy matrix, with particular focus on (a) the reduction and eventual elimination of price controls on agricultural products; (b) interest rate policies which result in substantial increases in productive

credit for the sector; (c) a sharp curtailment in the role of state-run agricultural marketing organizations; (d) the avoidance of foreign exchange and tax disincentives for agricultural exports; and (e) greater resources directed to and efficiency in the agricultural research and extension system.

- Based on policy changes in these areas, the following targets have been established:

a) 4.5 percent average real growth of value added (GDP) in agriculture over the CDSS period.

b) Yields and participation (share of total producers being impacted by USAID programs)	<u>Increases in</u> <u>Yields</u>		<u>Increases %</u> <u>Participation</u>	
	<u>FY 89</u>	<u>FY 94</u>	<u>FY 89</u>	<u>FY 94</u>
- coffee (kg/ha)	400	800	0.6	3
- cassava (kg/ha)	8,500	12,000	5	10
- milk (liters/cow/day)	8.4	12	1	10
- sheep meat (kg/head)	15.9	22	15	40
- hard corn (kg/ha)	1,000	1,500	NA	NA

c) Self-sustaining policy analysis unit functioning within the Ministry of Agriculture.

d) A comprehensive market news service functioning on a self-sustaining basis.

- Incomes of farmers impacted by AID projects (who are among bottom 80% of farmers) increased through greater, sustainable agricultural productivity.

(2) Strategy:

The proposed strategy for the FY 1990-94 period continues that set forth in USAID's last CDSS, with some refinements and modifications. Further refinements may be called for, following completion of the Mission's agricultural sector assessment and several related studies. The Mission strategy for agriculture is directed toward improving agriculture's contribution to economic growth and employment in Ecuador, and specifically at increasing the incomes and well-being of farmers with small to medium-sized holdings, landless laborers, and other rural poor. The strategy is comprised of three principal elements: 1) improving the policy environment for investment, productivity and employment; 2) strengthening the science base for agriculture through technology adaptation and transfer; and 3) improving the management of natural resources and adoption of sustainable agricultural and agro-industrial practices.

To improve the policy environment, the Mission will pursue two objectives. The first objective is to foster a set of macroeconomic and sector policies, based on free-market principles. Such policies will result in clearer price signals, better incentives, more efficient allocation of resources and products, and lead to more rapid and sustained economic growth. The second objective is to assure that the poor benefit from economic growth and development. Macroeconomic and sector policies should result in a more egalitarian sharing of benefits of economic growth.

The Mission has adopted a dual strategy for accomplishing its policy dialogue objectives in the agricultural sector. First, we are assisting the GOE to

develop improved data and institutional capacity for more objective policy analyses. Second, we are engaged in a sustained dialogue with policy-makers at all levels of government and the private sector. Our strategy is based on the reality of the relatively small size of the U.S. foreign assistance program in Ecuador. Consequently, we have focused on educating and persuading Ecuadorian policy-makers to move toward the free-market model in the country's self-interest.

USAID has participated in a continuing policy dialogue with the Borja government since the transition process began. Discussions have focussed on a variety of topics, including trade policy, subsidies, macroeconomic policies, poverty and migration. The recent decision to eliminate wheat subsidies reflects the effectiveness of policy dialogue efforts. Efforts will be made to build upon the progress achieved to date in developing public and private sector capacities in policy analysis (the Ministry of Agriculture and Fundacion IDEA), developing a market news service, improving the agricultural and agroclimatic data systems, and establishing a computer center for data processing and policy analysis in the Ministry of Agriculture. To pursue this strategy element, the Agricultural Sector Reorientation Project (ASRP) will be extended through the end of the CDSS planning period.

An analysis of the sources of growth in crop production in Ecuador indicates that technical change has been an important contributor to increased production over the past two decades. This suggests that modest GOE and donor investments in technology generation and transfer and strengthening the science base have been demonstrated to be effective even when the sector has been constrained by unfavorable sector and macro-economic policies. With an

improved policy environment, much higher returns can be expected from continued investment in technology development and transfer. The Mission will continue with its current program to strengthen the science base, principally through support to private sector producer associations and by fostering stronger linkages between farmers and various public and private agencies, including the National Agricultural Research Institute (INIAP) and the Foundation for Agricultural Development (FUNDAGRO).

A third element of the current strategy which the Mission believes should be continued over the coming CDSS period is support for improved natural resource management. It is clear that without improved management of Ecuador's natural resources, the sustainability of agricultural production, farm income, biological diversity, tropical rain forests, rural and urban water supplies and investments in hydroelectric power all are threatened.

While the availability of food aid over the next 4-5 years is unclear, additional levels would significantly increase the Mission's leverage, reinforce policy dialogue efforts on key issues and serve to expand our program emphasis in the areas listed above, by assisting to reduce the food import bill and generating increased levels of local currencies to finance priority project activities.

The AID/W CDSS review decided that "the Mission should use the agricultural sector study, presently being completed, to address both the policy constraints to faster agricultural development and the constraints placed by agricultural policy on the poor. Since appropriate economic policies are key

to agricultural sector growth, the Mission should work closely with the GOE to ensure these are adopted. The Mission should use ESF and food aid (conditionality and/or local currencies) in support of agricultural sector objectives."

b. Preserve and Manage Natural Resources

(1) Targets:

- new legislation approved which establishes the priority of conservation efforts and eliminates existing overlapping provisions and contradictions;
- management strategy for Ecuador's coastal resources developed and under execution;
- rate of deforestation in selected buffer areas decreased by 80 percent.

(2) Strategy:

The Mission's strategy in this area will be to help develop the socio-cultural, institutional, technical and policy basis for the conservation of Ecuador's natural resources as an essential ingredient, with human resource development, for sustained economic development. Specific objectives supporting this strategy are as follows:

- To promote improved knowledge of natural resources management issues among all Ecuadorians, including scientists and professionals, through education and research;

- To promote an understanding among political leaders, the press, and influential public and private sector institutions that Ecuador's productive base -- its renewable natural resources -- cannot be conserved unless the poor majority is allowed equitable access to economic opportunity;

- To develop policies and laws that promote conservation or do not adversely impact on the natural resource base;

- To develop and test institutional systems or arrangements which are capable of managing Ecuador's natural resources in a sustainable manner; and

- To develop and test sustainable-use technologies in field situations.

Over the CDSS period, the Mission will undertake activities that both directly address Ecuador's natural resources problems and seek to remove many of the constraints to natural resources conservation. This will be done through:

- i. Continuing projects that are already addressing problems/constraints.

- ii. Including natural resource and environmental concerns on the policy dialogue agenda.

- iii. Designing new activities/projects that will address natural resource conservation problems through field demonstrations and at the same time investigate and implement means to alleviate institutional, policy,

research, education and other constraints.

At this time, the Mission has selected two areas for project development. One activity will address the problem of soil erosion, small farm agricultural productivity, and possibly other problems such as water management. Soil erosion, due to lack of, or poor soil conservation practices, is an immediate problem that needs to be addressed to stem further deforestation of Ecuador's steep slopes and to slow the rate of colonization and conversion of forested lands to agriculture in the Oriente.

A more complex activity will support direct actions to conserve natural resources, including biodiversity and tropical forests, by helping Ecuador to develop protective measures such as the design and implementation of national park and nature reserve management plans in areas of high biodiversity, tropical forests and agroforestry activities. During project design, the possibility of using the Wildlands and Human Needs approach (developing sustainable use activities for inhabitants in park areas) to park protection will, when appropriate, be investigated. This second activity will have a more long-term effect on Ecuador's natural resource base by preserving its wealth of biological resources for future generations.

iv. Seeking to ensure that all Mission projects take into account the conservation of natural resources.

v. Coordinating with other donors to attract their involvement in natural resources conservation activities and reviewing their

projects for consistency with the policy of promoting the sustainable use of Ecuador's natural resources.

The Assessment of Biological Diversity and Tropical Forests in Ecuador carried out by IIED in 1988 pointed to a number of actions that need to be taken to ensure adequate conservation of biodiversity and tropical forests. For a summary of its findings and conclusions, please refer to Section V.C. The strategy summarized here incorporates these recommendations as far as possible, within the Mission's resource limitations.

At the AID/W CDSS review, it was recommended that "the Mission should work closely with the GOE to ensure that progress achieved under the coastal resources management activity will be continued and strengthened by the GOE in the future."

c. Strengthen Private Enterprise/Promote Exports

(1) Targets:

- official exchange rate maintained at levels which provide positive incentives to the export sector (alternatively, a unified free-market rate).

- positive real interest rate policies adopted so as to spur domestic savings mobilization and increase credit available for productive investment.

- minimum wage and labor stability laws revised so as to reduce disincentives for labor-intensive production.

- value of non-traditional agricultural exports supported by USAID programs expand by \$40 million a year and result in 11,000 new jobs by 1994.

(2) Strategy

In order to formulate its strategy in this area, the Mission commissioned a major off-farm employment study. Employment, the informal sector, rural-urban migration trends, and small and micro-enterprise development constituted important factors which needed to be placed within a consistent conceptual framework. The result was several important findings which have clear implications for our strategy. First of all, the urban unemployment rate of 7.24 percent is low compared with that of other Latin American countries. Visible and invisible underemployment rates of 4.5 percent and 22.4 percent respectively do, however, point to a serious problem of low productivity and incomes for a significant portion of the population. Most of the situations in which underemployment manifests itself are related to lack of sector or enterprise growth. Broad-based, self-sustaining growth is the obvious solution to the underemployment problem, and policy reform is needed to achieve necessary economic growth. This conclusion is consistent with the recent CDIE study on AID's experience with selected employment generation projects worldwide.

In dealing with the term "informal sector" as applied to employment issues, the Mission quickly found itself entangled in a complicated definitional problem. The employment study's conclusion was that the "informal sector" was a valuable term inasmuch as it focused attention on low productivity and underemployment issues. It was not, however, a particularly useful term in formulating clear strategies which lend themselves to measurable targets of performance. The study suggested that a more helpful approach was to focus attention on those sectors or subsectors of the economy which represent the greatest comparative advantage in growth terms. Size of firm is less useful as a reference in that a majority of microenterprises are located in the retail or domestic services sectors or represent self-employed enterprises which are difficult to assist and possess little potential for upward movement towards becoming more productive enterprises.

As a result, the Mission's strategic focus will center primarily on policy dialogue leading to incentives for export-oriented industrial and agricultural production and job creation concentrated in products and industries in which Ecuador has a comparative advantage. The Mission will build upon a variety of policy dialogue fora, including ESP and PL-480 conditionality, support to local private sector institutions (the Institute of Socio-Economic and Technological Research - INSOTEC, the National Association of Businessmen - ANDE, and the IDEA Foundation), public-private sector policy dialogue seminars organized by the Central American Business Administration Institute (INCAE), and data gathering and analysis and policy studies on macroeconomic, labor, export and small business issues which limit growth.

The World Bank estimates that continued export expansion and switching expenditure away from consumption to investment and exports should allow non-oil GDP growth to accelerate from 2.0 percent in 1988 to 4.5 percent by 1991 and 4.8 percent by 1994. If economic recovery is to avoid constraints resulting from shortages of foreign exchange and also achieve improved industrial efficiency and faster growth, the GOE must maintain the exchange rate at a level that is sufficiently competitive to raise export earnings. Additional exports are needed to preserve equilibrium in the balance of payments under a substantially less protective import regime and to rebuild Ecuador's foreign exchange reserves. This shift in policy to a more outward-looking posture would permit the country to increase export-oriented output and employment and offset the reduction in domestic demand resulting from cutting the public sector deficit. Subsequent growth, being export-led, would not encounter the foreign exchange constraints that tend to halt expansions based mainly on the stimulation of domestic demand.

The Borja administration has announced that employment generation and reduction of underemployment are among its most important policy objectives. It is quite clear, however, that the GOE has not carefully analyzed the relationship of its inward-looking, protectionist and capital-intensive policy matrix to employment. USAID believes that shared priorities will permit constructive dialogue with the GOE and that continuing to implement program support in small enterprise and non-traditional agricultural export promotion will lend credibility and sector-level experience to reinforce the Mission's position on key policy formulations.

No major new initiatives are contemplated in the way of program support. Rather, the Mission intends to reassess its ongoing small enterprise and non-traditional agriculture export projects to incorporate a greater focus on those sectors or subsectors which possess the greatest opportunity for broad-based growth. Emphasis will be placed on technical assistance, training and, to a lesser-degree, credit. With respect to the non-traditional agricultural exports project, the Mission's efforts are being refocused from addressing only the more narrow marketing information and credit constraints to a broader emphasis on production, quality control and human resource development concerns. A principal objective of the redesigned project will be to provide new employment opportunities for the rural poor, in addition to increasing exports. The Mission believes that the project, through the adoption of efficient labor-intensive techniques, may be the best way to help the rural poor to increase their incomes and enhance their resource base.

ESF-generated local currencies will be programmed to reinforce these efforts. Human resource development financed under these same projects will also be tailored to priority sectors. The broad-based vocational education programs in the Mission's current portfolio will not be renewed or extended once they end. World-wide AID experience indicates that these types of programs have had poor payoffs as tools of employment generation.

Finally, the Mission strategy will seek out cross-cutting linkages between sectors to maximize the developmental impact of our modest resource levels. The Forestry Private Enterprise Initiative, funded by the Science and Technology Bureau, is an example of the type of link that will be fortified

between our small enterprise, export promotion and natural resource management sectors. Employment generation concerns will also be an integral part of the Mission's urban development strategy.

3. Wider Sharing of the Benefits of Growth

Overview

The Mission's principal focus under this goal is investment in the protection and development of the nation's human capital and the strengthening of institutions in order to improve the living, educational and health conditions of the poor. A very strong linkage exists between this goal and the previous one which addresses structural reform leading to growth. Improved urban management, expanded construction activities, wider access to basic education and lower population growth rates all contribute significantly to sustained economic growth. In addition, the type of growth being sought must be broad-based and integrate equity concerns wherever possible. One product of greater growth must be an expanded capacity of government and the private sector to expand the coverage of social services to the lowest income groups.

USAID involvement in the social sectors will be directed towards problems related to health, shelter and related services, management of urban areas, and human resources development. Within the health sector, the Mission will focus on 1) reducing infant and child mortality (child survival); 2) further decreasing the high birth rate; and 3) ensuring self-sustainability of service delivery in the two priority areas mentioned above.

The Mission's strategy of providing affordable, decent shelter and basic services for low income urban families can have a major impact on the health and welfare of the urban poor. The urban development strategy, which is still in the formulation stage, will focus not only on shelter and infrastructure but also on the economic role of cities. The strategy will seek to find ways to contribute to the reduction of urban un- and under-employment. Private sector mechanisms will be stressed in responding to broad urban needs. In shelter, the strategy will emphasize progressive solutions, such as upgrading of sites and services. The increased reliance on local governments and the private sector in meeting the needs of the urban poor will relieve some of the pressures currently placed on national public sector institutions. In addition, the Mission intends to pursue a program of support to local governments which will encourage and promote a democratic, participatory process for managing urban growth, while emphasizing the need for cities to become more self-financing.

Basic education improvements will be pursued primarily through a radio learning project, which is aimed at addressing basic education requirements, and through the Andean Peace Scholarship Program. The Mission's human resource development strategy is not yet completed and much will depend on the success of the radio learning effort in establishing linkages with the Ministry of Education and other donors active in the sector. The AID/W CDSS review strongly urged that "the Mission seek out opportunities, especially in discussions with the other key donors in the basic education sector, to devote more attention to education and maintain a presence in order to influence more favorable policy decisions."

Finally, special attention will be given to expanding the general public's understanding of the devastating effects of drug trafficking and abuse. Both the GOE and the private sector support activities in the battle against drug abuse and USAID will provide needed technical assistance.

Specific Objectives

a. Increase Access to Voluntary Family Planning Services

(1) Targets:

- Effective implementation of and enhanced commitment to the recently-approved national population policy.
- Public awareness and contraceptive supply programs established on a self-sustaining basis with public, private-non-profit and private-for-profit support.

	<u>1988</u>	<u>1994</u>
- Percent of couples practicing effective methods to voluntarily limit family size	44%	51%
- Crude birth rate (CBR)	36/1,000	31/1,000

(2) Strategy

Sustained economic development and the achievement of a decent life for Ecuador's citizens can only occur when population growth no longer outpaces economic growth. Ecuador, with one of the highest population growth rates in Latin America, officially adopted a national population policy in October 1987. It is a well-conceived and comprehensive document which specifically includes objectives on the rights of parents to responsibly determine their family size and the need for the Government to increase coverage of family planning services and improve their quality. USAID directly contributed to the development of this strategy by providing technical assistance to the Center for Population Studies and Responsible Parenthood (CEPAR), which had been requested by the Vice President to review a draft strategy prepared by the National Planning Council (CONADE).

Successful population programs depend on the commitment and resources of the countries themselves. But although this commitment is absolutely necessary, it is often insufficient. The support of the international community has been vital to bolstering national resolve and providing resources for successful long-term programs. Since 1981, AID has provided assistance to CEPAR in support of policy development. CEPAR activities have included: (1) training and workshops for local political and business leaders, educators, and the press on population and development, fertility, family planning, and related matters; (2) articles presenting various demographic and population policy issues; (3) research projects in demography and population policy; and (4) development and demonstration to political leaders of a computer simulation displaying the macro-economic relationships between population growth and

development. These activities have been designed to increase awareness and knowledge of demographic and family planning issues.

In the future, AID plans to continue providing assistance to CEPAR for workshops, training, publications, information dissemination, and demographic and policy research to increase an appreciation and understanding of the importance of population issues and to ensure that the new population policy is effectively implemented by the Government. The Mission also plans to work closely with other private sector organizations to strengthen their plans and policies for long-term self-sufficiency and to encourage commercial firms to establish policies of routinely providing family planning services to their employees.

To increase awareness of family planning options and contraceptive supply, support will be given to a comprehensive service delivery program, including public (MOH and Social Security), private-non-profit (the Association for the Well-being of the Ecuadorian Family - APROFE, the Medical Center for Family Planning and Orientation - CEMOPLAF, and the Family Obstetrics Center - COF), and private-for-profit (pharmacies, doctors, nurses) organizations.

There will be a focus on groups and geographical areas where the need is greatest. Particular emphasis will be given to rural areas where demand for contraceptives far exceeds Ecuador's capacity to supply. To improve contraceptive availability in rural areas, the strategy will support increased community-based distribution through non-clinic village distributors, a strengthened social security farmers' program, commercial marketing of contraceptives through pharmacies, and increased assistance to MOH rural

health posts. Women under age 25, who have the highest fertility rates, will also be given increased attention through the development of special community programs and the establishment of an urban outreach program.

The strategy will also provide additional resources to an already very active private sector through: (a) training and contraceptive supplies to private health practitioners who had not previously been involved with family planning services; (b) establishing a contraceptive commercial marketing program by strengthening advertising and mass-media programs and training pharmacists; and (c) capitalizing new physician service centers in areas without access to family planning programs.

Other priority strategic areas include improved information and communications to increase demand, involvement of the Church in the program through support for natural family planning, and the use of research to improve cost-effectiveness and to evaluate programs. The current Population and Family Planning Project terminates in September 1991. The Mission plans to develop a follow-on project in FY 91.

b. Reduce Infant and Child Mortality

(1) Targets:

- Reallocation of MOH resources by attaching greater priority to preventive versus curative care and to basic rural and marginal urban health services versus hospital services.

- Improvement in cost-effectiveness of health services by (a) increased use of epidemiological considerations in resource allocation; (b) greater decentralization; (c) more emphasis on health education; (d) improved management, logistics, communications and information systems at the field level; (e) greater role for private sector provision of child survival services where appropriate; and (f) continuation/expansion of AID-initiated policy of community ownership, management and financing of rural water supply and sanitation systems.

- Based on policy changes in these areas, the following quantitative targets have been established:

	<u>1987</u>	<u>1994</u>
Infant mortality rate	51/1000	36/1000
Child mortality rate	73/1000	52/1000
Global Malnutrition	35%	21%
Level of Immunization Coverage (12-23 months)	70%	80%
Use of Oral Rehydration Salts (0-5 years)	18%	34%
Access to potable water	25% (rural) 76% (urban)	60% (rural) 80% (urban)
Access to sanitary facilities	19% (rural) 74% (urban)	39% (rural) 80% (urban)

(2) Strategy:

Despite marked improvements in health care coverage made possible from oil revenues during the 1970s and early 1980s, the GOE strategy in the sector was short-sighted and has drastically limited the MOH's ability to undertake needed changes. Health service improvements, as was described above in

Section II.F., occurred largely in major urban areas, were focussed on expensive curative care, and involved heavy outlays for new employment and salaries. Until recently, the GOE did not have a clear policy to address the needs of those population groups most at risk on a self-sustaining basis. Since January 1988, USAID has worked closely with the GOE to develop such a policy and programs necessary to carry it out. A new National Health Plan, largely drawn from USAID analyses, has been adopted which specifically calls for greater decentralization, greater emphasis on preventive care and health education, and greater efforts to improve the cost effectiveness and efficiency of GOE health programs.

The country's financial crisis will not permit significant budget increases for the health sector and recurrent costs for salaries and operations greatly limit the GOE's ability to redirect priorities expeditiously. Thus, changes in strategy will depend to a large degree on achieving greater efficiency and cost-effectiveness. USAID, as the largest donor in the sector, will seek to support implementation of the new strategy through the provision of technical assistance, policy research and training (both in-country and overseas).

One central theme in the Mission's strategy is the use of epidemiological considerations in resource allocation. These considerations have led the Mission to stress the targeting of (a) geographical areas of greatest need; (b) children and mothers at great risk; and (c) specific interventions for diseases which are the greatest public health problems.

As discussed in USAID's Child Survival Strategy (which was reviewed in AID/W earlier this year), maximum impact will be achieved through targeting

assistance on the geographic concentration of mortality and individual risk factors. For example, in 1986, 62 percent of all infant and young child deaths took place in just six out of the twenty provinces in Ecuador.

Any strategy to reduce infant and child mortality has to include a priority focus on key interventions. The key risk factors in this strategy in order of importance are high risk births, malnutrition, acute respiratory infections, diarrheal diseases, and vaccine preventable diseases.

USAID does not have adequate resources to provide all the assistance needed in the construction of rural and urban water supply and sanitation systems, where the current coverage levels are only 30 and 76 percent respectively. Thus, a major strategy element is to seek, encourage, and coordinate other donor support for building rural water supply and sanitation systems. A new project in FY 89 will strengthen IEOS' institutional capabilities in this area and develop a capacity within IEOS to undertake hygiene education activities designed to enhance the health impact of water and sanitation systems.

If child survival interventions are to be sustainable, the MOH, the chief provider of basic health services, must be strengthened, especially at the provincial and field levels. Support will be provided to strengthen management, supervision, training, logistics, information, and communications systems. Efforts will be coordinated with the MOH regionalization process now underway and focus on establishing the capability to provide key child survival services on an ongoing basis. In addition to strengthening the public sector's service delivery capability, USAID will seek private sector

opportunities (for-profit, non-profit, traditional) where appropriate and feasible. This could include private sector involvement in health education, commodity distribution, organization of communities and mothers, and direct provision of services. Private sector activities will be programmed based on opportunity, interest and the potential to achieve infant and child mortality reduction.

c. Improve Housing, Basic Services and Urban Growth Management

(1) Targets:

- Major and selected secondary cities will have adopted investment, cost recovery policies and tariff levels sufficient to operate infrastructure systems and expand coverage to underserviced communities.
- Major and selected secondary cities will have adopted land development regulations and infrastructure standards so as to permit the development of housing affordable to low-income families.
- Major and selected secondary cities will have streamlined the regulatory, licensing and administrative environment so as to facilitate

private sector involvement in the provision of basic urban housing and services.

- Subsidized interest rates for long-term housing finance eliminated.
- Property taxes indexed to inflation in major and selected secondary cities.

FY 90-94

- Families whose shelters are improved under AID-supported programs. 30,000
- Families receiving improved infrastructure services under AID-supported programs. 130,000

(2) Strategy:

The Mission intends to prepare an urban development strategy over the next year and a half focused on local governments and designed to support a democratic, participatory process for managing urban growth. Such a strategy will consider the feasibility of using a particular group of urban centers, such as secondary cities as a unifying theme for related Mission activities in small business development, export promotion, off-farm employment generation,

water and sanitation, basic education, and fiscal reform. The dynamics of rural-urban migration requires greater scrutiny and will receive special attention in the formulation of an urban development strategy.

Mayors are the principal asset available to deal with urban problems. The issues surrounding the improved management of urban growth are linked very closely to our support for a democratic form of government. A program to work with and support them might include three components:

1. Policy and institutional dialogue as well as limited technical assistance and training on the management of urban growth, focusing on:

- the role of local governments in bringing together the private sector, local communities and government to address urban needs.
- analysis of fiscal reforms, national and local, to increase the efficiency in the use of government financing for urban growth, with emphasis on expanded local revenue generation and improved recovery of local government investments in basic services.
- further expansion of the role of the private sector, particularly in lending for low-income shelter needs and for productive employment generation.
- key management reforms at the municipal level, primarily in the area of financial management.

2. Dollar disbursements (of a sector HG program) as key fiscal reforms are carried out.

3. Local currency financing of key activities in infrastructure and employment generation to reinforce the positive effects of the fiscal reforms:

The AID/W CDSS review stated that "the Mission rationale was accepted in principle. The Mission was urged to submit its urban strategy statement when complete for review in AID/W as an addendum to the CDSS. Since the strategy calls for use of HG resource at commercial interest rate, the statement should address the issue of the GOE's capacity to service debt on commercial terms." It was noted that "the Mission should have adequate management capacity given the presence of RHUDO in the Mission in Quito."

d. Improve Educational Opportunities

(1) Targets:

- Reduce the gap in the quality of basic education between rural and urban schools.
- Enable more effective use of multilateral donor agency(ies) funding for distance education activities.

FY 1991

- Radio learning students maintain their grade level 90%
- Radio learning students daily attendance rates 90%

- Teacher attendance in radio learning classrooms improved by 40%
- Radio learning students complete established academic programs 80%

(2) Strategy:

USAID strategy in this area is still in the formative stage. Mission resources which can be devoted to this sector will be very modest compared to those of other donors (principally the IBRD and the IDB) and to the magnitude of the sector's problems. While the Mission does not presume to effect major education policy reform with its assistance, an opportunity does exist to draw upon AID's worldwide experience in basic education so as to introduce low cost, efficient technologies in addressing a critical need. USAID hopes that this assistance, in turn, will facilitate greater access to the decision-making process within the MOE.

The Mission-funded Human Resource Assessment for Ecuador identified the efficiency and quality of basic education as major problem areas to be dealt with in the coming years if the country's human resource base is to be a contributor -- and not a constraint -- to development. Both economic efficiency and equity criteria call for more public resources to go into primary education and less into higher. Available data indicate high social and private rates of return (17 to 24 percent) to primary education but very much lower rates of return --particularly social rates of return-- to higher education (around 7 percent) and secondary education (3 to 8 percent). Clear

linkages exist between basic education and infant and child mortality, malnourishment, agricultural productivity and fertility rates, among others. Before defining what the Mission's role in this area will be, however, a decision has been made to proceed with the development of a modest follow-on effort to the pilot radio learning project in order to further explore relationships with other donors active in the sector and the Ministry of Education.

The pilot radio learning project and the proposed FY89 follow-on effort are based on an interactive radio methodology which has been funded by AID in Africa and other Latin American countries. It has proven to be both a cost-effective and self-sustaining way of addressing issues of educational quality and efficiency. A World Bank study rates radio learning second only to textbooks for improving educational quality -- and at much less cost. The follow-on Radio Learning project will produce a model for basic education. To date, radio education in Ecuador has been most effective in adult non-formal education and out-of-school high school certification programs. The technical capability to produce high quality radio lessons exists but has not yet benefitted primary school-aged children.

The project will serve as both a technological and methodological model for the Ministry of Education, as well as an example of how to improve and measure efficiency in basic education. Despite limited resources, AID is in a position to serve as a catalytic agent in demonstrating an education intervention which has been proven in other countries and which could create significant efficiencies if expanded and consolidated by the Ministry with

assistance from the principal donors in the sector.

e. Narcotics Awareness

(1) Targets:

- Narcotics legislation strengthened; and
- Drug control, prevention and awareness programs established on a self-sustaining basis.

(2) Strategy:

The increasing use of illicit drugs in Ecuador is adversely affecting the health and social structure of Ecuadorian society. In addition, Ecuador's participation in drug trafficking as a trans-shipment point for precursor chemicals and cocaine, and in money-laundering activities are growing concerns.

As part of an integrated USG effort involving USIS and INM, USAID assistance to the Fundacion Nuestros Jovenes (FNJ) is currently producing the necessary information to serve as a basis for policy dialogue by the FNJ and the USG with the Ecuadorian Congress and appropriate GOE institutions for the purpose of strengthening narcotics legislation as well as drug control and prevention programs nationwide. To date, the legal study is complete and several other studies are nearing completion, including an epidemiological survey and reports on children in the streets, small scale drug traffickers and urban youth. Two other studies (on the Ecuadorian educational system and

populations at risk) are due to begin in the near future.

The completed legal reform study provides an overview of the existing legal framework regarding drug use and abuse. It offers a description of a proposed basis for a national policy on drug abuse control, as well as a discussion of the present institutional framework for drug abuse prevention and control, including descriptions of relevant penal and procedural aspects.

International treaties and the experiences of other countries in the control of the drug problem have been considered in developing recommendations for the reform of the legal structure. By mid-1989 the FNJ and the Mission will have reliable data at their disposal on the nature and dimensions of drug abuse and trafficking in Ecuador.

Parallel to the research phase of the FNJ efforts, a variety of community-level interventions have been tested for their effectiveness. These activities have involved intensive lobbying and coordination with both public and private institutions, and are establishing a broad base of support. As an example, coordination has been established between the Ministry of Education and the FNJ to initiate the studies and design for curriculum development in the area of drug prevention education. At the same time, the Municipality of Quito and the FNJ have initiated a series of non-formal education activities at the neighborhood level to generate increased levels of awareness of the causes for, and the prevalence of, drug abuse.

In summary, the interrelationship of research, coordination activities, and community interventions by the FNJ are aimed at generating commitment and

support in Ecuadorian private and public sector institutions for ongoing narcotic awareness and education programs which will monitor and address this growing problem. The Mission plans to extend the on-going project with FNU and develop a follow-on effort which will build upon lessons learned and continue these important activities through the end of the CDSS period.

At the AID/W review of this CDSS, "the Mission was strongly encouraged to continue to pursue every possible avenue of support in the area of narcotics so as to help Ecuador avoid following in the tracks of its neighboring countries. The Mission should underline to the GOE the necessity of curtailing narcotics activities early on and strongly urge the GOE to take action by creating the legislative and legal framework for managing the problem now."

IV. RESOURCES

A. Other Donors

Economic aid to Ecuador includes assistance from a large number of the array of donor agencies that have evolved since World War II. Multilateral assistance is provided by international agencies, including the development banks (World Bank - IBRD, and the Interamerican Development Bank - IDB), the United Nations Development Program and associated UN agencies, the European Economic Community and the Andean nations. Also, the governments of over 20 countries have had official economic assistance programs in Ecuador, chief among them being the U.S., although Italy, Germany, Japan, Spain and others are rapidly catching up.

A problem has been the lack of coordination among the various donor agencies, since there is no formal or consistent mechanism for donor agencies to coordinate or even exchange information on activities, although the UNDP attempts to collect and provide information about assistance activities. Host country coordination of donor resources is needed. Unfortunately, GOE officials often vie with each other for more resources, without regard to redundancy or national priorities. At times, two donors may be attempting to accomplish opposing objectives in a similar activity or the same area. USAID's attempts to prevent intrusions that will damage an environmentally sensitive region (the Hollin-Loreto road), for example, have been partially thwarted by the FAO's support for a colonization effort. While the National Planning Council (CONADE) has the function of coordinating activities, it is not particularly effective and its authority varies from government to

government.

With the Bo administration, USAID has held limited conversations on support for the Ministry of Finance's efforts to improve monitoring of other donor programs' pipeline and implementation progress. The Mission has developed a computerized listing of all donor activities by sector, which it has shared with each donor in order to facilitate sharing of information and coordination. The Mission also intends to pursue the country consultative group concept over the CDSS period in order to develop a more formal process for assuring greater complementarity. At the AID/W CDSS review, it was decided that "A.I.D./W will consult with the World Bank regarding resurrecting the consultative group for Ecuador." It was also recommended that "the Mission should also continue its effort to achieve greater donor coordination in country."

Perhaps the areas of greatest USAID - other donor coordination to date have been in agriculture and health. USAID projects have utilized existing resources (both human and infrastructure) from other donor programs to complement our own. Several examples of this coordination include FUNDAGRO's joint efforts with Canada (IDRC) and CIAT in yuca processing and production; the German (GTZ) program and USAID assistance to the Coastal Livestock Association (MEGALIT) for a livestock market news and price information system; and FUNDAGRO's collaboration with the IDB's program in the improvement of agricultural schools and with the IDB-IICA efforts in research and extension.

In the health area, the best example of coordination has been in immunization programs. A GOE multi-donor committee consisting of the MOH, AID, the Pan American Health Organization, UNICEF and Rotary International jointly developed a detailed five-year plan specifying all donor and GOE financial inputs. For other activities, overlap and duplication have been minimized through informal donor meetings and sharing information between the donors.

The best potential for targets of opportunity where USAID inputs could be used to influence other donors, as noted earlier, is in water supply and sanitation and in basic education. For example, in the case of water supply and sanitation, USAID could work jointly with the IBRD and/or the IDB, with USAID providing assistance for institutional development and the multilateral banks supporting systems construction. The Mission will continue to coordinate closely with the IBRD on macro-economic policy issues.

The principal problems which concern the Mission involve the IDB's involvement in the microenterprise and education sectors. USAID understands that significant new assistance is being planned for microenterprise development which could seriously undermine Mission efforts to foster institutional self-sustainability and eliminate subsidized credit programs. In the case of the education sector, despite massive resource transfers, the IDB has not been able to effect much-needed reforms in the MOE. It is hoped that the creation of a consultative group or a more formal coordination mechanism could minimize such differences in the future.

B. U.S. Resources

1. Financial Resources

In developing the summary table included below on projected funding by objective, the Mission has used two levels: 1) the approved AAPL level as per CDSS guidance and 2) a more modest level based on the FY 1990 Congressional Presentation straight-lined totals and more realistic estimates for Section 416 and Housing Guaranty programs. The difference between the two levels is substantial - approximately \$150,000,000. To avoid distortions and for the sake of comparison, we feel that both levels should be reviewed. No change would occur in the rank order of our objectives between the two funding levels. The strategy and program described in the body of the CDSS reflects a funding amount which more closely approximates CP levels, although both ESF and DA resources in the Population account, in particular, would be insufficient at those levels.

2. Staffing Levels

Over the past two years, the Mission has reduced its total staffing levels by approximately ten percent, to a current complement of about 140 (including the Regional Contracts Office and Regional Legal Advisor for South America). Although the strategy described in this CDSS calls for expanded activities in some areas (e.g. employment generation, basic education), the workload from this expansion will be offset by termination of several current projects and a concentration of Mission efforts in the objective areas described in this

document. The Mission undertook an internal reorganization a year ago to consolidate its human resources/private enterprise and program/project development responsibilities. Further adjustments to our staffing pattern, particularly regarding the private sector staff and management of participant training programs, will be considered based on this strategy.

Where possible, we have sought possibilities to employ Ecuadorian professionals in lieu of U.S. personnel. Over the past year, we have successfully replaced three former U.S. positions (1 direct hire, two PSC) with highly-qualified Ecuadorians. The Mission is placing major emphasis on staff training: we held a special Project Implementation Course in Quito for 29 of our staff, and will enroll 10 officers in the January 1989 Management Skills (MS) course. We plan to take advantage of the presence in Quito of the MS instructors to conduct an additional week of training tailored to our needs. In addition, we are seeking to expand and improve local training opportunities. As described in our FY 1989-90 Action Plan, we are paying serious attention to the way we design and implement projects and define our professional roles and relationships with our Ecuadorian counterparts, seeking more effective and appropriate management arrangements for the resources for which we are responsible. Taken together, these steps will allow us to operate more efficiently and productively without increasing staff levels or operating budgets.

Projected Funding By Objective

FY 1990 - 1994
(\$ millions)

Rank	Objective	DA		ESF		PL-480				HIG		TOTAL	
		TITLE II		TITLE II		416		416		A		B	
		A*	B*	A	B	A	B	A	B	A	B	A	B
1.	Economic Stabilization	-	-	84.0	36.0	-	-	30.0	24.0	-	-	114.0	60.0
2.	Increase Ag. Productivity	26.0	17.5	-	-	-	-	-	-	-	-	26.0	17.5
3.	Reduce Infant and Child Mortality	24.4	20.4	-	-	0.5	0.5	-	-	-	-	24.9	20.9
4.	Strengthen Private Enterprise/ Promote Exports	20.0	5.6	-	-	-	-	-	-	-	-	20.0	5.6
5.	Improve Housing, Basic Services and Urban Growth Management	4.0	2.0	-	-	-	-	-	-	105.0	50.0	109.0	52.0
6.	Preserve and Manage Natural Resources	13.0	7.0	-	-	-	-	-	-	-	-	13.0	7.0
7.	Increase Access to Voluntary Family Planning Services	8.0	6.5	-	-	-	-	-	-	-	-	8.0	6.5
8.	Promote Narcotics Awareness	3.0	2.0	-	-	-	-	-	-	-	-	3.0	2.0
9.	Improve Educational Opportunities	14.0	7.6	-	-	-	-	-	-	-	-	14.0	7.6
	TOTAL	112.4	68.6	84.0	36.0	0.5	0.5	30.0	24.0	105.0	50.0	331.9	179.1

A* = AAPL Level B* = CP Level Straightlined 1/ Funds for this objective have been requested above CP straightlined level to reflect minimum requirements.

V. SPECIAL INTERESTS

A. Women in Development

Women's situation, needs and concerns and their socio-economic contribution have not received sufficient attention from the GOE or development agencies. Isolated efforts have taken place but there has not been a concerted effort to identify women in development (WID) as a priority. A change in mentality has to take place. This, unfortunately, requires time and effort, as well as the input and collaboration of individuals and organizations both in the public and private sectors that can bring about an awareness of the situation. There is a need to create coordinating mechanisms that deal with women's issues and that can disseminate needed information. Another major constraint identified is the insufficiency of gender-disaggregated data to aid in assessing women's roles in Ecuadorian society. The need for updated and reliable data on women is crucial to any development planning effort.

The ongoing USAID program is helping to address women's training gap by meeting the requirement of awarding forty percent of the scholarships under the Andean Peace Scholarship project to females. In addition, the Mission's work in health, nutrition and family planning is increasing the capacity and ability of women to do and obtain productive work. Under the Mission's Small Enterprise Development project, INSOTEC is receiving assistance to increase the efficiency and productivity of small-scale manufacturing enterprises owned by women. And under the recently completed Solanda housing project, the International Center for Research on Women (ICRW) assisted in designing efforts to specifically benefit low-income women. Although women leaders in

Solanda are participating actively in identifying needed services for community improvements, access to housing finance was limited by the inability of women-headed households to meet project selection criteria, largely for economic reasons.

While the Mission can point to other isolated cases where WID concerns are being addressed in the portfolio, little can be done to design gender-sensitive interventions, to train and build institutional capacity, to invalidate myths, and to open avenues for dialogue with the government without information about women's economic roles. To address this situation, the Mission plans to include gender issues in the PD & S - funded design of the urban/rural household and socio-economic survey to be conducted by the National Statistics Institute (INEC) and a follow-up study of the educational sector assessment.

In addition, the Mission plans to include WID concerns in its new project design efforts, as well as integrate WID issues to the degree possible in its ongoing portfolio. For example, a survey is being developed on women's roles in agribusiness for identification of high on- and off-farm employment opportunities as a part of the re-design of the Non-traditional Agricultural Exports project. A female-targeted employment focus is especially relevant given population and labor force projections that suggest increased female participation in the economy by the year 2000 and the high unemployment rates for female - as compared to male-headed households (5.13 versus 1.80).

Other areas under consideration by the Mission include:

-- an emphasis on policies and projects that stimulate labor-intensive

agroindustries and manufacturing which effectively capture female labor;
-- an emphasis on increasing girls' access to primary education which, in Ecuador, has the highest private and social returns;
-- the creation or strengthening of the capacity of intermediary institutions that can help overcome women's lack of access to credit and technical assistance in micro and small enterprises, farming and agribusiness; and
-- the undertaking of policy and project-oriented research and the dissemination of information in order to promote dialogue and education, especially among policymakers and project planners.

Finally, the Mission will undertake steps to insure that these and other activities are fulfilling the WID objectives by undertaking periodic Mission-level reviews; having an outside impact evaluation of the success in institutionalizing WID; and setting in place incentive systems for ensuring quality and continuity of work in this area.

B. Disaster Preparedness Planning

Disasters have considerable potential for disrupting, retarding or altering the course of economic development, as was the case of the March 5, 1987 earthquake which cut off Ecuador's petroleum exports for nearly six months and damaged or destroyed 15,475 homes. The Civil Defense report on the earthquake estimated total financial losses to the country to be \$1.0 billion, negatively impacting Ecuador's economic growth over the past two years.

Although no major natural disasters have affected Ecuador since the 1987 earthquake, recently there has been an apparent reactivation of the Guagua

Pichincha Volcano located less than 10 kilometers directly west of Quito and which could pose a serious threat to Ecuador's capital city and its economy. Although no eruption appears imminent, the potential threat of an eruption has quickened the pace of the Mission's efforts to integrate disaster preparedness planning within its CDSS.

During the past few months, the Mission has taken the following steps in planning for eventual natural disasters:

- . AID has provided approximately the equivalent of \$100,000 in local currency for computer and other locally-available equipment to assist the Geophysical Institute in its monitoring and data analysis of seismic activity of Guagua Pichincha and other active volcanoes;

- . A joint UNDR0/OFDA/USAID project for \$580,000 for the "Prevention and Preparation of Disasters in Ecuador and Neighboring Countries" is being implemented by the Geophysical Institute of the National Polytechnical School. This project has financed the installation of a regional seismic net with telimetered monitoring of 8 active volcanoes; publication of 6 volcanic hazard maps; printing of 10 risk maps (risks zones of lava and mud flows from Cotopaxi volcano); trial tests of emergency monitoring capability (e.g. monitoring of anomalous activity of Guagua Pichincha volcano); 3 international courses on volcanic hazards, volcanic debris flows and neotectonics; institutional support of Civil Defense; and successful tsunami planning in coastal areas.

- . AID plans to use approximately \$650,000 available for deob-reob from a

previous emergency project to fund the purchase of additional earthquake and volcano monitoring equipment and to work with Civil Defense on preparedness, disaster simulation, and a public education campaign on disaster planning;

. A proposal is being prepared to finance a video film series and radio spots to educate the public on volcanic eruptions;

. A Disaster Preparedness Committee, comprised of AID, Embassy and US Military staff, has been formed and is operative; and

. USAID has a Disaster Relief Plan which is somewhat outdated (1982) and has requested OFDA assistance in reviewing and revising it.

During FY 89 the Mission will develop and begin implementation of a broad-based strategy which analyses the hazards and possibilities for preventing or lessening the impact of major natural disasters which may confront Ecuador (e.g. earthquakes, volcanoes, floods) and further develop the organizational specifics of training disaster preparedness and relief personnel.

C. Biological Diversity and Tropical Forests

Overview of Status of Biological Diversity and Tropical Forests in Ecuador

The Mission recently contracted with the International Institute for Environment and Development (IIED) to perform a Biological Diversity and

Tropical Forests Assessment in Ecuador. Some of its major findings regarding the status of Ecuador's biological resources are summarized below:

Ecuador is extremely rich in terms of biological diversity. Although there are major information gaps regarding numbers of species and their specific geographic locations, existing information indicates that Ecuador (the size of Colorado) contains an estimated 20,000 to 25,000 vascular plant species, which far exceeds the 17,000 species known for all of North America. The country possesses at least 1,000 more terrestrial vertebrate species than the continental United States and it harbors more vertebrate endemic species than its much larger neighbors to the north and the south (Colombia and Peru). Ecuador is also rich in forest resources. Approximately one-half of its surface area is claimed to be occupied by closed forests. However, only 26 percent of these forests are classified as primary forest and considered to be important in terms of biological diversity. Most forest cover is located in the Amazon Region (70 percent), with the remaining 30 percent of forested lands being located on the coast, largely in the province of Esmeraldas. Sierra forests consist largely of forest plantations of exotic species. Estimates of deforestation rates range from 34,000 hectares per year to 200-300,000 hectares per year. No matter what figure is used, current deforestation rates are alarming and if they continue, Ecuador will be completely devoid of closed forests between the years 2030 and 2160.

Major Threats to Tropical Forests and Biological Diversity

Due to deforestation, inappropriate agricultural practices and many other factors, over 25% of Ecuador's endemic species are at risk (their habitat is

endangered). Threats to biological diversity and tropical forests are the following:

1. Deforestation to make way for additional agricultural land. In many cases, the lands that are deforested are inappropriate for agricultural use. This process is caused by one or a combination of the following factors:

- localized population growth problems in rural areas that creates pressures to convert more forest lands to agricultural use;
- inappropriate agricultural technology and practices which have led to low productivity, soil erosion and loss of fertility on existing agricultural land. Technology improvements could increase productivity, thereby reducing the pressure to convert unsuitable lands to agriculture.
- lack of off-farm employment opportunities in rural areas that would alleviate pressures to convert more land to agricultural use.

2. Institutional limitations:

- There is no explicit national policy regarding the conservation of natural resources. Policy decisions in other areas are made with little or no consideration being given to their effect on the natural resource base;

- While there are many laws regarding the protection of natural resources, many of these laws are overlapping and contradictory among themselves as well as with laws in other sectors. In addition, financial and human resources devoted to the enforcement of these laws are inadequate; and

- There is no central institution charged with the responsibility for protecting natural resources. Public and private sector institutions involved in natural resource management work at cross purposes, are under-funded and inappropriately staffed, have conflicting and overlapping mandates and are inefficient and ineffective.

3. Inappropriate fisheries and mari/aquaculture practices which have destroyed the diversity of marine resources in coastal areas.

4. Need for expanded information base on:

- Biological diversity - much basic information on Ecuador's diverse fauna and flora is still lacking. Ways to protect these resources cannot be developed until more is known about their characteristics.

- Land use capabilities - to ensure sustainable development, Ecuador needs a system for classifying land use capabilities, and a means of ensuring that all institutions adhere to land use guidelines.

Actions Required to Conserve Biological Diversity and Tropical
Forests in Ecuador

The recent Assessment of Biological Diversity and Tropical Forests in Ecuador as well as other documents on Ecuador's natural resource situation point to a number of actions that need to be taken to ensure adequate conservation of biodiversity and tropical forests. These actions are summarized below:

1. Activities aimed at reducing deforestation through increased productivity of existing agricultural lands and promotion of off-farm employment opportunities. This is an indirect approach that would alleviate further pressures to convert forested land to agriculture.
2. Activities that would involve direct protection of areas of high biological diversity through the establishment and management of nature reserves and national parks.
3. Activities that would promote institutional and policy changes necessary to ensure adequate protection and conservation of natural resources.
4. Information gathering activities such as further research on Ecuador's biological resources, the establishment of a Conservation Data Center, the collection of information and development of guidelines on land use capabilities.
5. Public education activities that would increase the awareness of the importance of natural resources conservation.

6. Identification of development projects supported by other donors that promote the misuse of biological resources.

Actions USAID/Ecuador Plans to Take to Conserve Biological Diversity and Tropical Forests

A. Continue ongoing Mission projects that contribute to the conservation of biological diversity and tropical forests. The following projects contain components which either directly or indirectly promote the conservation of biological resources:

1. Agricultural Sector Reorientation Project. The project-supported Policy Analysis Unit within the Ministry for Agriculture has recently hired a natural resources specialist to ensure that natural resource considerations are taken into account in agricultural policy formulation. In addition, the project-supported private sector policy analysis organization, Fundacion IDEA, has conducted several watershed studies aimed at bringing public attention to the effects of deforestation in major watersheds.

2. Research, Extension and Education and Rural Technology Transfer System Projects. Both of these projects promote the development and extension of improved agricultural technologies aimed at increasing agricultural productivity (which may lead to decreased deforestation).

3. Forestry Sector Development Project. This project contains several project components that directly support the conservation of biodiversity and tropical forests:

- The Forest Protection Component is assisting the National Forestry Directorate (DINAF) to protect forest resources from fire and diseases.
- Plan Pichincha has assisted DINAF in delimiting and developing a management plan for the forested slopes of the Pichincha volcano above Quito.
- The Natural Areas Management Component provides funds for the delimitation and development of management plans for four national parks or reserves.
- The Mangrove Management Component is carrying out an inventory of mangrove forests along Ecuador's coast.
- The Forestry Research Component is funding botanical research by the Missouri Botanical Garden in the Oriente.

4. Coastal Resources Management Project. This project has supported many studies and activities that have led to the development of a management strategy and draft legislation for the protection and management of Ecuador's coastal resources.

5. Small Farmer Irrigation. This CARE-managed project promotes soil conservation practices on farmland situated on the steep slopes of the Andes. Such practices could decrease pressures to convert more forested land to agricultural use.

6. EDUNAT III. This environmental education project with Fundacion Natura incorporates activities that will educate the Ecuadorian public, as well as public leaders and decision-makers, regarding the importance of conserving biological diversity and tropical forests.

B. Develop the following efforts to address priority actions identified:

- Design/implement a Soils Conservation project activity aimed at increasing productivity on existing agricultural lands;
- Design/implement a Parks and Natural Areas Management project activity to provide direct protection to areas of high biodiversity;
- Include institution-building, policy dialogue, and educational components in each project;
- Support research under each of the two above-mentioned projects that would provide greater information on Ecuador's biological resources and technologies needed to use these resources in a sustainable manner; and
- Promote other donor participation in activities to conserve biological diversity and tropical forests.

ACTION AID2 INFO DCM/3

ATTACHMENT 1

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TAGS:

SUBJECT: REVIEW OF USAID/ECUADOR'S FY 90 CDSS

A REVIEW OF ECUADOR'S FY 1990 CDSS WAS CHAIRED BY FRED SCHIECK, ACTING ASSISTANT ADMINISTRATOR, LAC, ON JANUARY 10-11. MISSION DIRECTOR FRANK ALMAGUER AND PROGRAM AND PROJECTS OFFICER MIKE DEAL REPRESENTED THE MISSION.

THE MISSION IS COMMENDED FOR PREPARING A REALISTIC DOCUMENT THAT CANDIDLY TREATS THE MAJOR DEVELOPMENT ISSUES THAT A.I.D. IS WORKING ON IN ECUADOR. WHILE PROJECTED RESOURCE LEVELS OVER THE CDSS PERIOD ARE NOT PARTICULARLY LARGE, THEY ARE HIGH ENOUGH FOR THE PROGRAM TO HAVE A SIGNIFICANT IMPACT ON KEY DEVELOPMENT PROBLEMS. EVEN WITH ANTICIPATED MODEST A.I.D. LEVELS, THE MISSION HAS GOOD ACCESS TO GOE POLICY MAKEERS. THE MISSION SHOULD USE ITS ONGOING DIALOGUE TO ENCOURAGE THE GOE TO CONTINUE UNDERTAKING DIFFICULT ADJUSTMENT MEASURES AS EARLY IN THE 3ORJA ADMINISTRATION AS POSSIBLE. CONTINUED PROGRESS ON POLICY ISSUES HIGHLIGHTED IN THE CDSS WILL WEIGH HEAVILY ON FUTURE PROGRAM LEVEL DECISIONS, PARTICULARLY FOR EST.

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WHILE THE CDSS ADDRESSES THE MAJOR POLICY ISSUES CONFRONTING THE GOE, THE MISSION SHOULD GIVE CLOSER ATTENTION TO ARTICULATING THE RELATIONSHIP BETWEEN A.I.D. RESOURCE TRANSFERS AND THEIR IMPACT ON ECUADOR'S POOR. MISSION EFFORTS TO DESCRIBE HOW NEEDED POLICY CHANGES WILL POSITIVELY AFFECT A.I.D.'S TARGET AUDIENCE SHOULD BE HELPFUL DURING DIALOGUE WITH GOE OFFICIALS AS WELL AS HELP JUSTIFY PROGRAM LEVELS.

FEB 6 1989

DECISIONS REACHED ON SPECIFIC ISSUES FOLLOW:

1. ISSUE:

IS THE PROPOSED ASSISTANCE PROGRAM CONSISTENT WITH THE EMERGING ANDEAN STRATEGY BEING DEVELOPED JOINTLY BY STATE AND A.I.D.?

DISCUSSION:

—AREAS OF CRITICAL U.S. INTEREST IN ECUADOR AND OTHER ANDIAN COUNTRIES INCLUDE MAINTENANCE OF DEMOCRATIC REGIMES, NARCOTICS CONTROL AND ECONOMIC STABILIZATION AND GROWTH. THE EMERGING ANDEAN STRATEGY WILL COMPLEMENT THE MISSION'S ACTIVITIES IN SUPPORT OF THESE AREAS.

—ECUADOR SERVES PRIMARILY AS A CHANNEL FOR THE MOVEMENT OF PRECURSOR CHEMICALS AND AS A TRANSHIPMENT AND MONEY LAUNDERING POINT FOR DRUGS, NOT AS A PRODUCER. GIVEN THE NATURE OF THE NARCOTICS PROBLEM IN ECUADOR, A.I.D. SHOULD FOCUS ITS EFFORTS ON BUILDING GREATER ECUADOREAN AWARENESS OF THE POTENTIAL DANGER THAT NARCOTICS POSSES FOR ECUADOREAN SOCIETY AND ON PREPARING AN APPROPRIATE LEGAL CODE AND SET OF JUDICIAL PRACTICES THAT WILL ENSURE THAT NARCOTICS ACTIVITIES WILL BE QUICKLY AND EFFICIENTLY PROSECUTED. THIS WILL REQUIRE EFFORTS TO STRENGTHEN THE INSTITUTIONS NOW WORKING ON NARCOTICS AWARENESS PROGRAMS.

—A PRIVATE FOUNDATION WITH USAID/ECUADOR SUPPORT IS CONDUCTING A NUMBER OF DRUG-RELATED STUDIES INCLUDING A STUDY OF THE LEGAL SYSTEM AS IT RELATES TO DRUGS IN ECUADOR.

—AID/W STRESSED THE IMPORTANCE OF OBTAINING GOE AND PRIVATE SECTOR SUPPORT TO PUT THE APPROPRIATE LEGISLATIVE REFORMS IN PLACE NOW.

DECISION:

—THE MISSION IS STRONGLY ENCOURAGED TO CONTINUE TO PURSUE EVERY POSSIBLE AVENUE OF SUPPORT IN THE AREA OF NARCOTICS SO AS TO HELP ECUADOR AVOID FOLLOWING IN THE TRACKS OF ITS NEIGHBORING COUNTRIES. THE MISSION SHOULD UNDERLINE TO THE GOE THE NECESSITY OF CURTAILING NARCOTICS ACTIVITIES EARLY ON AND STRONGLY UPGE THE GOE TO TAKE ACTION BY CREATING THE LEGISLATIVE AND LEGAL FRAMEWORK FOR MANAGING THE PROBLEM NOW.

—THE MISSION SHOULD WORK WITH THE LAC OFFICE OF DEMOCRATIC INITIATIVES TO DEVELOP ADMINISTRATION OF JUSTICE ACTIVITIES APPROPRIATE TO ECUADOR AND TO THE MISSION'S STAFF AND FINANCIAL CONSTRAINTS AND EXPLORE WAYS IN WHICH USAID/ECUADOR CAN TAP INTO ONGOING AND PLANNED A.I.D.-FINANCED DEMOCRATIC INITIATIVES REGIONAL PROJECTS.

2 ISSUE:

SHOULD ECUADOR GRADUATE TO ADC STATUS WITHIN THE CDSS

PROGRAM PERIOD?

DISCUSSION:

--ECUADOR HAS THE POTENTIAL FOR ACHIEVING ADC STATUS DURING THE 1990S. HOWEVER, AT PRESENT, IT FALLS SHORT IN TERMS OF THE LEVEL OF INSTITUTIONAL DEVELOPMENT, THE STRENGTH OF THE PRIVATE SECTOR AND THE COUNTRY'S ABILITY TO REGAIN ITS CAPACITY TO MOBILIZE FINANCING ON MORE COMMERCIAL TERMS FROM INTERNATIONAL AND DOMESTIC SOURCES.

—NOTWITHSTANDING THE BUREAU'S CRITERIA FOR GRADUATION TO ADC STATUS, AID/W BUDGETARY REALITIES COULD ABRUPTLY CATAPULT COUNTRIES TO ADC STATUS. IN SPITE OF POSSESSING A NUMBER OF CLASSIC CHARACTERISTICS OF A DEVELOPING COUNTRY, ECUADOR'S POSITION AS A PETROLEUM EXPORTER IN THE END MIGHT BE THE MAJOR FACTOR IN DETERMINING THE TIMING OF ITS GRADUATION.

DECISION:

THE CDSS OUTLINES A STRATEGY APPROPRIATE TO ECUADOR'S CIRCUMSTANCES. AT THE SAME TIME, THE MISSION SHOULD BE PREPARED FOR A SHIFT OF ECUADOR TO ADC STATUS DURING THE 1990S. THE ISSUE SHOULD BE REVIEWED AGAIN IN 1992 BY WHICH TIME ECUADOR'S STABILIZATION PROCESS SHOULD BE

COMPLETE.

3. ISSUE:

PROGRAM FOCUS. SHOULD MORE EMPHASIS BE PLACED IN THE MISSION'S PROGRAM ON PRIVATE SECTOR INITIATIVES AND PRODUCTIVE ACTIVITIES, ESPECIALLY THOSE CONTRIBUTING TO NONTRADITIONAL EXPORTS AND SUSTAINABLE ECONOMIC GROWTH?

DISCUSSION:

—THE NUMBER OF OBJECTIVES APPEARS TO BE LARGE GIVEN STAFF AND BUDGET LIMITATIONS.

—THE MISSION'S SUCCESS IN CONSOLIDATING ITS PORTFOLIO OVER THE PAST TWO YEARS WAS NOTED.

—THE EDUCATION SECTOR FACES SERIOUS PROBLEMS, YET ACTIVITIES IN THIS AREA ARE NOT MADE A MISSION PRIORITY. AID/W RECOGNIZED THAT MISSION RESOURCES ARE TOO LIMITED TO PLAY A MAJOR ROLE IN REFORMING THIS SECTOR AND SUGGESTED THAT THE MISSION WORK WITH THE IDB AND WORLD BANK TO PUSE FOR GOVERNMENT REFORMS.

—THE MISSION SHOULD CONSIDER DELAYING ITS FOLLOW-ON RADIO LEARNING PROJECT UNTIL IT HAS A CHANCE TO PURSUE POLICY REFORM IN THE SECTOR WITH BOTH THE GOE AND OTHER DONORS. THIS WILL BE DISCUSSED FURTHER DURING THE ACTION PLAN REVIEW. A JUDICIOUS APPROACH TO THE TIMING OF SUCH ASSISTANCE MAY SIGNIFICANTLY IMPROVE THE MISSION'S INFLUENCE.

DECISION:

—FOR A VARIETY OF REASONS, THE MIX OF OBJECTIVES SET FORTH, WHILE LARGE FOR THE LEVEL OF RESOURCES ANTICIPATED, IS APPROPRIATE GIVEN THE CONSTRAINT ANALYSIS CONTAINED IN THE CDSS. AS ECUADOR MOVES TOWARD ADC STATUS IN THE 1990S, THE MISSION IS ENCOURAGED TO REASSESS ITS PROGRAM FOCUS AND SEEK FURTHER CONSOLIDATION.

—THE MISSION SHOULD ACCORD HIGHEST PRIORITY TO THOSE OBJECTIVES SUPPORTIVE OF SUSTAINABLE, BROAD-BASED ECONOMIC GROWTH AND ALLOCATE ESF AS WELL AS DA AND OTHER RESOURCES TO SUPPORT SUCH OBJECTIVES. TO THE EXTENT POSSIBLE, THE MISSION SHOULD CONTINUE TO MAXIMIZE THE USE OF PRIVATE SECTOR INSTITUTIONS IN THE IMPLEMENTATION OF ITS PROGRAM.

—THE MISSION IS STRONGLY URGED TO SEEK OUT OPPORTUNITIES, ESPECIALLY IN DISCUSSIONS WITH THE OTHER KEY DONORS IN THE BASIC EDUCATION SECTOR, TO DEVOTE MORE ATTENTION TO EDUCATION AND MAINTAIN A PRESENCE IN ORDER TO INFLUENCE MORE FAVORABLE POLICY DECISIONS.

—THE MISSION SHOULD SEEK ADDITIONAL OPPORTUNITIES TO WORK WITH PRIVATE VOLUNTARY ORGANIZATIONS (PVOs), IN PARTICULAR INDIGENOUS PVOs, IN AN EFFORT TO TARGET BENEFITS MORE DIRECTLY TO THE POOR.

4. ISSUE:

DOES THE PROPOSED STRATEGY ADEQUATELY IDENTIFY THE MACROECONOMIC POLICY REFORMS NECESSARY BOTH TO ACHIEVE ECONOMIC STABILIZATION AND TO CREATE THE APPROPRIATE ENVIRONMENT FOR GROWTH? FURTHERMORE, SHOULD THE PROPOSED FUNDING LEVELS FOR ECUADOR BE CONTINGENT ON GOE

ACTIONS TO ACHIEVE THE TARGETS ESTABLISHED IN THE CDSS?

DISCUSSION:

—WHILE CONCERN EXISTS THAT THE POLICY AGENDA SET OUT IN THE CDSS MAY BE OVERLY AMBITIOUS GIVEN EXPECTED FUNDING LEVELS, THE FACT REMAINS THAT THE USG IS AN IMPORTANT PARTNER AND THE GOB APPEARS GENUINELY INTERESTED IN SECURING U.S. ENDORSEMENT OF ITS POLICIES. THE MISSION HAS ACHIEVED SIGNIFICANT PROGRESS DESPITE LIMITED RESOURCES; HOWEVER, THE CDSS IS UNCLEAR AS TO THE MISSION'S APPROACH IN THE EVENT FUTURE POLICY DIALOGUE STALLS.

—GIVEN THE COMPLEXITY OF THE TARGETS SET OUT, BOTH IN TERMS OF MACROECONOMIC AND SECTOR POLICIES, THE MISSION NEEDS TO PREPARE A REALISTIC PLAN OF ACTION WITH CONTINGENCIES FOR SLOWER THAN DESIRED PROGRESS ON POLICY REFORM. THE PLAN SHOULD BE CONSISTENT WITH THE LEVERAGE OUR LIMITED RESOURCES AS WELL AS GOB DESIRE FOR U.S. SUPPORT CAN PROVIDE.

—CAUTION WAS EXPRESSED CONCERNING THE MISSION'S CONSIDERATION OF DEBT FOR DEVELOPMENT OPTIONS IN SUPPORT OF ITS MACROECONOMIC AND SECTOR POLICY AGENDA. THE MANAGEMENT INTENSIVITY AND FINANCIAL COMPLEXITY OF SUCH ARRANGEMENTS MAY WELL BE BEYOND THE MISSION'S CAPACITY.

WHILE ESP PLANNING LEVELS FOR ECUADOR ARE MODEST, CONCERN WAS EXPRESSED OVER THE POSSIBLE INFLATIONARY IMPACT ON THE LOCAL ECONOMY SUCH DEBT CONVERSIONS MAY CAUSE.

—WHILE THE MISSION FEELS COMFORTABLE WITH ITS ECONOMIC ANALYSIS CAPABILITIES, THE ADVISABILITY OF THE MISSION ADDING A USDB ECONOMIST TO ITS STAFF WAS DISCUSSED, ASSUMING AN ADDITIONAL SLOT COULD BE FOUND. THE LAC BUREAU WILL REVIEW THE NEED FOR A MISSION ECONOMIST WITHIN THE CONTEXT OF ALL BUREAU PERSONNEL NEEDS LATER THIS SPRING.

DECISION:

—MISSION ASSISTANCE, PARTICULARLY ESP, SHOULD BE CONDITIONED ON POLICY REFORM PERFORMANCE OF THE GOB. THE MISSION SHOULD SUBMIT A CONCEPT PAPER FOR MACROECONOMIC POLICY REFORM WHICH MAKES EXPLICIT WHAT POLICY REFORMS IT WILL SEEK IN CONJUNCTION WITH FY99 AND FY00 ESP. THE CONCEPT PAPER SHOULD ALSO IDENTIFY MEANS OF USING ESP FUNDING TO FURTHER ITS SECTOR GOALS. CONSIDERATION SHOULD ALSO BE GIVEN TO ADDITIONAL TECHNICAL ASSISTANCE OR STUDIES LINKED TO POLICY ANALYSIS SUPPORT.

5. ISSUE:

IS THE PROPOSED FOCUS ON AGRICULTURE AND NATURAL RESOURCES ADEQUATE?

DISCUSSION:

—CONCERN WAS EXPRESSED OVER THE COMPLEXITY OF THE POLICY DIALOGUE TARGETS ESTABLISHED IN THE CDSS FOR THESE TWO SECTORS. AS IN THE CASE OF MACROECONOMIC POLICY DIALOGUE, THE MISSION WAS ENCOURAGED TO ESTABLISH A SPECIFIC AGENDA APPROPRIATE TO THE RESOURCE LEVELS FOR DISCUSSION WITH THE GOE.

—THE CDSS IDENTIFIES MISMANAGEMENT OF COASTAL RESOURCES AS A SERIOUS PROBLEM. IT WAS UNCLEAR, HOWEVER, HOW THE STRATEGY WILL CONTINUE TO PROMOTE WISE MANAGEMENT OF COASTAL RESOURCES ONCE THE S AND T BUREAU PROGRAM IS COMPLETED. IN ADDITION TO PERSUADING WAYS TO INVOLVE THE SEEMP INDUSTRY IN FINANCING COASTAL RESOURCE MANAGEMENT EFFORTS, THE MISSION WAS STRONGLY ENCOURAGED TO INCLUDE CONTINUED SUPPORT FOR THIS KEY AREA IN ITS NATURAL

RESOURCE STRATEGY.

—PREVIOUS SECTOR ANALYSIS AND STRATEGY DOCUMENTS IDENTIFIED THE LACK OF LAND TITLES AS A MAJOR CONSTRAINT TO INCREASING AGRICULTURAL PRODUCTIVITY. THE MISSION NOTED ITS INTENTION TO SUPPORT A PILOT EFFORT UNDER A REDESIGNED LAND TITLING PROJECT TO ENCOMPASS A BROADER EMPHASIS ON THE LEGAL, REGULATORY AND INSTITUTIONAL CONSTRAINTS TO MORE SECURE LAND TENURE. PROCEEDING WITH THE PILOT EFFORT WILL DEPEND UPON FURTHER CLARIFICATION FROM THE GOE AS WELL AS A CONTINUED DEMONSTRATION OF ITS COMMITMENT IN THIS AREA.

DECISION:

—THE MISSION SHOULD USE THE AGRICULTURAL SECTOR STUDY, PRESENTLY BEING COMPLETED, TO ADDRESS BOTH THE POLICY CONSTRAINTS TO FASTER AGRICULTURAL DEVELOPMENT AND THE CONSTRAINTS PLACED BY AGRICULTURAL POLICY ON THE POOR.

—SINCE APPROPRIATE ECONOMIC POLICIES ARE KEY TO AGRICULTURAL SECTOR GROWTH, THE MISSION SHOULD WORK CLOSELY WITH THE GOE TO ENSURE THESE ARE ADOPTED. THE MISSION SHOULD USE BIF AND FOOD AID (CONDITIONALITY AND/OR LOCAL CURRENCIES) IN SUPPORT OF AGRICULTURAL SECTOR OBJECTIVES.

—IN ADDITION, THE MISSION SHOULD WORK CLOSELY WITH THE GOE TO ENSURE THAT PROGRESS ACHIEVED UNDER THE COASTAL RESOURCES MANAGEMENT ACTIVITY WILL BE CONTINUED AND STRENGTHENED BY THE GOE IN THE FUTURE.

6. ISSUE:

SHOULD THE DEVELOPMENT OF A BROAD URBAN STRATEGY BE A PRIORITY FOR THE MISSION?

DISCUSSION:

—THE MISSION'S PROPOSED STRATEGY IS AN ATTEMPT TO LOOK AHEAD AND DEVELOP A SYSTEMATIC APPROACH TO THE PHENOMENON OF URBANIZATION.

—EFFICIENT MANAGEMENT OF RAPIDLY GROWING URBAN AREAS IS INTRINSICALLY LINKED TO ECONOMIC DEVELOPMENT AND IS AN IMPORTANT FACTOR IN ACHIEVING SUSTAINED ECONOMIC GROWTH.

—AID/W RAISED CONCERNS ABOUT THE MISSION'S CAPACITY TO MANAGE SUCH A PROGRAM GIVEN THE DEMANDS ON STAFF TIME AND RESOURCES IMPLEMENTING SUCH A STRATEGY WOULD INVOLVE.

—USE OF HG RESOURCES TO ADDRESS SOME IMPORTANT URBAN DEVELOPMENT ISSUES OFFERS A UNIQUE OPPORTUNITY BECAUSE DA RESOURCES ARE NOT AVAILABLE FOR THIS SECTOR AT LEVELS ADEQUATE TO MAKE A SIGNIFICANT IMPACT.

DECISION:

—THE MISSION RATIONALE WAS ACCEPTED IN PRINCIPLE.

—THE MISSION WAS URGED TO SUBMIT ITS URBAN STRATEGY STATEMENT WHEN COMPLETE FOR REVIEW IN AID/W AS AN ADDENDUM TO THE CDSS. SINCE THE STRATEGY CALLS FOR USE OF HG RESOURCES AT COMMERCIAL INTEREST RATES, THE STATEMENT SHOULD ADDRESS THE ISSUE OF THE GOE'S CAPACITY TO SERVICE DEBT ON COMMERCIAL TERMS.

—THE MISSION SHOULD HAVE ADEQUATE MANAGEMENT CAPACITY GIVEN THE PRESENCE OF RHUDO IN THE MISSION IN QUITO.

7. ISSUE:

SHOULD ADDITIONAL ACTIVITIES BE UNDERTAKEN TO STRENGTHEN DONOR COORDINATION?

DISCUSSION:

--THE MISSION HAS MADE EFFORTS TO IMPROVE COORDINATION AND, GIVEN ITS LIMITED RESOURCES, SUCH COORDINATION COULD SIGNIFICANTLY INCREASE THE DEVELOPMENT IMPACT OF A.I.D. PROGRAMS.

--THE CBSS SUGGESTS THAT A CONSULTATIVE GROUP BE PURSUED FOR ECUADOR.

DECISION:

--A.I.D./W WILL CONSULT WITH THE ORLD BANK REGARDING RESPECTING THE CONSULTATIVE GROUP FOR ECUADOR.

--THE MISSION SHOULD CONTINUE TO ENCOURAGE THE GOE TO ADOPT POLICIES THAT COULD BE SUPPORTED BY MULTILATERAL ORGANIZATIONS WITHIN THE CONTEXT OF A CONSULTATIVE GROUP.

--THE MISSION SHOULD ALSO CONTINUE ITS EFFORTS TO ACHIEVE GREATER DONOR COORDINATION IN COUNTRY. BAKER

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