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Fonds: Records of the Office of the President

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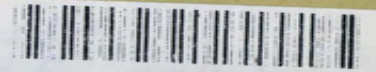
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McNamara papers

Traud brief
Nov. 6 - 11

The World Bank Group
Archives



1772886

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ITINERARY

MR. McNAMARA'S NOVEMBER 13-16 VISIT TO ECUADOR

Tuesday, November 13

13:55	Arrival Quito on Varig Flight 878.
16:00	Meeting with Vice-President at his offices.*
17:00-18:30	Meeting with economic team at the Central Bank. The Minister of Natural Resources and the General Manager of INECEL (the National Power Company) will also attend to discuss energy matters.*
19:45	Departure from hotel for a quick visit of Quito by night.
20:30	Dinner at La Merced Convent with senior Government officials hosted by the President of the Monetary Board (León Roldós) and the General Manager of the Central Bank (Germánico Salgado).

Wednesday, November 14

8:00-10:00	Tour of Quito.
10:30-10:50	Flight to Ibarra.
10:50-11:15	Trip by car to Central Bank Rural Development Fund (FODERUMA) project at Panecillo in Imbabura Province.
11:15-12:15	Visit of Panecillo Project.
12:15-13:00	Car trip to Mr. Galo Plaza's farm, Zuleta.
13:00-15:00	Luncheon with Mr. Galo Plaza.
15:00-15:30	Return by car to Ibarra Airport.
15:30-16:00	Flight to Quito.

* The Government has prepared a separate program for Mrs. McNamara during these activities. Her program is attached.

17:30-18:30	Visit to Central Técnico, vocational school whose improvements were partially financed under the First Education Credit.
20:00	Meeting with President Roldós at Presidential Palace.
20:30	Dinner with President at Presidential Palace.

Thursday, November 15

7:00	Depart for airport.
7:30-8:00	Flight to Latacunga.
8:00-8:45	Bus ride to Tungurahua Project site. This project is the first rural development operation financed by the Bank in Ecuador.
8:45-10:45	Visit of Tungurahua Project.
10:45-11:20	Return to Latacunga.
11:20-11:45	Brief stop at Bank-financed Simón Rodríguez School.
11:50-12:20	Flight to Guayaquil.
13:30-15:30	Lunch with the local Authorities and Guayaquil financial community at the Club de la Unión offered by Mr. José Correa, President of COFIEC (Ecuador's largest private DFC).*
16:00-16:30	Briefing on proposed Guayaquil Urban Development Project at airport.
16:30-18:30	Visit by helicopter of proposed Guayaquil Urban Development Project sites.
Evening	Private Dinner.

Friday, November 16

7:30-8:00	Travel by boat to Guayaquil Port, whose improvements are financed under Loan 1255-EC.
8:00-8:45	Visit of Guayaquil Port.
8:45-9:15	Trip by car to airport.

9:15-10:00	Briefing at the airport on potential of the Guayas Basin.
10:00-11:30	Overflight of Guayas Basin and Santa Elena Peninsula.
12:30-12:45	Brief press conference at hotel.
12:45-13:05	Car ride to airport.
13:30	Departure for Miami on Argentine Airlines Flight 342.

MRS. McNAMARA'S PROGRAM

Tuesday, November 13

16:00-18:30

Visit to the Central Bank's Museum of Anthropology and briefings on FODERUMA's school education program and literacy programs in Ecuador.

Thursday, November 15

13:30-15:30

Luncheon at the Guayaquil Country Club hosted by Mrs. Germánico Salgado.

ITINERARY

Mr. McNamara's November 13-16 Visit to Ecuador

Tuesday, November 13

13:55	Arrival Quito on Varig Flight 878
16:00	Meeting with President Roldos at Presidential Palace*
17:15	Meeting with Vice President at his offices*
18:45-19:45	Meeting with economic team at the Monetary Board conference room in Central Bank. Minister of Natural Resources and high ranking officials of CEPE and INECEL will also attend to discuss energy matters*
20:00	Dinner at La Merced Convent with Senior Government officials hosted by the President of the Monetary Board (Leon Roldos) and the General Manager of the Central Bank (Germanico Salgado)

Wednesday, November 14

7:30	Departure by car for Ambato. Brief stop at Bank-financed school in Latacunga
10:30	Visit (two hour) of the Tungurahua project site. This project is the first rural development operation financed by the Bank in Ecuador
13:00	Depart by plane for Ibarra
13:45	Arrival Ibarra by plane
14:00	Arrival for luncheon with Mr. Galo Plaza at Zuheta, his farm
16:30	Departure by plane for Quito
17:00	Arrival Quito
18:30	Visit to Central Técnico, vocational school whose equipment was financed under First Education Credit
20:30	Dinner with President at Presidential Palace

* The Government is preparing a separate program for Mrs. McNamara during these meetings.

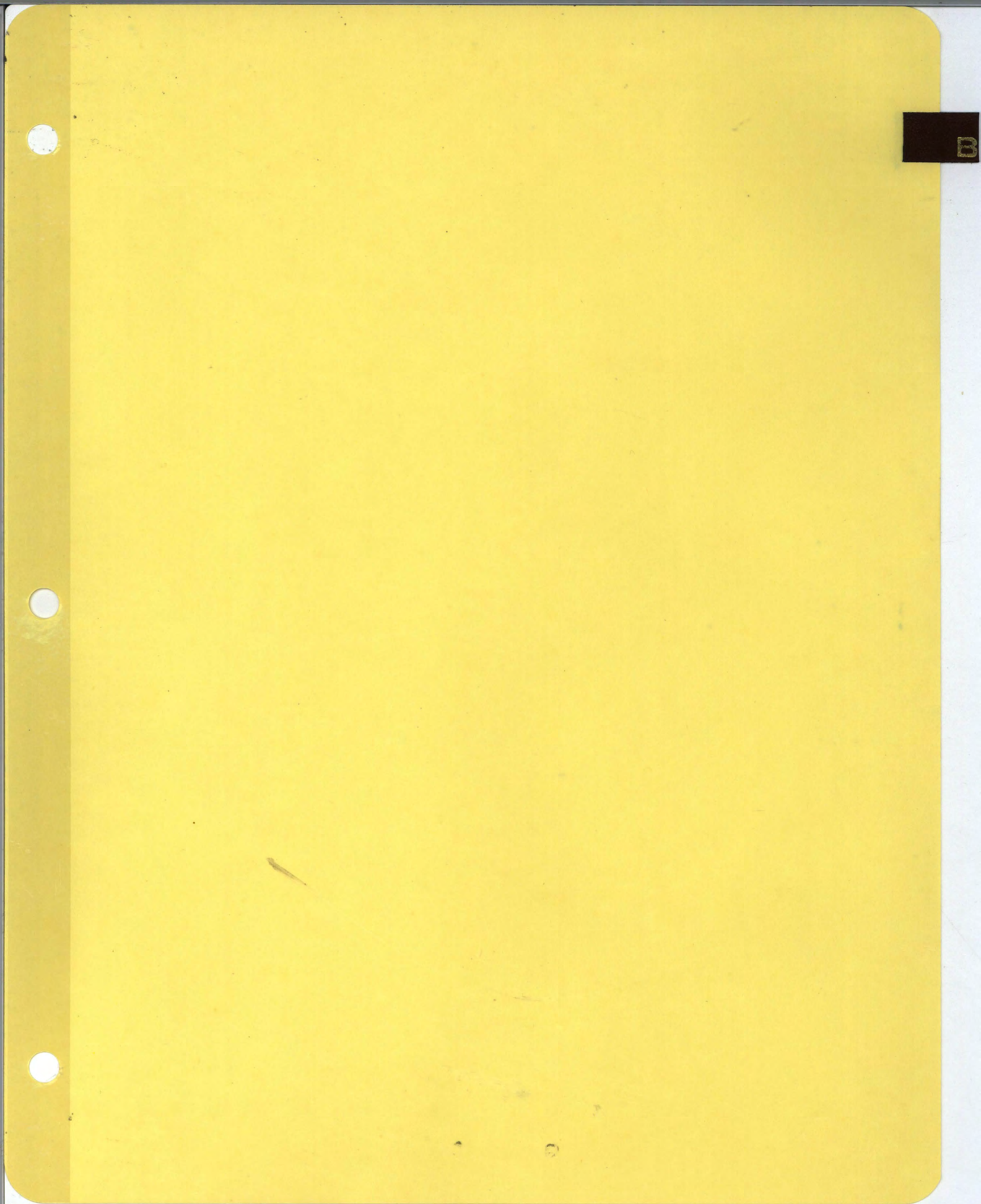
Thursday, November 15

9:00 - 11:00	Tour of Quito
12:00 - 12:30	Plane trip to Guayaquil on SAN Airlines flight WB829
13:00	Lunch with Government Authorities and Guayaquil financial community
15:30 - 17:30	Visit of proposed Guayaquil urban development project sites. Mr. McNamara would also visit some of the Guayaquil Water Company's works financed under Loan 1030-EC
17:45	Visit to Guayaquil Port whose improve- ments are financed under Loan 1255-EC
Evening	Private dinner

Friday, November 16

7:30	Departure by helicopter to Central Bank Rural Development Fund (FODERUMA) project at Guamote in Chimborazo province
8:30 - 9:30	Visit of Guamote project
9:30	Return by helicopter to Guayaquil
10:30	Arrival in Guayaquil
12:00	Short briefing on potential of Guayas basin
12:45	Fifteen minute airport press conference
13:30	Departure for Miami on Argentine Airlines flight 342

LCIDD
November 1, 1979



MR. MCNAMARA'S ARRIVAL STATEMENT

ECUADOR

I am delighted to be in Ecuador for the first time as President of the World Bank and am grateful to the Government for extending its hospitality to me and my colleagues. On this visit I hope to learn more about the development problems that the Ecuadorian people face and to see some projects the Bank is helping to carry out here. I also look forward to meeting with President Roldós and Government officials to discuss ways in which the Bank can help the new Administration realize its twin goals of achieving growth with a more balanced distribution of its fruits.

Ecuador and the World Bank have been partners in development for over a quarter of a century. Since 1954, the World Bank has extended 29 loans to Ecuador, amounting to US\$336 million. The Bank's lending to Ecuador was originally concentrated in the transport and power sectors, but in the last decade it has diversified into agricultural and industrial development.

In the year ending June 30, 1979, the World Bank approved its first rural development loan to Ecuador--to support a project in the province of Tungurahua. I will be visiting the site of this project which will benefit some 16,000 rural families. The most recent World Bank operation was a US\$40 million loan to Ecuador's industrial sector through the development banking system.

Among other projects, the World Bank is currently considering an urban development operation in Guayaquil as well as a highways project--mainly for feeder roads--, a rural development project, and projects for small-scale industry and petroleum exploration and production.

.../

The World Bank hopes to increase its assistance to Ecuador in the future. In particular, we expect to assist expansion of productive capacity in crucial areas of your economy and help improve living conditions for the rural and urban poor. We also want to continue cooperating in the strengthening of Government agencies and in providing technical assistance in order to foster Ecuador's development.

What brings us together is our mutual awareness of the needs of Ecuador's urban and rural poor and a commitment to ease their burdens. And what we learn together in Ecuador will also make the World Bank a more effective development institution in helping other countries.

C

MAP OF
MR. McNAMARA'S ITINERARY

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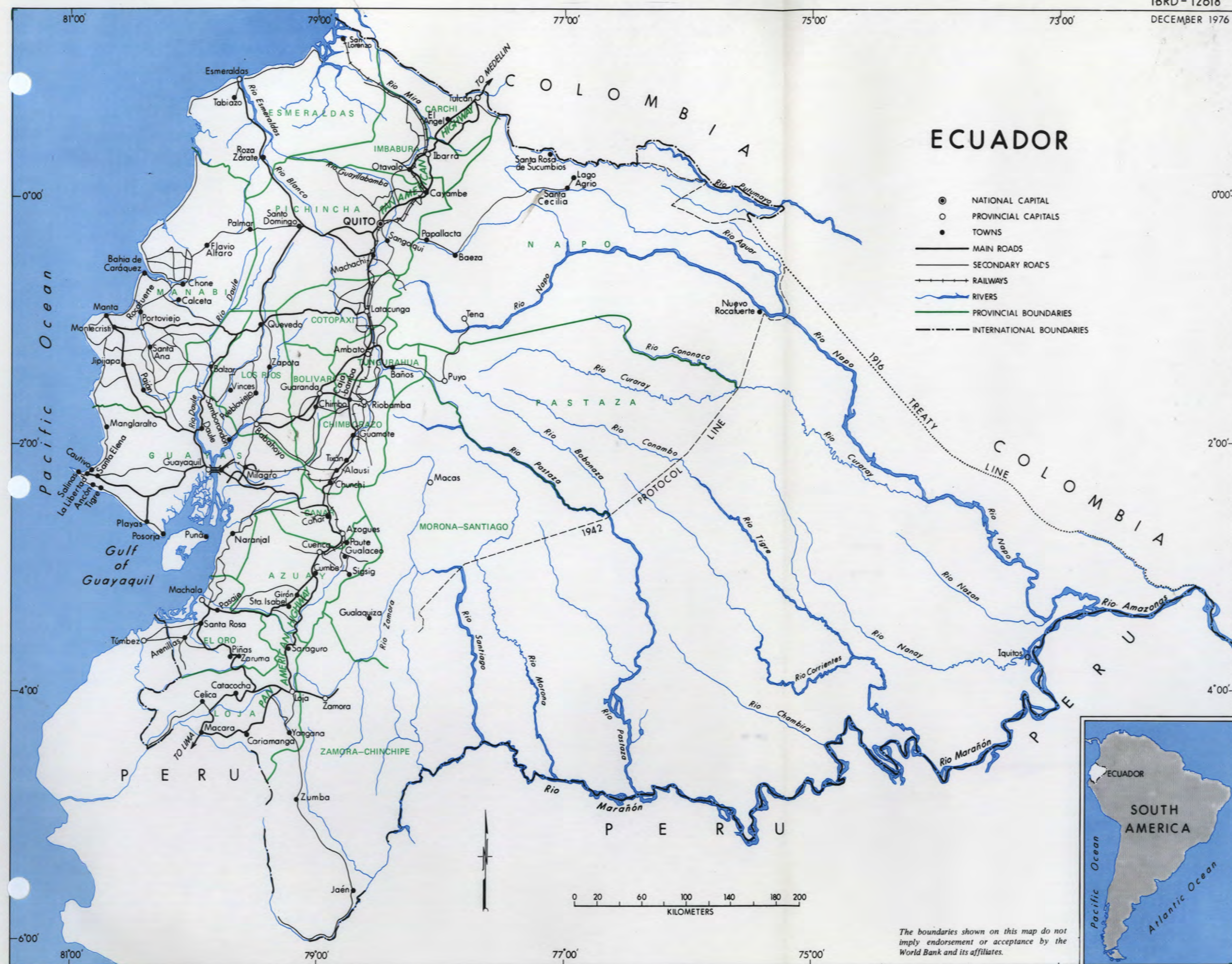
MARCH 1979



- Wednesday, November 14
- Thursday, November 15
- Friday, November 16

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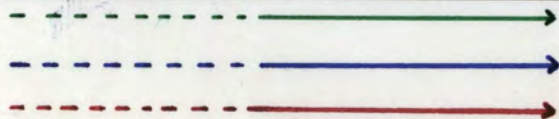


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Wednesday, November 14

Thursday, November 15

Friday, November 16

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background NOTES

Ecuador

department of state * april 1979

OFFICIAL NAME: Republic of Ecuador

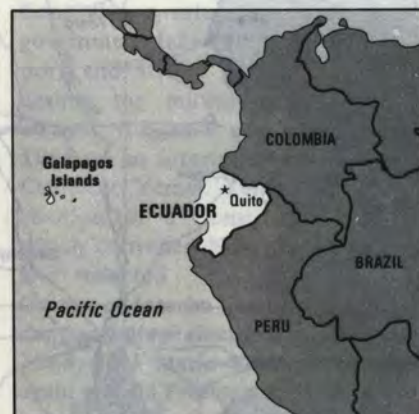
PEOPLE

Ecuador's population is ethnically mixed, with the largest groups being Indian and *mestizo*, or mixed Spanish and Indian, Africans, Spanish and other Europeans, and some Asians form smaller groups.

The population is unevenly distributed: About 60 percent of the people are concentrated on the relatively small amount of habitable land in the highland and mountain regions, and about 35 percent live on the coast. Noticeable migration has occurred

from the mountains to the coast, however, as well as some movement toward the sparsely inhabited interior, called the *Oriente*. Although a strong population movement toward the larger cities is underway, most of the population is still rural.

In the 1930's, the literary and artistic Indo-American movement began to emphasize the plight of the country's poor and underprivileged peasants and workers. The movement was common to all countries of the west coast of South America, although one facet of it, *indigenismo*, was particularly popu-



PROFILE

People

POPULATION: 7.6 million (1978 est.). **ANNUAL GROWTH RATE:** 3.4%. **ETHNIC GROUPS:** Indian 40%, *mestizo* (mixed Indian-Spanish) 40%, Spanish 10%, African 10%. **RELIGION:** Roman Catholic (official religion but religious freedom recognized). **LANGUAGES:** Spanish (official); Indian dialects, especially Quechua. **EDUCATION:** *Years compulsory*—to age 15. *Percentage attendance*—60. *Literacy*—77%. **HEALTH:** *Infant mortality rate*—71 per 1,000 (US=15/1,000). *Life expectancy*—57 yrs. **WORK FORCE (2,400,000):** Agriculture—55%. Industry, mining, and commerce—25%. Other—20%.

Geography

AREA: 270,669 sq. km. (104,506 sq. mi.); about the size of Colo. **CITIES:** Capital—Quito (pop. 720,000); Guayaquil (1 million), Cuenca (120,000). **TERRAIN:** Mountains to coastal plain. **CLIMATE:** Varied.

Government

TYPE: Republic. **INDEPENDENCE:** May 24, 1822. **CONSTITUTION:** Ecuador

has had several Constitutions; a new Constitution was approved by the electorate in 1978.

BRANCHES: *Executive*—Supreme Council of Government (composed of the heads of three armed services; the Navy Commander acts as ceremonial President). *Legislative*—Suspended rule by executive decree since 1970. *Judicial*—Supreme Court, superior, provincial, and cantonal courts.

SUFFRAGE: All literate citizens 18 years of age and older must vote. Members of the Armed Forces and police may not vote.

ADMINISTRATIVE SUBDIVISIONS: 20 Provinces.

DEFENSE: 17.5% of central government budget.

FLAG: Yellow, blue, and red horizontal bands with a coat of arms in the center. The emblem is framed by a condor (the national bird) and lance-tipped banners. (The colors are those of Gran Colombia, of which Ecuador was a part until 1830.)

Economy

GDP: 6.1 billion (1977), current prices. **ANNUAL GROWTH RATE:** 6.4% (1977). **PER CAPITA INCOME:** \$806. **AV. RATE OF INFLATION LAST 3 YRS.:** 12%.

NATURAL RESOURCES: Petroleum,

fish, timber, minerals.

AGRICULTURE: *Products*—bananas, coffee, cacao, sugar, rice, corn, livestock. *Percentage of GDP*—23.

INDUSTRY: *Types*—food products, textiles, light consumer goods, light industrial goods. *Percentage of GDP*—17.

TRADE (1977): *Exports*—\$14 billion: petroleum, bananas, coffee, cacao, seafood. *Partners*—US 44%; Latin America Free Trade Assoc. (LAFTA)—including Andean Pact—24%; EEC 13%; Japan 1.5%. *Imports*—\$1.3 billion (1977): industrial raw materials, machinery, transportation equipment, wheat. *Partners*—US 39%, LAFTA 12%, EEC 17%, Japan 15%.

OFFICIAL EXCHANGE Rate: 25 sucres=US\$1 (fluctuates).

ECONOMIC AID RECEIVED: *Total*—Multilateral (1975) World Bank \$113.5 million; Inter-American Development Bank \$247 million; various US agencies \$38 million; EXIM Bank \$54 million; Food for Peace \$64 million; Peace Corps \$22 million; military assistance \$70.3 million.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN and most of its specialized agencies, Organization of American States, LAFTA, Andean Pact, OPEC, Latin American Energy Association, Latin American Economic System, Group of 77, South Pacific Commission.



Note: Ecuador's oil fields are located near Lago Agrio.

lar in Ecuador. Oswaldo Guayasamin, an artist with an international reputation, is one of the foremost advocates of the movement. Similar social protest continues to be the predominant mode among the growing numbers of young writers, poets, and artists.

Middle and upper class Ecuadorians value literary, artistic, and intellectual

pursuits. Many are actively engaged in them even though they may also have careers in unrelated fields.

Sports are very popular among most of the people, and soccer, basketball, and volleyball lead the list in popularity. National sports programs are highly organized and emphasize regional competition.

Ecuador's education system is tuition free and mandatory from ages 6 through 14. The government is striving for better educational programs for rural and poor populations, especially in the areas of language, technical, and occupational training. Although the population increased by 38.3 percent from 1960 to 1970, its school enroll-

ment increased by 54.5 percent, and its higher education enrollment increased by 135 percent.

Military service is selective, with a 2-year conscription.

GEOGRAPHY

Ecuador, straddling the Equator on the Pacific coast of South America, is bounded by Colombia on the north and Peru on the south and east. It is the fourth smallest Republic in South America, exceeding only Guyana, Suriname, and Uruguay in size. Quito, the capital, is situated in the Andes at an altitude of 2,800 meters (9,300 ft.). Guayaquil is the principal port and commercial center.

The country has four distinct topographical regions:

(1) The *Costa* (coastal plain), comprising slightly more than a quarter of the total area, stretches from the Pacific Ocean to the Andes Mountains. This is a rich agricultural belt, varying from about 11 to 200 kilometers (7-125 mi.) in width, where most of Ecuador's tropical export crops are grown.

(2) The *Sierra* (highlands), with an inhabited plateau 2,400 to 3,050 meters (8,000-10,000 ft.) above sea level and 640 kilometers (400 mi.) long by 80 to 130 kilometers (50-80 mi.) wide, covers another quarter of the country. The region lies between two Andean chains, the western and eastern *cordilleras*, which have more than a dozen peaks exceeding 4,800 meters (16,000 ft.) above sea level. One of these, Cotopaxi, is the highest active volcano in the world. The *Sierra* is subject to occasional severe earthquakes.

(3) The *Oriente* (eastern jungle) comprises about half of the country. It consists of gentle slopes east of the Andes, covered with dense tropical forests, and the flat valleys of the upper reaches of the Amazon tributaries.

(4) The *Archipelago de Colón* (Galapagos Islands) is located in the Pacific Ocean about 1,000 kilometers (600 mi.) off the Ecuadorean coast. It comprises five large and nine small islands covering an area of about 7,770 square kilometers (3,000 sq. mi.). The unique wildlife of the islands has fasci-

nated scientists ever since Charles Darwin visited there in 1836.

The Pacific Ocean off the coast of Ecuador and surrounding the Galapagos is a rich fishing area for tuna.

Ecuador has a wide range of climates because of its varying altitudes. In general the tropical lowlands have hot, humid weather ranging from 18°C (65°F) to 32°C (90°F), although the temperatures are somewhat moderated by the actions of the Peru Current. The Andean Plateau is noted for its year-round springlike weather; daily temperatures usually range from around 10°C (50°F) in the morning and night and rise to around 21°C (70°F) during the day.

HISTORY

The northern half of the Inca Empire, which had spread into the area less than 100 years earlier, fell to the Spanish conquistadores in 1532. In 1563 this area was made a *Royal Audiencia of Spain with its seat at Quito*. It was incorporated later into the Viceroyalty of New Granada. After gaining independence from Spain in 1822, Ecuador was joined by Simón Bolívar to Greater Colombia. In 1830 Ecuador seceded and became a separate republic. In the 19th century political conditions were unstable, and during the first 95 years of its independence Ecuador had a rapid succession of Presidents, dictators, and juntas—40 in all.

From 1925 until 1948 Ecuador went through an even more troubled political period. No President was able to complete his term of office; there was a total of 22 Presidents or Chiefs of State. Galo Plaza Lasso (former Secretary General of the Organization of American States), who was elected President in free elections in 1948, was the first President since 1924 to complete his constitutional 4-year term. Plaza's accomplishment was repeated by José María Velasco Ibarra (1952-56) and Camilo Ponce (1956-60).

The trend to peaceful changes of government was continued in the 1960 Presidential elections, which Velasco won by a large plurality. However, after a period of political turbulence sparked by an increasingly adverse economic situation, Velasco was

forced out of office in November 1961. He was replaced by his constitutional successor, Vice President Carlos Julio Arosemena.

Following a period of growing public dissatisfaction with the Arosemena administration and increasing concern over the threat of Communist insurgency and acts of terrorism, the Armed Forces ousted President Arosemena on July 11, 1963. Control was assumed by a 4-member military junta.

When the junta's formula for elections and a return to constitutional government failed to gain popular support and strikes and demonstrations against the military government increased, the junta gave way in March 1966 to an interim civilian President, Clemente Yerovi. Yerovi arranged for election of a Constituent Assembly which convened November 16, 1966, and selected Dr. Otto Arosemena Gómez as Interim Constitutional President pending elections. On June 2, 1968, José María Velasco Ibarra was again elected President.

President Velasco governed under the 1967 Constitution until June 22, 1970, when, faced with student riots and severe financial problems, he assumed extraconstitutional powers with the support of the Armed Forces. He suspended the 1967 Constitution, dissolved the Congress, and reorganized the Supreme Court. His government justified this move on the basis of the need to preserve public order and to save Ecuador from financial disaster. President Velasco pledged to turn over the government on September 1, 1972, to his elected successor, following a plebiscite to approve a new Constitution and elections in June 1972.

However, in February 1972, the Armed Forces assumed control of the country in a bloodless coup. A military government, headed by Army General Guillermo Rodríguez Lara as President, cancelled the Presidential elections that had been scheduled for June 1972, and ex-President Velasco was sent into exile.

The Rodríguez Lara government was, in turn, deposed in January 1976 by disgruntled military officers. The current government is led by a Supreme Council of Government con-

TRAVEL NOTES

Clothing—Temperatures vary with altitude, not season. Spring/fall weight clothing is useful all year in the *Sierra*, while summer weight clothes are necessary in the *Costa* and *Oriente*. Rainwear is necessary during the rainy season in Quito and Guayaquil (roughly November-March).

Customs—For U.S. citizens a valid passport, visa or tourist card, and smallpox inoculation certificate are required for entry.

Health—Inoculations against typhoid, paratyphoid, typhus, tetanus, and hepatitis are recommended, and precautions against contaminated food and water must be taken in order to guard against amoebas and parasites. Tapwater is not potable. The high altitude of the *Sierra* often causes problems, especially for older people and those with heart problems. Precautions must also be taken against sunburn.

Telecommunications—Domestic telephone and telegraph service is available between most major cities in Ecuador. Long-distance telephone service, cables, and telex are available for foreign communication.

Transportation—Flights are available from the United States to both Quito and Guayaquil. Domestic airlines serve most large and medium-sized cities in Ecuador. Intercity railroad passenger service is limited, but intercity buses are plentiful. In the major cities buses and taxis are plentiful and reasonably priced.

Tourist Attractions—The city of Quito contains a wealth of Spanish colonial art and architecture, and the Central Bank Museum in Quito contains an excellent collection of pre-Colombian artifacts. Many towns in the *Sierra* (particularly Otavalo, where attractive folk handicraft is sold) have colorful Indian markets. Ecuador's *Oriente* also offers the opportunity to see tropical rain forests and Indian life. Climbers may be interested in the mountains, a number of which are above 4,200 meters (14,000 ft.). The Galapagos Islands offer a variety of unique flora and fauna in a protected setting.

sisting of the heads of the three branches of the Armed Forces, the senior of whom serves as President. This government is carrying out a program to return to civilian rule by 1979.

GOVERNMENT

Shortly after assuming power in 1972, the military government declared the Constitution of 1945 to be in force to the extent that it did not conflict with the aims of the regime. Certain provisions of the Constitution, particularly those relating to legislative activity, remain inoperative. Legislation is enacted by decree. A Cabinet of 11 Ministers, appointed by the Supreme Council of Government, serve at its pleasure. In 1978 the electorate approved a new Constitution that will enter into effect with the inauguration of a new civilian government in August 1979.

The highest court in Ecuador is the Supreme Court, whose members are appointed by the Supreme Council of Government. Lower levels of the judicial hierarchy include superior, provincial, and cantonal courts.

The country is divided into 20 Provinces headed by Governors appointed by the Supreme Council of Government. The Council also appoints the Mayors of the principal cities.

Principal Government Officials

Supreme Council of Government—
Adm. Alfredo Poveda Burbano
(President of the Council), Gen.
Guillermo Durán Arcentales, Lt.
Gen. Luis Leoro Franco

Ministers

Government—Rear Adm. Victor Hugo Garces

Foreign Relations—José Ajala Lasso

Defense—Maj. Gen. (r.) Andres Arrata Macias

Finance—Juan Reyna Santacruz

Industry, Commerce, and Integration—
Galo Montaña Perez

Natural Resources and Energy—Brig.
Gen. Jaime Semblantes Polanco

Ambassador to the UN—Miguel Albornoz

Ambassador to the OAS—Galo Leoro Franco

Ambassador to the U.S.—vacant

Chargé d'Affaires—Horacio Sevilla-Borja

Ecuador maintains an Embassy in the United States at 2535 - 15th St.

NW., Washington, D.C. 20009 (tel. 202-234-7200).

POLITICAL CONDITIONS

In late 1976, the military government embarked on its plan to return the government to civilian rule by appointing commissions made up of prominent political personalities to restructure the Ecuadorean political system. In January 1978, the Ecuadorean people approved a new Constitution. In July the first round of the Presidential election was held; at the same time, Provincial prefects, mayors, and city councilors were elected. The final round of the Presidential election and elections to the unicameral National Legislature provided for in the new Constitution were held April 29, 1979, and the inauguration of the President and Legislature are scheduled to take place on August 10, 1979.

Political parties in Ecuador have been mostly small, loose organizations lacking clearly defined programs and having tendencies to multiply through splitting. Parties traditionally have been the creation of individuals and have risen and fallen with the fortunes of their leaders. The military government's Law on Political Parties, however, provides for the legal disqualification of parties that either fail to obtain 5 percent of the vote in two consecutive elections or do not field candidates in at least 10 Provinces, including the two largest. The purpose of this law is to provide Ecuador with strong parties by eliminating small parties and splinter groups.

The Concentration of Popular Forces (CFP) is Ecuador's largest party. Its main strength is in Guayas Province, and it is led by Assad Bucaram, the populist former mayor of Guayaquil, and Jaime Roldos Aguilera, its Presidential candidate. Bucaram was considered the front runner in the abortive 1972 election (canceled by the military) and in the 1978 election (where he was prevented from running). Nevertheless, the CFP candidate and its smaller coalition partner, Popular Democracy (DP), came in first in the first round of the Presidential election in July 1978. Roldos received 32 percent of the vote in the Presiden-

tial election and the CFP obtained about 22 percent in the local elections.

The Conservative Party, the oldest of the political parties in Ecuador, favors landholding interests and is a strong supporter of the Catholic Church. Its strength lies in the *Sierra*. In the first round of the Presidential election, the Conservative Party, along with several smaller political entities, supported the candidacy of Social Christian Sixto Duran-Ballen, who came in second. Duran-Ballen will face Roldos in the April 1979 runoff. The Conservative Party obtained 12 percent of the vote in the local elections.

The Radical Liberal Party was founded in 1878 and was in power from 1895 to 1944. Ideologically, the Liberals are center or right of center. The commercial and banking interests, particularly in the *Costa*, are the Liberals' stronghold. At present, the Liberals are split, with a generally older and more conservative faction constituting the legally recognized wing of the party. The Liberal Presidential candidate, Raul Clemente Huerta, came in third in the first round of the election and was eliminated from the runoff. The party obtained 18 percent of the vote in the local elections.

The fourth largest party is the Democratic Left (ID), which is affiliated to the Socialist International and possesses a strong base in *Sierra* urban areas. Its Presidential candidate, Rodrigo Borja, obtained about 10 percent of the vote in the 1978 elections.

Another party, the National Velasquista Federation, was the political vehicle for Ecuador's charismatic caudillo, 5-time-President Jose Maria Velasco Ibarra. However, Velasco, now in his 80's, has retired from politics and has been in exile in Argentina since he was deposed in 1972. The party's candidates obtained 6 percent of the vote in the July local election.

Other recognized parties include: the Nationalist Revolutionary Party of former President Carlos Julio Arosemena; the Coalition of Democratic Institutions (CID) of ex-President Otto Arosemena; Revolutionary Popular Action (APRE); the Socialist Party; and several small Marxist parties. The Communist Party (Moscow-line), the

Socialist Revolutionary Party (Havana-line), and other, even smaller, groups are united in the Broad Front of the Left (FADI) coalition. Their rival for influence in the extreme left is the recently recognized Maoist Popular Democratic Movement (MPD). Although the FADI candidate obtained less than 5 percent of the vote in the first round of the Presidential election, the Communists exert considerable influence in labor, student, and intellectual circles.

DEFENSE

The Ecuadorean Armed Forces number about 40,000: about 30,000 in the Army, and 5,000 each in the Navy and Air Force. The major Army units include several infantry brigades, one cavalry group, one armored brigade, and one special forces brigade. The Navy has a force of about 60 vessels, including two modern submarines. The Air Force has a variety of aircraft, which will soon include Mirage F-1 interceptors. It also runs Ecuador's International Air Carrier, Ecuatoriana, and a local carrier, TAME. The published defense budget in 1978 was \$175 million, which represented 17.5 percent of the total budget, or 2.5 percent of the gross national product.

ECONOMY

Despite Ecuador's status as an oil-producing country, it remains one of the least developed countries in South America. Petroleum activity in the last several years has caused a spurt in overall economic development, but the accompanying inflation has been prejudicial to the poorer sectors of the society. General improvements in living standards are also limited by Ecuador's high population growth rate and poor income distribution.

Ecuador is still a large exporter of bananas, but since petroleum exports started in 1972, the economy has revolved around petroleum. In 1977 Ecuador exported 49.4 million barrels of petroleum for export earnings of \$651 million; this represented 47 percent of Ecuador's total export earnings that year.

Although a small amount of petrole-

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um has been produced in the Santa Elena Peninsula area near Salinas since 1911, Ecuador did not become a sizable petroleum producer until the *Oriente* petroleum fields, discovered in 1967, were developed. These fields are a continuation of the fields discovered earlier in southern Colombia. The exploration and exploitation of the fields were initially undertaken by a consortium consisting of Texaco and Gulf.

In 1974 the Ecuadorean State Petroleum Corporation (CEPE) became a 25-percent partner in the consortium. At the end of 1976, CEPE bought out Gulf's share, which made CEPE the

larger partner in the restructured consortium.

Ecuadorean *Oriente* petroleum production is fixed at a maximum of 217,000 barrels per day (b/d). The oil is pumped from the fields 500 kilometers (310 mi.) across the Andes to Esmeraldas on the Pacific Coast, where it is loaded on ships for export. Most of the exported oil goes to the United States, but small amounts are also sold to Panama, Chile, and other countries. In late 1977, the government started a 55,600 b/d refinery constructed near Esmeraldas with commercial financing.

The Gulf of Guayaquil is believed to contain significant reserves of natural gas, but no commercial production has yet been achieved.

Besides fossil fuels, Ecuador's considerable hydroelectric power potential is only beginning to be developed. Ecuador has solicited both bilateral and multilateral assistance in developing this resource.

Agriculture remains the mainstay of Ecuador's domestic economy. In 1977 it accounted for more than half the labor force, 20 percent of gross domestic product (GDP), and about 40 percent of Ecuador's foreign exchange. Principal export crops are bananas, cocoa (which became the second largest foreign exchange earner in 1977), and coffee. The most important domestic food crops are corn, rice, barley, and potatoes. Ecuador is a net importer of wheat. Livestock raising is also significant.

Ecuador's agrarian reform program plus a traditional colonial *latifundia/minifundia* situation has resulted in an Ecuadorean land-holding pattern of both a large number of small farms and a small number of large farms. Although some attempts have been made at cooperative farming utilizing farm machinery and modern farming techniques, most of the small holdings continue to be farmed primitively and inefficiently. Ecuador has no significant foreign-owned farms.

Fishing is one of the fastest-growing sectors of Ecuador's economy, with a 35 percent growth in exports in 1977. The skipjack and yellowfin tuna fishing off Ecuador's Pacific coast is among the best in the world, and 80 percent of the yield is harvested by

U.S. boats. There is also some fishing for shrimp and lobster. Ecuador's fishing fleet is small, but the government has ambitious plans to expand it. The fishing industry is centered in Manta and Salinas.

The manufacturing sector increased at a rate of about 13 percent per year during 1977-78. Major manufacturing industries include food processing, textiles, pharmaceuticals, rubber and plastics, leather products, paper products, wood products and furniture, and household appliances. Most industries are of an import-substitution nature, although some impetus to export has been provided by Ecuador's membership in the Andean Pact. Ecuador now imports and will continue to import a large part of its consumer and industrial needs. Many of Ecuador's manufactured goods are produced by small, labor-intensive enterprises.

In general, Ecuador has had no trouble with its balance of payments since oil exports started in 1972, although it still maintains fairly strict import controls and high tariffs. The sucre has been one of South America's strongest currencies recently; it is quoted officially at 25 sucres to the dollar and may be purchased on the free market at approximately 26.5 sucres to the dollar.

Foreign direct investment in Ecuador at the end of 1976 was estimated at about \$723 million, of which about 68 percent came from the United States. Oil investment accounts for the bulk of U.S. investment. All foreign investment must abide by the Andean Pact foreign investment rules, which stipulate that foreign investors must reduce their participation in Ecuadorean enterprises to a minority position by 1992.

FOREIGN RELATIONS

The basic foreign policy objectives of the Government of Ecuador are:

- (1) Defense of the national territory from external aggression and internal subversion;
- (2) Support for the objectives of the United Nations and the Organization of American States;
- (3) Defense of Ecuador's claim to 320 kilometers (200 mi.) of territorial

and fisheries jurisdiction off its coast; and

(4) Revision of the 1942 Rio Protocol of Peace, Friendship, and Boundaries, which ended open warfare between Peru and Ecuador and resulted in demarcation of about 90 percent of the boundary between the two countries. Ecuador has never resigned itself fully to this treaty and does not recognize the boundary which it established. Most Ecuadoreans regard Peru as an aggressor to whom half of Ecuador's territory was lost. Ecuador would welcome the revision of this treaty to gain an outlet on the Marañón River, a tributary of the Amazon.

As a small country, Ecuador has always placed a great deal of emphasis on multilateral approaches to problems. Ecuador belongs to the United Nations, the OAS, the Latin American Economic System, the Latin American Energy Organization, and to two economic integration associations—the Latin American Free Trade Association and the Andean Pact. Paradoxically, Ecuador, one of the smaller oil-exporting nations, belongs to OPEC and does not belong to the Union of Banana Exporting Countries, although it is one of the world's largest banana exporters.

U.S.-ECUADOR RELATIONS

The United States and Ecuador have close ties based on trade, investment and financial activities, cooperation in fostering Ecuador's economic development, and mutual participation in institutions for cooperation among the nations of the Western Hemisphere.

The U.S. assists Ecuador's economic development directly through its AID program in Ecuador and through multilateral organizations such as the Inter-American Development Bank and the World Bank. In addition, the U.S. Peace Corps operates a sizable program in Ecuador.

Ecuador and the United States are also linked through their mutual participation in the OAS and other inter-American institutions. Both nations are signatories of the Inter-American Treaty of Reciprocal Assistance (the

Rio Treaty of 1947), the regional mutual security treaty for the Western Hemisphere.

For several years relations between the United States and Ecuador have been troubled because of differences over fisheries. Since 1953 Ecuador has defended its claim to a 200-mile territorial sea by imposing license fees and fines on foreign fishing vessels, most of which have been tuna boats flying the U.S. flag. In the first years of the dispute, seizures of U.S. tuna boats were relatively infrequent, but between January 1971 and February 1975 Ecuador seized approximately 100 boats and collected fines and fees totaling over \$6 million. Under the Fisherman's Protective Act, the boat owners may obtain reimbursement for these charges from the U.S. Government, but during the past 2 years most of the boats' owners have purchased Ecuadorean licenses, which explains no seizures since 1975.

The issue involves differences about the breadth of the territorial sea and

the rights of a coastal state over highly migratory resources traveling through the waters adjacent to its coast. The U.S. claims jurisdiction over coastal fisheries resources up to 200 miles from its coast, excluding highly migratory species such as tuna, whereas Ecuador's territorial claim includes jurisdiction over tuna. The U.S. believes that tuna can only be rationally managed through international organizations which include all the fishing and coastal nations involved.

Progress toward a negotiated solution has been slow. In 1969-70, talks were held with Ecuador, Peru, and Chile, but these talks broke down following the imposition of Foreign Military Sales (FMS) sanctions in 1971. FMS sales and credit to Ecuador were reinstituted in 1974, but certain bilateral efforts have not led to a solution of the fisheries disagreement. The best opportunity for an eventual resolution of the controversy with Ecuador appears to be through the U.N.-sponsored Law of the Sea Conference and regional multilateral tuna

negotiations flowing from this conference.

Another difficulty in our bilateral relations with Ecuador is caused by the fact that the 1974 Trade Act excluded all OPEC countries from the benefits of the Generalized System of Preferences, even though Ecuador and Venezuela, the two Latin American members of OPEC, did not participate in the 1973-74 oil embargo of the United States. Recent executive branch and congressional efforts to remove this irritant in our bilateral relations have not yet been successful.

Principal U.S. Officials

Ambassador—Raymond E. Gonzalez
Deputy Chief of Mission—Rudy V. Fimbres
Consul General, Guayaquil—Robert A. Bishton

The U.S. Embassy in Ecuador is located at 120 Avenida Patria, Quito (tel. 548-000). The Consulate General is at 9 de Octubre and Garcia Moreno, Guayaquil (tel. 511-570).

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455A: 370000 sq. km. (104,000 sq. mi.) about the size of Colo. CITIES: Quito (1,200,000), Guayaquil (1,200,000), Cuenca (120,000). TERRAIN: Mountain to coastal plain. CLIMATE: Varied.

Government

TYPE: Republic. INDEPENDENCE: May 24, 1822. CONSTITUTION: Ecuador

years of age and older must vote. Members of the armed forces and police may not vote.

20 percent.

EXPENSES: 17.2% of total government budget.

FLAG: Yellow, blue, and red horizontal bands with a coat of arms in the center. The emblem is framed by a wreath of cotton and corn stalks of Quito, Colombia, of which Ecuador was a part until 1830.

Economy

GDP: \$1.2 billion (1977). ANNUAL GROWTH RATE: 4% (1977). PER CAPITA INCOME: \$100. AV. RATE OF INFLATION LAST YEAR: 12%.

NATURAL RESOURCES: Petroleum,

FOREIGN-OWNED: 44% of total. Trade: 1977: 14.1% of GDP. Imports: 14.1% of GDP. Exports: 14.1% of GDP. (1977) Industrial raw materials, machinery, transportation equipment, steel. Primary: 14.1% of GDP. LATEX: 14.1% of GDP. Japan: 14.1%.

OFFICIAL EXCHANGE RATE: 25 to 1 (1977) (Quetzales).

RECEIVED: 1977: World Bank \$115.5 million; Inter-American Development Bank \$247 million; various US agencies \$24 million; EXIM Bank \$24 million; World Bank \$24 million; Peace Corps \$24 million; military assistance \$20.3 million.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN and most of its specialized agencies, Organization of American States, OASPA, Latin American Group, OPEC, Latin American Energy Association, Latin American Economic System, Group of 77, South Pacific Commission.

D

ECUADOR - LIST OF GOVERNMENT OFFICIALS

Jaime ROLDOS Aguilera*
Osvaldo HURTADO Larrea*

President of the Republic
Vice President of the Republic

THE CABINET

Margarita de ARMIJOS
Fernando ASPIAZU Seminario*
Leonel CEDEÑO Rosado*
Mauricio DAVALOS Guevara*
Roberto DUNN Barreiro
Carlos FERAUD Blum
Rodrigo FIERRO Benítez
Galo GARCIA Feraud*
Martín MANOSALVAS Vaca*
Nicolás PARDUCCI
Alfredo PAREJA Diezcanseco*
Rafael RODRIGUEZ Palacios
Leon ROLDOS Aguilera*
Alejandro ROMAN
Francisco SAA Chacón
Germánico SALGADO*

Minister of Social Welfare
Minister of Finance and Public Credit
Minister of Agriculture and Livestock
Minister of Natural Resources and Energy
Minister of Government and Police
Minister of Labor and Human Resources
Minister of Public Health
Minister of Education and Culture
Minister of Industry, Trade and Integration
Attorney General
Minister of Foreign Affairs
Minister of National Defense
President of Monetary Board
General Secretary of the Government
Minister of Public Works and Communications
General Manager of Central Bank

OTHERS

Enrique AMPUERO
Jacobo BUCARAM
José CARRILLO*
José A. CARVAJAL Candell*
Pablo CONCHA Ledergerber
Rogelio CORDOVEZ Dunn*
José CORREA
Fernando COSSIO
Carlos EMANUEL*

Antonio HANNA Musse*
Marcel LANIADO de Wind*

Oscar LOOR Risco*

Rodrigo MALO Gonzales
Edgardo MARMOL Cevallos*
Galo PLAZA Lasso*

Marcelo QUEVEDO Toro*

Executive Director, INIAP (Agricultural Research Institute)
Executive Director, INERHI (National Water Resources Institute)
Acting Manager, EMAP-G (Guayaquil Water Supply Company)
General Manager, CEPE (National Oil Company)
General Manager, BEDE (State-Owned Development Bank)
President of the Board of Directors, Guayaquil Port Authority
President, COFIEC (Largest Private DFC)
Acting UNDP Resident Representative
Manager of the Central Bank's Guayaquil Office and Acting Alternate Governor for the Bank
Mayor of Guayaquil
President, Banco del Pacífico (Ecuador's second largest commercial bank)
Executive Director, CEDEGE (Guayas Basin Development Study Commission)
President, CFN (State-Owned DFC)
President, BEV (State-Owned Housing Bank)
Ex-President of Ecuador and former Secretary General of the OAS
General Manager, BNF (State-Owned Agricultural Bank)

Francisco SWETT Morales*
Flavio TAMAYO Andrade*
Eduardo VILLARREAL*

Guayaquil Urban Project Coordinator
Tungurahua Project Unit Director
General Manager, INECEL (National Power
Company)

Asterisk denotes that a bio-sketch is provided.

SELECTED BIOGRAPHICAL SKETCHES

Jaime ROLDOS Aguilera President of the Republic

1. A 39 year old lawyer, Mr. Roldos has vaulted in less than a year from a position of relative obscurity to that of Ecuador's most prominent politician. He is a native of Guayaquil and studied at the University of Guayaquil where he graduated first in his class.
2. Mr. Roldos has been active in politics since his college years when he was a student leader. He has been a long-time member of the Concentration of Popular Forces party (CFP) and was twice elected to Congress, in 1969 and again in 1970.
3. During the 1970s, Mr. Roldos developed a successful legal practice. He was elected President of the Association of Lawyers in Guayaquil and also served, for a time, as Director of the Department of Modern Humanities in the Ministry of Education.
4. Mr. Roldos considers himself a center-leftist. He has a reputation for keen intelligence and is a soft spoken and serious individual. His articulateness and poise during the 1978-79 electoral campaign played a major role in his landslide victory over Mr. Duran Ballen.
5. President Roldos is married to Martha Bucaram --a niece of the President's former mentor and current political adversary, Mr. Assad Bucaram. Like her husband, Mrs. Roldos is a lawyer. The President frequently refers to her as his closest advisor and she takes an active interest in the social progress of her fellow Ecuadorians. The Roldoses have three children.
6. The President is an avid reader and is particularly interested in political and economic literature. He is also fond of chess and auto racing. He does not speak English.

Osvaldo HURTADO Larrea Vice President

1. Like President Roldos, Mr. Hurtado is a young (40 years old) lawyer. He was born in the Sierra near Riobamba, an important provincial capital.
2. Mr. Hurtado has well established credentials as a left-of-center intellectual. Prior to his election as Vice President, he was a professor of political economy at Quito's Catholic University, his alma mater. He has also served as deputy dean of the school's economics faculty and as Director of its Institute for Economic Research. Mr. Hurtado has authored several books, the best known of which are "Two Superimposed Worlds" and "Political Power in Ecuador". The former deals with the problems of dualism in the country while

the latter is an ambitious and interesting socioeconomic analysis of Ecuador's power structure.

3. An intelligent, articulate and personable individual, Mr. Hurtado has taken a lively interest in development issues and in bank operations. He is slated to head the recently created National Council for Economic Development (NCED) which is expected to direct Ecuador's development effort. Additional legislation is still required to define the NCED's precise scope and function, however. Until the Congress enacts this legislation, Mr. Hurtado's power is limited.

4. The Vice President is married and has three children. He does not speak English.

Fernando ASPIAZU Seminario
Minister of Finance and Public Credit

1. The scion of a family with a well established tradition of public service, Mr. Aspiazu (age 44) was raised in Guayaquil and is considered to be one of the Costa's representatives in the Cabinet although he was born in Quito.

2. Mr. Aspiazu earned a doctorate in law at the University of Guayaquil and then went on for his masters in economics and public administration at Indiana University. At an early age (23), he became private secretary of the Minister of Education and was subsequently promoted to Undersecretary of Education.

3. After his stint in Government service, Mr. Aspiazu turned to the private sector and was the financial advisor of a large private company in Venezuela for three years. He also served as president of one of the country's largest sugar mills (Astra) and as a member of the board of directors of several private companies, some of which belong to his family. Prior to being named Finance and Public Credit Minister, he was president of Financiera Nacional S. A. and general manager of Financiera Iberoamericana S.A., two of Ecuador's most dynamic new development finance companies.

4. Mr. Aspiazu is a knowledgeable, quiet individual. He speaks English fluently.

Leonel CEDEÑO Rosado
Minister of Agriculture and Livestock

1. Mr. Cedeño, age 40, is the only representative of the politically important coastal province of Manabí in the Cabinet. Prior to his selection as Minister, he had been a CFP activist in the province.

2. Although he is an agricultural engineer and has taught tropical agriculture at Manabi's technical university, Mr. Cedeño is considered to be, technically, one of the weakest members of the Government. There are repeated rumors in Ecuador that he will be replaced as head of the key Agriculture and Livestock Ministry in a cabinet shake-up which may take place in early 1980. Mr. Cedeño does not speak English.

Mauricio DAVALOS Guevara
Minister of Natural Resources and Energy

1. Born in the provincial capital of Riobamba in the Sierra, Mr. Davalos (age 35) is one of the key members of the Cabinet.

2. Mr. Davalos is well trained academically. He studied law for four years in Ecuador and then earned a B.S. in economics at Northwestern University. He rounded out his studies with a masters and PhD in economics from Vanderbilt.

3. A close friend of Vice President Hurtado's and an active member of the Vice President's small Christian Democratic Party, Mr. Davalos has served as a professor of economics at Quito's Catholic University and as Director of the university's Institute for Economic Research. Until January, 1979, he also worked in the Citibank Office in Quito.

4. In recent weeks, Mr. Davalos has made a number of courageous public statements calling for a rise in the domestic prices of petroleum products. He is clearly being asked by the Roldos' administration to take the point on this issue and may wind up being sacrificed for his stand.

5. Mr. Davalos is personable, articulate and energetic. He speaks fluent English.

Galo GARCIA Feraud
Minister of Education and Culture

1. Mr. Garcia was born in Guayaquil 44 years ago and earned a law degree at the University of Guayaquil. He has been a professor in several private schools in Guayaquil and at both of the city's universities. He was also private secretary to a former Minister of Education, dean of the faculty of law of the University of Guayaquil and author of the book "Women and Legislation in Ecuador".

2. Mr. Garcia does not speak English.

Martin MANOSALVAS Vaca
Minister of Industry, Trade and Integration

1. Mr. Manosalvas (age 50) is one of several political appointees in the Cabinet. He is a lawyer by training and has played a leading role in CFP politics in the past. Although he has published books on civil law in Ecuador and on the proposed establishment of a judicial system for the Andean Pact, Mr. Manosalvas has no particular expertise in the area of industrial policy.

2. Mr. Manosalvas was born in Quito but practiced law for years in Guayas Province. He does not speak English.

Alfredo PAREJA Diezcanseco
Minister of Foreign Affairs

1. A distinguished elderly gentleman and historian, Mr. Pareja brings to the job of Foreign Affairs Minister a wealth of experience in the public and private sectors and in academia.

2. In the 1940s, Mr. Pareja served as a diplomat in Mexico and worked in UNRRA. In his native country, he served as a congressman (1938), with the Monetary Board (1953-60) and as a member of the Advisory Board of the Foreign Affairs Ministry (1973). He has also been active in the banking sector having served as manager for several years of two important financial institutions, La Filantropica and Banco Popular.

3. Mr. Pareja is best known for his writings --novels and articles on history and culture-- and as a university professor. He has taught at Quito's Central University and has lectured at Universities in Costa Rica, Mexico, and the U.S. He is from Guayaquil and speaks English.

Leon ROLDOS Aguilera
President of Monetary Board
and Bank Governor

1. Mr. Roldos (age 36) is the younger brother of Ecuador's President and is generally considered to be the second most influential member of the Administration. He is from Guayaquil and graduated first in his class in law and social sciences at the University of Guayaquil. Prior to being named to his present position, Mr. Roldos provided legal advice to several important Ecuadorian banks and to most of the country's DFCs. He was also dean of the Faculty of Law at Rocafuerte University in Guayaquil.

2. Because of his kinship with the President, Mr. Roldos has taken on a key troubleshooting role within the Government which goes much beyond his Monetary Board responsibilities. His outspokenness and penchant for involving himself in important issues are rumored to have caused resentment among other influential Government officials, however, and this could create tensions within the Administration.

3. Because Finance Minister Aspiazu was unable to attend the Belgrade Meetings, Mr. Leon Roldos was named Bank Governor for Ecuador on September 21 in place of Mr. Aspiazu. It is unclear whether this is a permanent arrangement or whether the Finance Minister will, once again, be named Bank Governor. In any event, Mr. Roldos has taken a personal interest in Bank operations and in coordinating Mr. McNamara's visit to Ecuador. He will personally accompany Mr. McNamara to most of the events during his 3 day stay in Ecuador.

4. Mr. Roldos is intelligent, pragmatic and dynamic. His spoken English is, however, limited.

Germánico SALGADO
General Manager of Central Bank

1. Born in Quito, Mr. Salgado (age 54) is a well known figure in the international development community. He holds degrees in law and social sciences from Quito's National University and in economics from the Central University in Madrid. He was also a participant in an early EDI course.

2. Mr. Salgado has held a number of important positions including dean of the school of economic sciences at the National University in Quito, Technical Director of Ecuador's Planning Board and Director of the Department of Economic and Social Affairs at the OAS between 1964 and 1969. He was succeeded in this position by Mr. Ardito Barletta.

3. In the early sixties, Mr. Salgado was a member of the Committee of Experts of the Alliance for Progress. From 1969 to 1976, he also served on the Board of Directors of the Andean Pact. Prior to assuming his present duties, Mr. Salgado was the representative in Ecuador of the Andean Development Corporation (CAF).

4. Mr. Salgado has a friendly and open personality. He speaks fluent English.

José CARRILLO
Acting Manager, Guayaquil Water Supply Company (EMAP-G)

1. This young (31) civil engineer from Guayaquil was appointed acting manager of EMAP-G when the previous manager resigned in early 1979. Prior to that, he had worked for seven years as an engineer in the private sector and had served as a member of the Board of Directors of the EMAP-G. Mr. Carrillo neither speaks nor understands English.

José A. CARVAJAL Candell
General Manager of the Ecuadorian Petroleum Company (CEPE)

1. A 37 year old native of Guayaquil, Mr. Carvajal studied industrial engineering at Munich's Polytechnical Institute. He has considerable experience in systems analysis and worked in this area with several German companies as well as with National Cash Register in Ecuador.
2. Between 1972 and 1974, Mr. Carvajal was Director of the Electronic Processing Department at the University of Guayaquil. His knowledge of English is limited.

Rogelio CORDOVEZ Dunn
President of the Board of Directors of the
Guayaquil Port Authority

1. Mr. Cordovez Dunn was recently appointed President of the Port Authority's Board of Directors. He is a successful and respected Guayaquil businessman. Mr. Cordovez understands but does not speak English.

Carlos Julio EMANUEL
Manager of the Central Bank's Guayaquil Office
and Acting Alternate Governor for the Bank

1. Mr. Emanuel, a bright young technocrat from Guayaquil, was a leading candidate for the job of Finance and Public Credit Minister which eventually went to Mr. Aspiazu. He is a well trained economist with a PhD from the University of North Carolina and five years of previous work experience at the IMF. Mr. Emanuel is Acting Alternate Governor for the Bank and speaks excellent English.

Antonio HANNA Musse
Mayor of Guayaquil

1. This former television journalist was elected mayor in July 1978 and took office the following October. His first year in office has been a chaotic one, however, in part because Mr. Hanna brought few administrative skills to the notoriously disorganized and weak municipal government. The Mayor is also a bitter political foe of CFP strong man Assad Bucaram and he has had to concentrate much of his energy to simply staying in office in the face of strong attempts by Mr. Bucaram to have him dismissed by the Municipal Council.

2. The media-conscious Mr. Hanna has made an attempt to consolidate his popular support by appearing to bring wide ranging improvements to Guayaquil's poor, including slum upgrading and massive housing programs. The limited financial resources of the Municipality, however, have sharply constrained the Mayor's efforts. In this regard, the proposed Guayaquil urban development project not only serves the shelter needs of Guayaquil's population but is also a political plum with which the Mayor keenly wishes to be identified.

3. Mayor Hanna --like Mr. Bucaram, a politician of Lebanese extraction-- does not have any university training. He has, however, taken courses in journalism and speaks some English.

Marcel LANIADO de Wind
President of the Banco del Pacifico

1. Mr. Laniado is the President of Banco del Pacifico, Ecuador's fastest growing and second largest commercial bank with total assets of about US\$285 million. Laniado is an enlightened businessman who master-minded the Banco del Pacifico's innovative small enterprise credit program. His bank is expected to play an important role providing credit to small entrepreneurs and artisans under the proposed Guayaquil urban development project.

Oscar LOOR Risco
Executive Director of the Guayas Basin Development Study Commission (CEDEGE)

1. Mr. Loor, a 50 year old native of Manabi province who moved to Guayaquil years ago, is one of the most important men in the Costa. He is the chief executive officer of CEDEGE and is one of the region's principal boosters.

2. Mr. Loor's main concern is to line up financing for the Daule-Peripa project, an ambitious multisectoral scheme which is discussed in Section F5 of this brief. Mr. Loor is an intelligent politician who has held a number of senior Government positions in the past including that of President of the Planning Board. He speaks some English.

Edgardo MARMOL Cevallos
President of the Ecuadorian Housing Bank (BEV)

1. This civil engineer was one of the founders of Ecuador's savings and loan system and has been involved in private real estate development for the last nine years. A Guayaquil resident, Mr. Marmol was born in the small coastal province of Los Rios and received his engineering degree from the University of Guayaquil.

2. Mr. Marmol served as technical director of the Housing Bank's Guayaquil Office in the mid-1960s and as Vice Minister of Public Works in 1968. He was a member of the Ecuadorian team which recently negotiated the proposed Guayaquil urban development project and can be expected to join Mr. McNamara during his visit to Guayaquil's slums. Mr. Marmol is keenly interested in developing, with Bank financing, a nationwide low income housing scheme. Bank staff have informed him that we would be interested in considering the project once it has been prepared.

3. In his mid forties, Mr. Marmol reads and understands some English.

Galo PLAZA Lasso

1. Mr. Plaza is Ecuador's elder statesman par excellence. He served as President of Ecuador from 1948 to 1952 and is one of only three democratically elected presidents to have served out his term in the 20th century. Mr. Plaza was also Secretary General of the OAS from 1969 to 1974.

2. A member of one of Ecuador's most aristocratic and wealthiest families, Mr. Plaza is now retired and spends much of his time at his farm, Zuleta, located in the Sierra north of Quito. Mr. Plaza is credited, however, with having played a major role in smoothing Ecuador's recent transition to democratic rule by having thrown his personal prestige behind the transition.

3. Mr. Plaza is a personable, articulate and intelligent person. He speaks English fluently.

Marcelo QUEVEDO Toro

General Manager of the National Agricultural Bank (BNF)

1. Mr. Quevedo Toro is a 44 year old agronomist specializing in dairy and beef cattle ranching. He obtained a bachelor's degree from Mississippi State University and earned a masters at Nevada State.

2. After having worked as a "resident expert" in several ranch projects financed by the IDB in Mexico and Bolivia, Mr. Quevedo Toro returned to Ecuador to work in the Ecuador Office of the Andean Development Corporation (CAF). During the recent political campaign, Mr. Quevedo Toro was in charge of President Roldos' publicity in the Sierra. He was also named Chairman of the transition team charged with preparing the Government's strategy for the agricultural sector. Mr. Quevedo Toro speaks fluent English.

Francisco SWETT Morales
Economic Counselor for the Central Bank and
Coordinator of the Guayaquil Urban Development Project

1. One of Ecuador's most prominent young technocrats, Mr. Swett (age 32) earned his B.A. in economics from Wesleyan University and his MPA at Princeton's Woodrow Wilson School. Between 1974 and 1978, Mr. Swett worked as consultant for several international organizations, including the World Bank, primarily in the area of education planning.
2. In 1978, Mr. Swett was named head of the National Planning Board (JUNAPLA). After the change of Government in August, 1979, Mr. Swett returned to Guayaquil, his hometown, to serve as an economic advisor of the Central Bank. A month later, however, he was named by the new Government to coordinate the proposed Guayaquil urban development project for which the Central Bank serves as the Government's financial agent. In keeping with his new responsibilities, Mr. Swett was de facto head of the Ecuadorian Delegation which recently negotiated the loan.
3. A dynamic person with a straightforward, cordial manner, Francisco Swett speaks excellent English.

Flavio TAMAYO Andrade
Project Director of the Tungurahua
Rural Development Project

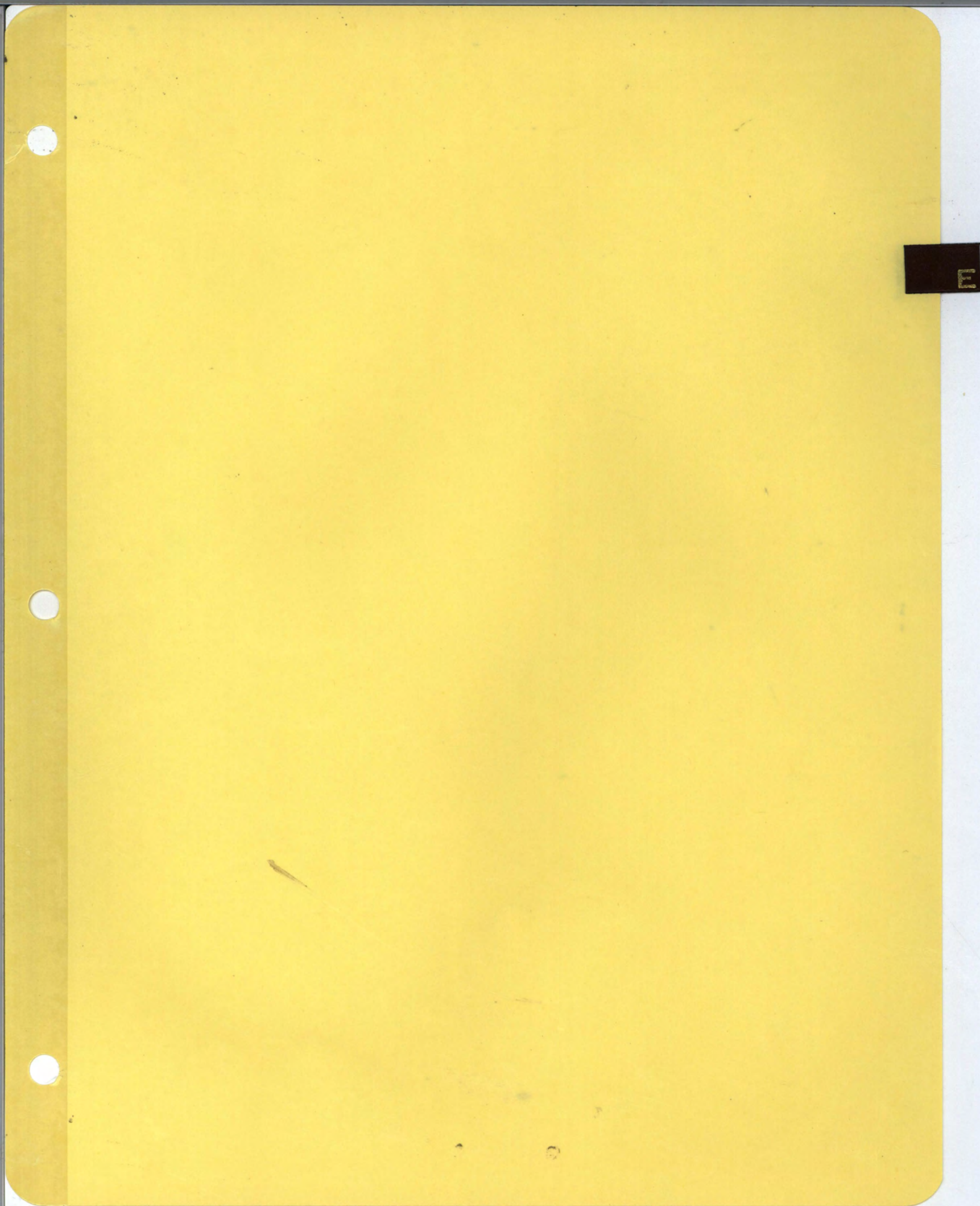
1. Mr. Tamayo, an economist with several years of experience in the Ministry of Agriculture and Livestock, has been involved in preparation of the Tungurahua rural development project practically from its inception. In fact, his thesis at Quito's Catholic University dealt with the rural development possibilities of the project area.
2. Mr. Tamayo, age 34, was born in the Sierra province of Imbabura. He has worked in the past for the Ministry of Labor and in a private automobile factory in Bogota, Colombia. He was a member of the Ecuadorian team which negotiated the Tungurahua rural development project in late 1978 but does not speak English.

Eduardo VILLAREAL
General Manager of the National Power Company (INECEL)

1. Prior to being appointed to INECEL's highest position in August 1979, this 40 year old electrical engineer was deputy manager of one of Ecuador's largest consulting firms, Integral. A graduate of Quito's Polytechnical Institute, Mr. Villareal has done post-graduate work in advanced hydraulics. He also worked for several years in the National Irrigation Institute (INERHI).

2. Serious, direct, keenly intelligent and pleasant, Mr. Villareal is knowledgeable about the country's power sector needs and problems. His appointment to head what was already one of Ecuador's best run public enterprises bodes well for the sector's continued development.

3. Mr. Villareal has a limited knowledge of English.



TOPICS FOR DISCUSSION

Project Execution Problems

1. Ecuador has traditionally been one of the most difficult borrowers in the region for the Bank and for most other financial institutions. This has been mainly due to the country's inability to prepare and subsequently carry out projects. Virtually all our Ecuadorian operations --with the notable exception of our DFC and traditional infrastructure projects-- experience lengthy delays at the preparation stage and during project execution. Ecuador is regularly near the top of the list in the number of regional problem projects, and the amount of Bank funds committed but undisbursed to the country currently stands at about US\$160 million for 15 projects. Disbursements, however, picked up in FY79, when they reached US\$35 million, more than twice the amount in FY78.
2. Although a shortage of counterpart funds has recently delayed some projects, the weakness of the country's public sector has been principally responsible for Ecuador's disappointing performance in project preparation and execution. Unlike some of the Bank Group's least developed members, Ecuador has an adequate and growing pool of trained managers and technical personnel. Most of these are, however, attracted to the country's dynamic private sector, where material rewards are highest. Managerial talent in the Government and in public sector autonomous agencies is, consequently, spread thin. To try to compensate for this, the Bank and other lenders have, over the years, devoted a great deal of staff time to project preparation and supervision. More recently, to assist the Government in developing bankable projects in agriculture and other priority sectors, the Bank has financed two technical assistance projects in Ecuador. These projects are themselves moving slowly, however, due to weaknesses in the agencies responsible for their execution and owing to delays in the hiring of consultants and in the initiation of pre-investment studies.
3. During the last 18 months of the previous Government, Bank staff worked closely with Ecuadorian officials to clear up execution problems. Missions traveled frequently to the country and a disbursements procedures training seminar was held in Quito with the participation of all major executing agencies. This combined Bank/Government effort paid off, as indicated above, in the form of improved disbursements in FY78. 79
4. In the dialogue with the current Administration, Bank staff have continued to stress the need for improved project preparation and implementation. This was a major theme in Mr. Ardito Barletta's meeting with then President-elect Roldos in Guayaquil last June and has continued to figure prominently in subsequent discussions between Bank staff and Government officials. The Bank has provided Government officials with detailed briefs

on all ongoing projects. These have highlighted serious problems and have suggested solutions to these. In the same spirit, we have emphasized that we are open to considering modifications in the design of ongoing projects, which the Government might propose to better tailor these to the country's present needs and to speed up their execution.

5. During his visit to Ecuador, Mr. McNamara might wish to point out that improving the preparation and execution of projects is a major challenge facing both the Government and the Bank in Ecuador. He may wish to reiterate that the Bank is keen on cooperating with the new Administration to improve upon past performance in this vital area, particularly in the case of those projects which are stagnating. He might also note that it would be difficult for us to justify a major increase in our future lending to the country unless the pace of project execution speeds up.

6. As an illustration of the project execution problems encountered in Ecuador, he may wish to cite the Guayaquil and Guayas Province Water Supply Project (Loan 1030-EC), which is already about four years behind schedule and which is now further threatened by a severe shortage of counterpart funds. A more detailed discussion of this problem project is contained in Section F⁴ of this brief.

Future Lending

7. President Roldos and senior government officials will be interested in discussing future Bank lending to Ecuador. In this regard, Mr. McNamara may wish to explain that we hope to develop a lending program which should build up to three projects per year and to commitments of about US\$100 million annually. Our proposed program for the next two years, which has been submitted in detail to the new Government, blends infrastructure development with support for productive activities and projects to improve living conditions for the country's urban and rural poor. The individual projects would also be designed to provide much-needed technical assistance and institution building to Ecuador. Finally, the program includes projects --such as our proposed lending for petroleum development-- which would support the Bank's policy dialogue on important macroeconomic issues.

8. As agreed at the Belgrade meetings, a Bank programming mission will visit Ecuador, probably in January, to firm up a project pipeline for the next few years. Meanwhile the Bank will continue to work on the following seven projects which we hope to present to the Board in the next 12 to 18 months:

- (i) Guayaquil urban development project (US\$31 million;
Board action: ~~late CY79~~);

- (ii) sixth highway project, mainly for feeder roads (US\$40 million; Board action: mid CY80);
- (iii) small scale industry project (US\$25 million; Board action: mid CY80);
- (iv) second rural development project (US\$25 million; Board action: FY81);
- (v) first petroleum project (contents, timing and amount will depend on preparatory work done by CEPE, the national petroleum company, and on action to increase the domestic price of petroleum products. One alternative would be to make a single large loan of, say, US\$70 million in FY82S. Alternatively, the project could be split into two with a smaller engineering-cum-exploration loan of about US\$40 million before the end of CY80);
- (vi) Manta fishing port project (US\$10 million; Board action: early CY81); and
- (vii) interconnection project of the National Power Company (INECEL) (US\$50-US\$60 million; Board action: early CY81).

A brief description of each of these projects is contained in Section G4 of this brief.

9. As noted earlier, to deliver on our proposed lending goal, the new Government will have to step up aggressively project preparation efforts and bring about a major improvement in project execution and disbursements.

Consultative Group Meeting

10. The previous Government expressed its intention to convene a consultative group meeting (CG) on several occasions and had requested Bank support in preparing it. During a meeting with Bank staff in June 1979 before he took office, Vice President Hurtado also expressed interest in holding a CG. This interest was reiterated by Mr. Leon Roldos, the President's brother, when he visited the Bank in July and by several senior officials during a Bank operational visit to Quito in late August. The CG idea also came up briefly in Belgrade, where it was agreed that the initiative needed careful thought and that further discussion should be postponed until the time of the proposed programming mission. Should Government officials raise this issue during Mr. McNamara's visit, he may wish to say that we welcome this initiative and are prepared to work with the Government's economic team on mounting a CG at a mutually convenient time. The economic report published in June 1979 could serve as a background paper for the meeting. However, the Government would first have to update the project list to take into account its own priorities.

Resident Office in Quito

11. In the past, Ecuadorian officials have made repeated requests that the Bank open a resident office in Quito to facilitate communications between Ecuador and the Bank, help sort out daily problems in project preparation and execution and speed up disbursements. The issue came up briefly at the Annual Meetings. Should it be raised, once again, during Mr. McNamara's visit to Ecuador, he may wish to state that the Bank is prepared to review the office's establishment but that no firm commitment can be made because of the Bank's tight budgetary constraints. Because of these financial limitations, there are few field offices in Latin America. Pending completion of the review, the Bank's Ecuador team would continue to travel frequently to the country. As was noted in paragraph three above, the stepped-up activity of headquarter's staff during the past 18 months has already yielded some handsome returns.

12. The Government, for its part, could consider following up closely the preparation and implementation of development projects. This could, perhaps, be achieved by designating a Government team of aggressive "project expeditors". This idea was mentioned to President Roldos and Vice President Hurtado in June and, once again, in August. Both reacted favorably to it. Moreover, the idea is already being implemented in the proposed Guayaquil urban development project where Francisco Swett, the able and dynamic former head of the Planning Board (JUNAPLA), has been designated by the new Government to act as project coordinator. One final point which Mr. McNamara might want to make on this subject is that Mr. Weiner agreed in Belgrade to a request made by Mr. Salgado, General Manager of the Central Bank, to visit Quito later this year or early in 1980 to assist the Government in its effort to identify and overcome the main bottlenecks in Ecuador's public administration.

Government Development Strategy

13. Mr. McNamara may wish to inquire into the economic policies which the new Administration is now considering and intends to follow. In addition to seeking the Government's views with regard to pricing and investment policy in the petroleum sector (see paragraphs 14 to 19 below) he may wish to get the Ecuadorians' views on agricultural and industrial policy and on how Ecuador intends to maintain economic growth while at the same time distributing more widely than in the past the benefits of development. He might also inquire into the new institutional arrangements which will have an impact on the formulation of economic policy. The future roles of the Vicepresidency, the Planning Board (JUNAPLA) and the National Development Council in managing the economy are all of particular interest to the Bank. Information on the recently created Ecuadorian Development Bank, and its function, would also be useful.

Petroleum Sector Policies

14. Ecuador's rapid growth during the 70s has been mainly fueled by the entry into production of oil fields discovered in the country's Oriente region. As Ecuador stands on the threshold of the eighties, however, its petroleum sector is faced by two major problems: (i) stagnating production and declining reserves; and (ii) rapidly growing domestic consumption of petroleum products due to their low prices.

15. Following a period of aggressive exploratory drilling by Texaco and Gulf in the late 60s and early 70s, exploration fell off sharply. As a result, Ecuador's production of crude has stagnated at about 200,000 barrels per day and its proven reserves have declined from about 1.5 billion barrels in 1974 to an estimated 1.1 billion barrels today. At the current rate of exploitation and with no new discoveries, these reserves would be exhausted in less than 15 years.

16. The previous Government belatedly took action to step up exploration. Aware that CEPE was too weak financially, administratively and technically to launch a major exploratory program by itself, the Government introduced changes in the hydrocarbons law in 1978 to encourage exploration in Ecuador by foreign oil companies. These changes have, however, so far failed to entice foreign firms into renewed drilling --perhaps because of the fluid political situation the country faced in 1978/79. As of this writing only Texaco is actively engaged in exploratory activities in the Oriente. It does so as the minority partner of a consortium in which CEPE has 63 percent of the shares.

17. The second major problem facing the sector stems from the low domestic price of petroleum products in Ecuador --perhaps the single greatest distortion in the economy. Currently, a gallon of gasoline in the country sells for only 18¢. This price has not changed since 1975 and is one of the world's lowest. As the result of the low price structure, domestic consumption of petroleum products has been increasing at 16 percent per annum. Today, about a third of Ecuador's petroleum is consumed domestically, up from 23 percent in 1975. If present trends continue, Ecuador may become a net importer of petroleum by the mid-1980s.

18. The difference between the current world price for petroleum and Ecuador's internal one represents an implicit subsidy to petroleum consumers equivalent to about 5.5 percent of GDP. The subsidy is putting a growing strain not only on CEPE's finances but also on those of the Central Government. The Roldos Administration is aware of the need to move towards more rational pricing and several Government officials, including Natural Resources Minister Davalos, have publicly stated that prices should be hiked. Raising prices is, however, politically sensitive. The military government enacted modest increases several years ago but was forced to roll back prices after rioting broke out in Quito and several other large cities. President Roldos is, therefore, moving cautiously on this issue.

19. Against this background, Mr. McNamara may wish to inquire how the Government proposes to stimulate exploration and how and when it will tackle the pricing problem. In this regard, he might wish to mention that the Bank is prepared to provide financing for exploration, secondary recovery, rehabilitation of existing wells and other petroleum sector investments. He might add, however, that the Bank would find it impossible to justify lending for the petroleum sector to our Board without a package of measures aimed at rendering sector policies more coherent and effective, including the rationalization of domestic pricing.

The Daule-Peripa Project

20. The IDB's Board is currently considering a US\$165 million loan to help finance the first phase of the Daule-Peripa project. This is an ambitious and costly multi-faceted scheme which entails construction of a large dam in the Guayas basin, mainly to control flooding during the rainy season, to permit irrigation and to generate hydropower. A detailed description of the project as well as a discussion of the Guayas basin's potential is contained in Section F5 of the brief.

21. The U.S. Executive Director at IDB, Mr. Ralph Dungan, has serious reservations about the loan and may oppose it when it is put to a vote in late October/early November. Several other Executive Directors from Part I countries share Mr. Dungan's concern. His opposition would effectively veto the US\$70 million in highly concessionary FSO funds which constitute a major portion of the IDB's loan package. Mr. Dungan's reservations stem from the first phase's low rate of return, 8.5 percent, and from the large investments the project would require over time --estimated at over US\$650 million. He also appears reluctant to commit such a large amount of FSO money to a country at Ecuador's stage of development.

22. In expressing his reservations about the loan, Mr. Dungan is said to have stated, inter alia, that the Bank considers the Daule-Peripa project to be unjustified and that the Government had presented it to us for financing but that we had turned it down. He has also pointed out that our June 1979 economic report --which contains a ranking of public investment projects-- puts Daule-Peripa into the lowest priority category. Bank staff have informally learned that these remarks have caused some members of the powerful Guayaquil group backing the project to conclude that the Bank is actively lobbying against Daule-Peripa. Although steps have been taken to dispell this misconception, this point may still be raised during Mr. McNamara's visit to Ecuador.

23. Should it come up, Mr. McNamara may wish to assure the Ecuadorian authorities that the Bank has not worked against Daule-Peripa. The project was never formally presented to the Bank for financing. Consequently, we have never done an in-depth appraisal of its merits. When questioned on the project

by U.S. Treasury personnel in recent weeks, Bank staff have always indicated that their knowledge of the project was too superficial to permit meaningful comment and have suggested that queries on Daule-Peripa should be addressed to IDB personnel. While it is true that the 1979 economic report put Daule-Peripa into the third and lowest priority ranking, the entire rating system is heavily "caveated" as a tentative exercise based on a necessarily quick review of Ecuador's investment needs. Moreover, the economic report was officially cleared by the earlier Government.

24. Mr. McNamara may also wish to add that the Bank is generally interested in supporting the Guayas basin's development. Over US\$2 million is available for agricultural preinvestment studies in the basin under Loan 1230-EC which was approved in March, 1976. Moreover, the roads project which the Bank expects to appraise in November will concentrate on feeder road development in the basin provinces of Guayas and Los Rios, as well as in the province of El Oro.

F

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ECUADOR - COUNTRY PROGRAM PAPER

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Postscript

53. This CPP was reviewed at a meeting chaired by Mr. Knapp on March 25, 1977. Concern was expressed about the Government's petroleum policy and the quality of Ecuador's economic management in recent years. Mr. Knapp approved the Lending Program proposed in the CPP for FY's 78 and 79 in the amount of \$60 million and \$68 million respectively, but cut the FY's 80-82 program from \$80 million annually to \$70 million. His view was that the lending program should not rise above the present \$60-70 million p.a. level unless there is convincing evidence of an improved development effort and that performance should, in any case, remain under careful review. At the next review of the program, the analysis should focus on the Government's overall economic management, on its petroleum policy and on the progress of Government efforts to strengthen the public sector.

54. The revised Attachment I reflects the new approved FY78-82 Lending Program of \$338 million. The program contains a maximum of five standby projects in FY80-82.

LAC Regional Office
May 10, 1977

Population: 7.1 million
Per Capita GNP: US\$350
Area: 271,000 sq. km.
Literacy: 69%

ECUADOR: REVISED LENDING PROGRAM
(US \$ million)

Attachment I

	Through FY72	Actual				Current FY77	Projected					Total FY69-73	Total FY74-78	Total FY77-81	Total FY78-82	Reserve
		FY73	FY74	FY75	FY76		FY78	FY79	FY80	FY81	FY82					
Livestock I-III	15.5					15.5										
Agricultural Credit I																
Agricultural Credit II																
Seeds										20.0						
Milagro I			5.5		3.0											
Milagro II																
Fisheries	5.3						20.0									
Rural Development (Prop.)																
Rural Development I					4.0		15.0									
Rural Development II								20.0								
Rural Development III											30.0					
Coastal Drainage																
Marketing/Storage									10.0	20.0(8)						
Reforestation																10.0 (FY79)
IPC I	8.0															
IPC II		20.0														
IPC III																
IPC IV						28.0										
Agro-Industry I																
Agro-Industry II							15.0		25.0(8)							
Industry (Undiversified)											15.0(8)					
Industry (Petroleum/Minerals)																20.0 (FY80) 20.0 (FY81)
Education I	5.1															
Vocational Training				4.0												
Education II								15.0(8)								
Roads I-III	40.0															
Roads IV					10.5	17.5										
Roads V									15.0(8)							
Roads VI											25.0(8)					
Roads VII																
Ports I	13.0															
Ports II																
Ports III					25.5		10.0									
Population																10.0 (FY80)
Water Supply I			23.2													
Water Supply II																
Power I-III	16.8															15.0 (FY80)
Rural Electrification								25.0								
Power IV										30.0						
Urban Development I																
Project Preparation I						8.0			20.0							
Project Preparation II							8.0									
Lending Program		20.0	23.2	4.0	51.0	67.0	60.0	68.0	70.0	70.0	70.0	33.3	205.2	335.0	338.0	
IMR - IDA		-	5.2	-	-	-	-	-	-	-	-	18.2	5.2	-	-	
Total	103.7	20.0	28.7	4.0	51.0	67.0	60.0	68.0	70.0	70.0	70.0	51.6	210.7	335.0	338.0	
Number of which IDA	-	-	2	1	4	4	4	4	4	3	3	6	13	19	18	
Commitment Deflator		75.2	81.5	87.0	92.2	100.0	107.3	114.9	123.0	131.6	140.8	79.9	217.4	292.1	275.1	
Lending Program at Constant FY73		26.6	35.2	4.6	56.7	67.0	55.9	59.2	57.0	53.0	50.0					
Standby Projects	1.28						22.0	10.0	20.0	10.0						
No.							1	2	1	2						
IMR O/S 1/ incl. undisch.	46.2/	68.12/	86.84/	86.42/	130.45/	192.0	245.9	307.4	370.8	429.5	484.2	236.11	272.16	277.81	278.82	
excl. undisch.	34.32/	41.32/	41.05/	46.32/	45.35/	56.5	79.9	118.2	167.1	212.3	252.6	-	-	1,543.4	1,837.9	
IMR Gross Disbursements	59.3	5.4	3.8	8.7	5.8	16.8	29.6	44.7	55.4	56.5	55.6	12.3	25.9	203.0	214.8	
Repayments	26.5	2.7	3.1	3.9	4.8	5.5	6.1	6.4	6.5	11.3	15.3	15.8	17.0	35.8	45.6	
Net Disbursements	32.8	2.7	0.7	4.8	1.0	11.3	23.5	38.3	48.9	45.2	40.3	-3.5	8.9	167.2	169.2	
Interest & Charges	26.7	2.1	2.4	2.8	3.1	3.1	5.5	8.5	12.5	17.0	20.4	15.6	12.4	46.6	64.4	
Net Transfer	6.1	0.6	-1.7	2.0	-2.1	8.2	18.0	29.8	36.4	28.2	19.4	-19.1	-3.5	120.6	131.8	
IMR/IDA Gross Disbursements	68.1	10.5	6.5	14.0	11.8	20.5	32.1	46.2	55.9	56.7	55.6	19.2	44.9	211.4	246.5	
Repayments	26.5	2.7	3.1	3.9	4.9	5.6	6.2	6.5	6.6	11.5	15.5	15.8	17.0	36.4	46.3	
Net Disbursements	41.6	7.8	3.4	10.1	7.0	14.9	25.9	39.7	49.3	45.2	40.1	3.4	27.9	175.0	200.2	
Interest & Charges	26.7	2.2	2.6	3.0	3.3	3.3	5.7	8.7	12.7	17.2	21.1	15.6	13.1	47.6	65.4	
Net Transfer	14.9	5.6	0.8	7.1	3.7	11.6	20.2	31.0	36.6	28.0	19.0	-12.2	16.8	127.4	134.8	

- 1/ As of end of FY.
2/ The exchange adjustment of \$1.6 million as of June 1972 has been included in these figures.
3/ The exchange adjustment of \$5.9 million as of June 1973 has been included in these figures, with an increase of \$6.3 million since FY72.
4/ The exchange adjustment of \$4.9 million as of June 1974 has been included in these figures, with a decrease of \$1.0 million since FY73.
5/ The exchange adjustment of \$5.6 million as of June 1975 has been included in these figures, with an increase of \$0.7 million since FY74.
6/ The exchange adjustment of \$3.4 million as of June 1976 has been included in these figures, with a decrease of \$2.2 million since FY75.

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Country Program Paper

ECUADOR

March 11, 1977

Latin America and the Caribbean Regional Office

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COUNTRY PROGRAM PAPER

ECUADOR

Population 7.1 million 1975
 GNP Per Capita \$550 (1975) /1
 Current Population Growth
 Rate: 3.4% per annum (1960-74)
 Current Exchange Rate:
 S/. 25.00 = US\$1.00

IBRD
 IDA

Total

No. of loans
 and credits

(of which IDA)

No. of loans/
 credit per
 million
 population

IBRD/IDA Lending Program (In current US\$ millions)

	<u>FY69-73</u>	<u>FY74-78</u>	<u>FY77-81</u>	<u>FY78-82</u>
IBRD	33.3	205.2	356.0	368.0
IDA	18.3	5.5	-	-
Total	51.6	210.7	356.0	368.0
No. of loans and credits	6	15	19	19
(of which IDA)	(3)	(1)	(0)	(0)
No. of loans/ credit per million population	0.85	2.1	2.7	2.7

Annual Average Per Capita: Current \$ (Constant FY76 \$) /2

	<u>FY69-73</u>	<u>FY74-78</u>	<u>FY77-81</u>	<u>FY78-82</u>
IBRD/IDA	1.5(2.3)	5.8(6.2)	10.0(8.7)	10.3(8.4)
IDA	0.5(0.8)	0.1(0.2)	-	-

/1 1976 World Bank Atlas.

/2 The proposed FY77-81 lending program compares with the program for the same period approved at the last CPP (November 1975) as follows:

	<u>FY77-81 Lending Program</u>		<u>Percentage Change</u>
	<u>Approved</u>	<u>Proposed</u>	<u>(Proposed Approved)</u>
No. of loans	17	19	+11.8
Current \$ millions	277	356	+28.5
Constant FY77 \$ millions	242.6	308.9	+27.3
Per capita p.a. (constant FY77\$)	6.83	8.70	+27.3

A. INTRODUCTION

1. The last Country Program Paper on Ecuador was reviewed by the Senior Vice President on December 3, 1975. An Economic Memorandum (1033-EC) was distributed on February 12, 1976, and an Industrial Sector Report (1186-EC) was distributed on October 7, 1976. An economic mission visited Ecuador in August-September 1976. Its findings underly the analysis of this CPP (a green cover report No. 1382-EC was discussed with the Government during February 6-11, and the final version is scheduled for publication in March.
2. Since the last country review, Ecuadorean economic and financial performance has improved markedly. The deterioration in its balance of payments from late 1974 to mid-1975 has been reversed; oil production and exports recovered, allowing for a substantial increase in foreign exchange reserves. The Government has reduced inflation which reached a peak in 1974 and has considerably improved the financial situation of the public sector. Economic growth has continued to be strong, and it is clear that the country's absorptive capacity is now greater than before.
3. These improvements are encouraging, but looking ahead, a material change in policies will be required for continued rapid growth through the 1980's. Problems have emerged which are more severe than forecast in the last CPP concerning the medium- and long-term petroleum outlook (see paragraphs 5-7). Their impact is substantial since the economy now has relatively little room for maneuver in the short run, owing to the absence of large and dynamic exports other than petroleum. Consequently, one major objective of the strategy behind the FY 78-82 lending program and the proposed increased scale of Bank activity is to help diversify the country's economic base.
4. Five years ago, an army group seized control of the Government, because of widespread discontent with their civilian predecessors who were unable to provide adequate political stability or administrative competence. Neither of these has been--or is likely to be--fully achieved; the historically weak government structure and the continued influence of powerful economic interests on government decisions are long-term development problems. However, some progress has been made and, thanks mainly to a relatively sensible use of oil revenues, the country's physical infrastructure has been improved and the absorptive capacity of the public sector is now better. Ecuador remains a relatively poor country, and the possibility of the restoration of civilian government by February 1978 may cause some short-term political disruption. At the same time, the recent growth of output and investment and the fairly sound economic performance of the past two years provide grounds for some optimism about the country's economic prospects.

B. COUNTRY OBJECTIVES AND PERFORMANCE

Petroleum Prospects

5. Petroleum prospects are less encouraging today than they seemed at the time of the last CPP. Exploration and development investment has fallen sharply during the last four years, and as a result crude reserves are now being extracted faster than they are being replaced by new discoveries. Unless sustained investment in development is resumed very soon, crude petroleum exports are unlikely to increase and may well decline as soon as 1978. Owing to managerial, technical and financial weaknesses, CEPE (the State Petroleum Corporation) cannot be expected to undertake alone an investment program including development and exploration, as well as various projects the agency plans to carry out (notably a natural gas plant in the Oriente, an ammonia/ urea/methanol plant based on the natural gas deposits of the Gulf of Guayaquil, a petrochemical complex and various pipelines). The Government has recently decided to step up investment in petroleum exploration and development, so as to increase production to about 260,000 b/d sometime during 1978. After the sale of Gulf shares to CEPE, Texaco remains the only foreign partner of CEPE with a 37.5% interest in the Consortium, which is the main source of petroleum exports in Ecuador.

6. The maximum throughput capacity of the transandean pipeline, which connects the Consortium oil fields with the Pacific Ocean is 250,000 b/d. On a 330 effective days/year basis--a reasonable assumption in light of climate, probable occasional breakdowns, etc.--this would allow for an average annual production in the order of 82 million barrels in 1979. The cost of reaching this level is about US\$20-30 million in development investment. The Government is contemplating to purchase barges which would make it possible to ship out an additional 10,000 b/d or more down the Amazon River by 1979. This would make it possible to maintain a constant volume of petroleum exports in the face of rising domestic consumption. Whether Texaco or other foreign petroleum enterprises are willing to resume development investment in association with CEPE will depend on the general political and economic climate in Ecuador, as well as on the attractiveness to foreign oil companies of conditions offered by the Government for additional investment. The Government intends to secure Texaco's help in stepping up petroleum investment by providing better incentives than in the past. The reason this issue is so critical is because prospects for non-petroleum exports are not impressive for the next five years. Petroleum exports make up about one-half of total foreign exchange earnings and most of the balance accrues from exports of bananas, coffee, cacao and sugar for which prices, as estimated by DPS, are expected to fall. Non-traditional exports have risen rapidly during the 1970s (from US\$29 million in 1970 to US\$115 million in 1976) but cannot be expected, even with the most favorable incentives, to make up for stagnating or falling petroleum exports during the next five years. The following table shows petroleum production and export projections based on the Government's policy and consistent with technical possibilities.

Table 1: PETROLEUM PRODUCTION AND EXPORTS

(million barrels) /1

	Production	Exports
<u>Actual Volumes</u>		
1972	25.5	24.9
1973	75.2	59.0
1974	63.7	43.8
1975	58.1	42.6
1976	65.9	47.1
<u>Projections</u>		
1977	72.5	55.0
1978	81.4	62.1
1979	85.8	64.5
1980	87.9	64.5
1981	90.2	64.5
1985	105.4	67.7

/1 The conversion of millions of barrels/year into thousands of barrels/day varies according to technical and ecological factors, but is usually based on about 330 days/year. / Thus 80 million barrels/year is equivalent in these projections to an average daily production of 250,000 barrels.

7. In the longer run there is no doubt that Ecuador has enough in situ reserves of petroleum to warrant further expansion of production. This would take a sustained development program costing some US\$50 million per year (in development, exploration, secondary recovery facilities, the connection of new oil fields to the production facilities and the expansion of the throughput capacity of the pipeline). Such a program could make it possible to pump 320,000 b/d in a first phase (in the mid-1980s) and perhaps eventually reach the pipeline's ultimate capacity of 400,000 b/d. While these long-term possibilities exist, the projections in this CPP are based on more conservative (and more plausible) assumptions. Even if Ecuador succeeds in attracting the financial and technical help needed to achieve the above projection, its annual petroleum exports five years from now would only be about nine barrels per capita (worth about \$100 at today's prices), or one gallon/day, roughly one-tenth of Venezuela's output. Ecuador is the smallest petroleum exporter among OPEC member countries and cannot be expected to sharply improve its position. In the US east coast market, Ecuador's competitive position is

challenged by Venezuelan and Alaskan crudes, owing to freight charges and Panama Canal dues. The anticipated availability in 1978 of Alaskan crude oil supplies is expected to reduce Ecuador's attractiveness in the US market further. But Ecuador's cost of production is relatively low (US\$0.45/barrel) and therefore there is ample room for a more flexible pricing policy.

Economic Policies and Prospects

8. Before the emergence of petroleum as a major export item, the economic growth of Ecuador was held back by periodic shortages of savings and of foreign exchange. Nevertheless, the country developed at a reasonable rate, owing mainly to a fairly diversified production structure and to the growth of tropical agricultural exports. The role of the public sector in the economy was small, and the Central Bank was the most important policy-maker. Foreign exchange crises were overcome by credit restrictions and temporary import controls, and thus remained manageable. Traditionally, Ecuador has borrowed relatively little abroad, and has obtained what it borrowed at very concessionary terms. The policy reaction to the problems brought about by the decline in petroleum output in late 1974 and 1975 suggests that the Government can still be expected to curb demand through a combination of monetary, balance of payments and fiscal measures when faced with a shortfall of export earnings and fiscal revenues. This bears directly on the projections of this CPP which show a widening balance-of-payments deficit on current account four and five years ahead as more public investment projects are undertaken. There is every reason to believe that the growth of public expenditure will be curbed should it become apparent that the balance of payments situation is worse than projected.

9. Ecuador has a favorable resource base, particularly in petroleum, natural gas and agriculture. The economy has been growing rapidly during the past few years under the impetus of petroleum exports, particularly in manufacturing, government services, construction and electric power. Health facilities have improved, while malnutrition still exists in parts of the Costa and the Sierra. Housing conditions also have improved with the construction boom. More homes are connected to electricity services, water and sewerage. Petroleum revenues also allowed the Government to give substantial financial support to the educational system, which will require considerable expansion since it caters mainly to the needs of the urban population. Population growth meanwhile remains rapid.

10. Until now the Government has maintained a fairly reasonable balance between the magnitude of petroleum revenues on the one hand, and the limited ability of the public sector to carry out investment programs on the other. Out of 1976 petroleum exports of US\$600 million (net of barter arrangements with Venezuela), US\$470 million accrued to the public sector in the course of the year. The National Development Fund created to channel petroleum revenues into social and economic development projects absorbed US\$152 million, and the next largest recipients were the Central Government (US\$122 million), the armed forces (\$50 million), the national power authority

(US\$47.5 million) and CEPE (US\$28 million). The balance went mainly to the National Housing Bank, the Ministries of Labor, Education and Health, as well as the universities and other minor beneficiaries. Thus, most of public petroleum revenues were used to finance public investment projects, and--contrary to what occurred in some larger petroleum exporting countries--relatively little was spent on armament purchases. Details on some of these uses are cited in Section F of this paper. In general, public petroleum proceeds have been directed to expanding Ecuador's meager infrastructure, to substantially increasing credit to agriculture, and to improving education, health and housing.

11. Section F also briefly reviews the major sectoral policy issues bearing on development prospects. Ecuador's resource endowment is favorable in many respects: there is scope for considerable increases in agricultural and livestock production in the Costa and in the Sierra; the fisheries potential, enhanced by the application of the 200 miles limit, has only begun to be exploited; the natural gas resources of the Gulf of Guayaquil are of good quality, and the existence of 3 billion cubic meters has already been proven, enough to feed a fertilizer plant. The main problems to be overcome are the still inadequate infrastructure (particularly roads, agricultural storage facilities, and electric power capacity) and the low levels of technology and producer prices which have discouraged production increases in agriculture, plus the high population growth rate. Until the emergence of petroleum as a major source of public revenues, the lack of public resources, together with Ecuador's diverse and difficult natural environment, were enough to explain the deficient infrastructure. Since then, public revenues and savings have increased substantially, and what is called for is the political will and ability to carry out needed policies (such as better agricultural prices or higher prices for petroleum products) even though they will generate political opposition. Within the limits of political feasibility (which have tightened as the popular expectations initially aroused by the military government and by Ecuador's increased export earnings have not been met), there have been clear improvements. As noted above, monetary and fiscal policies have succeeded in reversing the deteriorating balance of payments situation of 1974-75; imports of private automobiles were prohibited for over one year, and have only been allowed once again after foreign exchange reserves had risen considerably. In addition, fiscal management has been facilitated by the consolidation of a large number of earmarked accounts; agricultural production has expanded lately more rapidly than in the previous few years, while industrial growth (apart from petroleum) has been averaging 8.1 percent between 1965 and 1974. Finally, interest rates for industrial and agricultural lending have been increased, a measure that was long overdue.

12. The distribution of income cannot be quantified in the absence of relevant statistics. However, the standard of living of the majority of the farmers in the Sierra--even though extremely low--seems to be higher than in Peru or in Bolivia, owing mainly to somewhat better ecological conditions. Improvements in the standard of living of the majority of the poor hinge on (a) policies to develop the agricultural potential of the country; (b) particular focus on the poorer areas, notably through the construction of access

roads to small mountainous communities; (c) improvements in public services in the rural areas, particularly education and public health; and (d) a combination of continued rapid economic growth and of the provision of better urban services in the rapidly growing Guayaquil area. Attempts at raising the standard of living of the poor are likely to be frustrated unless efforts at increasing overall agricultural and industrial production and at diversifying exports are fairly successful. What is called for is a combination of policies that will bring about a continued rapid growth rate in the non-petroleum economy, of policies directed at the greater integration of the poorer communities into the market economy, and of policies aimed at providing the poor with better education and health facilities. The proposed Bank program is designed to contribute to these policies.

13. The rise in petroleum revenues enabled the Government to step up public investment from 5-6% of GDP in the early 1970s to 9% in 1976. Total gross fixed investment also rose substantially, even though the national accounts estimate (see Attachment 2) almost certainly overstates its growth. In the early 1970s, public investment was concentrated in highways, energy, water and sewerage and agriculture and irrigation. Health and education investment was low. More recently, as the public sector's stake in electric power and the petroleum sector increased, public investment has shifted in favor of those sectors (notably the construction of a petroleum refinery). The share of transport went down. The Government intends to step up public investment further in the years ahead. The economic report includes a public investment program.

14. The proposed public investment program would have a total commitment cost of about US\$3.7 billion, excluding financial investment to intermediaries in the order of US\$505 million. Table 2 below shows a projection of investment and savings, including the public investment program. Out of this total, the shares of the various sectors would be as follows: petroleum, 14%; agriculture and rural development, 10.7%; electric power, 17%; industry, 9.3%; transport, 9.9%; and the balance in health, education, tourism, telecommunications, urban development, water and sewerage and pre-investment. Total disbursements from these new projects and from on-going projects would average somewhat over US\$650 million per year in 1976 prices. The sectoral discussion below describes sector strategies and some of the major projects in detail.

15. Whether the Government can obtain this volume of external financing on favorable conditions will depend on the quality of public investment projects, and also, the degree of success of the proposed Consultative Group (see paragraphs 20 and 22 below). There is little doubt that the domestic savings required can be generated, as outlined in paragraph 16. Further, if the Government carried out this fairly ambitious public investment program, the relative weight of the private and public sectors would shift somewhat in favor of the public sector. It could be argued that an increased share of public investment may impair the growth performance of the economy by undermining private enterprise. But the public expansion would continue to be financed largely out of petroleum revenues and external borrowing, neither of which will reduce private savings. Thus it is not expected that the growth

Table 2: SAVINGS AND INVESTMENT
(In millions of current dollars)

	Estimate 1976	Projections				
		1977	1978	1979	1980	1981
GDP	4,992	5,741	6,648	7,627	8,707	9,940
Total Investment	1,324	1,739	2,053	2,337	2,767	3,197
Public	460	556	673	814	940	1,086
Private <u>/1</u>	864	1,183	1,380	1,523	1,827	2,111
Resource Gap (Imports minus Exports)	-86	42	6	-48	27	107
Domestic Savings	1,410	1,697	2,047	2,385	2,740	3,090
Private	1,054	1,259	1,476	1,695	1,986	2,294
Public	356	438	571	690	754	796
(as percentage of GDP)						
Private Investment	17.3	20.6	20.8	20.0	21.0	21.3
Public Investment	9.2	9.7	10.1	10.6	10.8	10.9
Total Investment	26.5	30.3	30.9	30.6	31.8	32.2

FINANCING OF PUBLIC INVESTMENT /2

(In millions of current dollars)

Public Investment	460	556	673	814	940	1,086
Financing						
Public Savings	356	438	571	690	754 <u>/5</u>	796 <u>/5</u>
Public M<						
Capital (Net) <u>/3</u>	231	191	176	171	175	159
Disbursements	(298)	(263)	(284)	(283)	(299)	(316)
Amortization	(-67)	(-72)	(-108)	(-114)	(-124)	(-157)
Domestic Borrowing,						
Cash Balances and Other <u>/4</u>	-127	-73	-74	-47	11	131
GDP	4,992	5,741	6,648	7,627	8,707	9,940
(as percentage of GDP)						
Public Investment	9.2	9.7	10.1	10.6	10.8	10.9
Financing						
Public Savings	7.1	7.6	8.6	9.1	8.7	8.0
External Borrowing (net)	4.6	3.3	2.6	2.2	2.0	1.6
Domestic Borrowing (net)	-2.5	-1.3	-1.1	0.6	0.1	1.3

/1 Includes changes in stocks.

/2 Inflation assumed at 8% per year.

/3 Includes credit lines for the private sector.

/4 In some years net figures are negative due to credit lines to the private sector from foreign and domestic sources through public financial institutions; increases in cash balances of the public sector, and other residual items.

/5 Assumes revenue measures in para. 16 are taken.

in public investment will undermine the savings performance of the private sector. However, such an increase will require a larger volume of external financing than in the past.

16. The authorities are aware of the considerable scope that exists for increasing non-petroleum revenues. With improved cadastral information, a higher assessment value and tax rate on real estate could make the municipalities and provincial councils less dependent on Central Government support. Sales tax yields have been inadequate owing to evasion. An increase in the value added tax would offset the slow growth of foreign trade tax revenues reflecting continued progress in Andean Group integration. Corporate exemptions could be reduced. Finally, gasoline prices, which are among the lowest in the world, should be raised substantially to provide CEPE with more investible funds and at the same time discourage consumption. In sum, additional tax measures can be taken if necessary to finance the proposed public investment program .

17. As indicated in paragraph 5 above, prospects for additional non-petroleum exports (bananas, coffee, cacao and sugar) are not favorable because prices are expected to decline. Non-traditional exports have grown rapidly during the 1970s but remain fairly small. Tourism earnings have increased from US\$10 million in 1972 to US\$20 million in 1975. Nevertheless, export-promoting policies need strengthening if non-traditional exports are to play a more important role in the future. In this respect, the preparation of projects in agro-industry, forestry, fisheries, mining and tourism will be of particular importance. Non-traditional exports to the other members of the Andean Group can also provide a stimulus, but the economic viability of integration projects requires very careful scrutiny. More generally, with the favorable resource base and the existence of a fairly dynamic private entrepreneurial group, broader development policies (particularly improvements in infrastructure for agriculture and industry) which the proposed investment program would support as well as a strengthening of export incentives in the form of tax exemptions and subsidies are likely to help stimulate non-traditional exports. While the exchange rate has not been changed relative to the US dollar since 1969, there is no reason to believe that at this time it is a constraint to export diversification and growth. Rather, what is needed is better agricultural production incentives and clearer government policies in sectors where the rules of the game (notably as concerns the extent of government ownership) are unclear; this is particularly true in marketing, agro-industries and fisheries.

Creditworthiness and Longer-Term Prospects

18. Under the assumptions regarding petroleum output stated in paragraph 6 above, the current account deficit of the balance of payments can be expected to widen as the public investment effort increases. As mentioned earlier, there is every reason to believe that the Ecuadorean authorities will continue to limit the current account deficit to manageable proportions by curbing expenditure should a balance of payments crisis occur. Average external borrowing of about US\$290 million per year would be required to finance the

public investment program proposed in the economic report as well as the completion of on-going projects. This external borrowing would represent less than one-half of total public investment project costs; the cost-sharing reflects the fact that 85% of the import content of investment in electric power would be financed from external sources in line with current practice. Ecuador's debt service ratio is low (6.8% in 1976), owing to (a) its traditional reluctance to incur external indebtedness; (b) favorable borrowing terms; and (c) the rapid rise of export earnings during the past few years. The increase in external debt service that would result from external borrowing on the projected scale should pose no problems. The debt service ratio would increase to about 12.3% by 1982 if the necessary external financing were obtained.

19. Looking beyond the five-year projection, several conceivable major issues emerge. Until now Ecuador has not followed the Venezuelan development pattern, but it is legitimate to ask whether such a trend is plausible. Petroleum and petroleum products exports make up 95% of Venezuela's exports and only about one-half of Ecuador's. Secondly, per capita exports of petroleum and petroleum products are about ten times larger in Venezuela than in Ecuador. Thirdly, wages in the petroleum sector of Ecuador are moderate in comparison to Venezuela. ^{1/} Furthermore, the emergence of petroleum activity is recent, and because the Ecuadorean labor market is dispersed and relatively unorganized, and unemployment is higher than in Venezuela, petroleum activity has not pushed up labor costs throughout most of the economy as has been the case in Venezuela. Even under the most optimistic projections concerning petroleum production in Ecuador, it is unlikely that a dualistic economy will emerge where petroleum wages undermine competitiveness in other sectors. A more plausible (and undesirable) sequence would be the use of petroleum revenues for uneconomic projects. The managerial capacity of the Ecuadorean public sector is very weak, and the danger exists that the public sector will undertake projects (e.g., an automotive industry, large international airports, or the Quito-Guayaquil freeway) which might undermine the efficiency of the country. This is why the degree of seriousness with which the Government adheres to a sensible public investment program will be a valid test of performance. This is likewise of primary importance for the consultative group (see paragraph 22). The program and policies recommended in the economic report would help Ecuador improve allocative efficiency, diversify its economy and raise the standard of living of the poorer segments of the population. Finally, there is the possibility that petroleum output may not increase much in the years ahead. In that case, the country's ability to finance development projects would be curtailed. Such a probability, however, is unlikely because the political pressures that would undoubtedly accompany a steady decline in petroleum exports would be strong enough to force the Government to step up petroleum output.

^{1/} The highest paid CEPE officials earn about US\$500-600 per month while comparable officers in Venezuela are paid more in line with salaries in private oil companies.

Table 3: MACRO-ECONOMIC INDICATORS AND OBJECTIVES

	Actual		Bank Projections	
	1974	1975	1982	Growth Rate p.a.
<u>Constant Value /a</u>				
GDP (million US dollars)	3,605	3,767	5,752	6.2
Population (th)	6,830	7,065	8,958	3.045
GDP per capita (US\$)	528	533	642	2.7
Gross Investment (million US dollars)	920	1,157	1,939	7.7
Gross Dom. Savings (million US dollars)	1,112	1,057	1,921	8.9
Exports of Goods & n.f.s. (import capacity millions US\$)	1,235	895	1,303	5.5
Imports of Goods & n.f.s. (million US dollars)	1,043	995	1,321	4.1
<u>Current Values</u>				
Net Public Medium- and Long-Term Borrowing (million US dollars)	-13	96	161	7.7
Debt Service Ratio (percentage)	7.6	4.7	12.3	-
Exports of Goods & n.f.s. (million US dollars)	1,235	1,073	2,356	11.9
Imports of Goods & n.f.s. (million US dollars)	1,043	1,192	2,390	10.4
Resource Balance	192	-119	-34	-

/a At 1974 values and exchange rates.

C. EXTERNAL ASSISTANCE

20. The Government of Ecuador realizes that only a more diversified effort can sustain a satisfactory growth performance in the long run and meet the development problems of the 1980s. It appreciates that, while petroleum proceeds have helped ease the traditional financial constraints that held down its past growth, petroleum production and exports remain fairly small. As the smallest OPEC exporter, Ecuador realizes some \$75 per capita from petroleum.

This is enough to help expand incomes but too low to ensure a steady pace of development. Also, the future of the sector is very uncertain. Under these circumstances, securing reasonable growth targets will involve capital requirements of a greater magnitude than had been foreseen previously. In this connection, the Government has made creditable efforts to improve the absorptive capacity of the public sector, and its mobilization of a sizable public investment program shows its willingness and ability to embark on a more adequate growth path. In the light of its resource situation, the Government needs to--and has in fact--set about attracting greater flows of public and private external capital. For this reason also, the Government at the end of 1975 requested the Bank to organize a consultative group for Ecuador.

21. In the past few years, the policies of public lenders to Ecuador have shifted in large measure. The principal change involves Ecuador's major bilateral development financial source--the US--which provided \$289 million through FY75. No new AID commitments have been made since FY73, and Export-Import Bank loans totalled only \$56 million from 1946 to 1975. Concessional aid from other sources has been virtually eliminated, and other OPEC countries have furnished insignificant amounts. Most of the subsequent aid flows have come from the IADB (\$233 million from 1965-75) and, to a lesser extent, the Bank (\$143 million in the same period). The IADB is expected to continue providing some \$70-80 million per year in annual commitments, at less concessionary terms than in the past, and in all likelihood following the sectoral trends shown in the table below. There are other reasonably favorable prospects for capital flows to Ecuador too. There were in calendar year 1975 over \$205 million of new commitments of external finance, up from \$132 million the previous year. Half of the 1975 total derived from bilateral and international organizations. The remainder came from private banks and export credit agencies as a reflection of the improved financial conditions of Ecuador, notably its lack of creditworthiness problems.

Table 4. OFFICIAL EXTERNAL ASSISTANCE BY SOURCE AND SECTOR

(in US\$ million)

	IBRD <u>/1</u>	IDA <u>/1</u>	IDB <u>/1</u>	US <u>/2</u>	Other Bilateral Sources <u>/2</u>
Lending 1954-64	<u>54.0</u>	<u>8.0</u>	<u>35.3</u>	<u>62.7</u>	<u>0.2</u> <u>/3</u>
Lending 1965-74	<u>114.5</u>	<u>28.9</u>	<u>232.6</u>	<u>73.0</u>	<u>96.5</u>
Transport	44.0	-	18.0	-	0.8
Power	-	6.8	67.7	6.2	67.2
Education	4.0	5.1	4.1	5.3	-
Health and Sanitation	23.2	-	49.3	9.5	4.8
Agriculture and Fisheries	15.3	17.0	53.6	29.1	-
Industry	28.0	-	21.2	7.8	8.7
Urban Development	-	-	14.4	-	-
Other	-	-	4.2	15.1	15.0
	<u>168.5</u>	<u>36.9</u>	<u>267.9</u>	<u>135.7</u>	<u>96.7</u>

/1 Figures net of cancellations.

/2 Includes official export credits.

/3 Statistics on lending during this period are probably incomplete.

22. For the reasons indicated in paragraph 18, the Bank has agreed to explore the interest of possible participants in the proposed consultative group. Since concessional aid is likely to be scarce, the Group's emphasis would be placed on the contributions and coordination of export financing agencies. Separate and related arrangements would be made to convene a meeting of interested private banks. A first meeting might be held in the summer or fall of 1977, focusing on the Bank economic mission report and Government public investment list.

D. PROGRESS TOWARDS PRIOR YEAR GOALS

23. The foregoing indicates that the country's economic situation has improved during the past two years, particularly regarding the points of traditional concern to lenders to Ecuador. There is a far greater capability to service loans in conventional terms, as well as to allocate substantial amounts for financing a fair share of public investment expenditures. In

addition, the Government overcame the serious financial problems which emerged in the last half of 1974. There also has been some success in strengthening the absorptive capacity of the public sector. Historically, the Ecuadorean public administration has been among the weakest in Latin America and difficulties in project identification, preparation and execution have been one of the main obstacles impeding more rapid development. There was some initial improvement in this area, thanks to the creation of the National Preinvestment Fund, which finances feasibility studies. In addition, the Government recently indicated an intention to establish a development bank which will allocate petroleum earnings to priority projects. If it can enforce high standards in meeting economic and social criteria, the new institution could prove invaluable in avoiding the diversion of Ecuador's resources. Moreover, while Ecuador has traditionally suffered from a paucity of development projects, there now is a substantial project list.

24. Since the last CPP, there have been some significant advancements in Ecuador's development institutions made in conjunction with our efforts. These included the reorganization of the Ministry of Public Works, particularly its sectoral planning unit; organizational changes in the country's major port authority, primarily for greater autonomy; and the creation of a national rural development unit in the planning board. Moreover, the Government's recent action to increase substantially effective interest rates for agriculture and industry--which was the result of Bank/Government informal negotiations over the last year--serves in several ways to make Ecuador's financial basis for continued growth more secure. This measure, taken in connection with the DFC III project, illustrates the type of development policy improvements which the Senior Vice President emphasized in the last country review. The increase should facilitate the mobilization of a larger supply of domestic resources to finance development. It should result also in an improved mechanism and framework for long-term lending, thus promoting an important change in the structure of Ecuadorian industrial finance. It should be noted also that the new interest rates are expected to apply to all medium- and long-term industrial lending and not solely to the Bank funds. ^{1/} They may also have a favorable impact on agricultural lending.

25. Looking back on this record, it is apparent that the Ecuadorian authorities have responded well to the suggestions made by the Bank over the past year. An important factor in that reaction was the approval in FY76 of four Bank loans for \$51 million--more than had been committed in any past single year.

^{1/} This new measure, adopted in November 1976, establish a scale of "commissions" from 2% to 4% for all medium- and long-term loans to production sectors, with the higher rate to be applied to loans of more than 8 years. An additional 0.5% would be charged on loans to be financed by bonds issued in the domestic market by financial intermediaries. These commissions would be collected annually, over the 12% legal interest rate limit, thus increasing effective interest rates on these loans up to 16.5% per annum.

E. WORLD BANK STRATEGY

26. The Bank's strategy adopted in last year's review of Ecuador was basically to:

- (a) Increase the programmed level of Bank lending for the FY77-81 period, in view of the country's continuing low income, the recent reduction in the projected amount of its overall oil reserves, and the resulting uncertainties about its medium- and long-term balance-of-payments prospects;
- (b) Link the proposed size and composition of such lending to the achievement of improvements in key policies at the sector and project levels, while also considering the country's overall economic performance and its progress in improving its absorptive capacity; and to
- (c) Place particular emphasis on supporting Government programs directed toward broader diffusion of economic benefits.

27. This approach remains valid, but, as analyzed in Section B above, Ecuador's economic prospects over the medium- and long-term are now somewhat less favorable than were estimated a year ago. It is now likely that the balance-of-payments current account deficit will continue to be substantial--and will probably increase gradually--through the remainder of this decade, even if the Government adopts timely and adequate decisions concerning its oil policy. The resulting insufficiency of financial resources will correspondingly expand external borrowing requirements. At the same time, there are now favorable domestic conditions for a major public investment effort to address some of the main economic and social problems of the country. Under these circumstances, the Bank would be justified in stepping up its assistance, particularly as it can help to further improve the absorptive capacity of the public sector.

28. The FY78-82 recommendations presented in this paper follow from that conclusion. They constitute a lending program more commensurate with Ecuador's development needs. They recognize that the Ecuadorean economy appears to be entering into a perhaps critical period in its evolution. And they respond to the need to balance efforts aimed at a more equitable distribution of income and opportunity with measures to diversify and increase production. For these reasons, the proposed five year lending program amounting to \$368 million is a significant increase over the past levels. The annual per capita equivalent of the FY78-82 program, estimated on the basis of mid-1975 population, would be \$10.3 at current prices, and \$8.4 at 1977 prices. That is comparable to the Bank's programs in other medium-sized countries with similar income levels. In per capita lending terms, the proposed program is below the latest approved levels for Cameroon, Ivory Coast, Paraguay, Syria and Zambia; about the same as Tunisia; and more than has been allotted for

Bolivia, Ghana and Senegal. The lending program would permit a larger positive net transfer of Bank Group funds than the average \$5 million for the period 1973-76. It would still represent, however, only a relatively modest part of external borrowing requirements. The Bank/IDA share of total external public debt outstanding and disbursed is likely to increase from 16.6% in 1975 to 19.6% in 1982.

29. The substance of the 19 project lending program would follow the sectoral strategy approved last year: concentration on agriculture and other activities directly related to it. Most of the program is directed at Ecuadorean efforts to benefit the lowest income groups in the country and to improve the productivity of its agriculture. The remainder is mainly for support of important institutional development objectives in industry, public utilities and project preparation. Improvements in the latter, aside from the general interest in expanding Ecuador's absorptive capacity, are also intended to facilitate the work of the proposed consultative group. Similarly, several of the proposed loans do not reflect the full anticipated foreign exchange requirement, thereby implying our intention to press for further co-financing. There is the precedent of the successful conclusion late in 1976 of arrangements for the Bank of Nova Scotia's participation in the financing of the Guayaquil Port project. This, together with a wide array of interest from European, Japanese and US banks, affords promising grounds for comparable future involvement of these other foreign lenders, particularly in power and industry. Taking into account the possibilities of establishing the consultative group, part of which will include potential co-financiers, we have included in the program one large power project (for generation and/or transmission), two agro-industry projects, and as a reserve, two other industrial projects.

Status of On-Going Operations

30. As of December 31, 1976, there were ten active Bank Group projects in Ecuador (following the closing on that date of Credit 124, the First Education Project). Since the last country review, there have been some favorable developments in difficult instances, although in some of those potential "problem projects", there are still important obstacles to be overcome. The Guayaquil and Guayas Province Water Supply Project had been quite slow moving as the utility company became mired down with a revenue shortfall, project cost increases and construction delays. Forceful Government intervention with some Bank prodding has partly rectified the situation with changes in management, a tariff increase and other remedial measures. However, some important long-term financial problems have yet to be solved, and the procurement practices of the Municipal Water Supply Authority have caused the recent emergence of some additional difficulties. The Fisheries Project until recently was proceeding to an orderly end. A dispute then arose as to the adequacy of the justification by the feasibility study financed under the Credit for harbor improvements at two fishing ports. This has just been resolved with the Government's acceptance of our position that future engineering design be confined to only one port. The First Power Project had been disrupted for an extended period primarily because of managerial problems.

In relation to the Borrower's request for extension of the Closing Date, we sought improvements on several pressing questions. There since have been two tariff increases, the settlement of outstanding debts, and the appointment of a more qualified manager. The main contract for the construction of the Guayaquil Port Project was awarded in February 1977, after prolonged negotiation with the lowest bidder. The Third Livestock Project has substantially met its main objectives in a successful fashion. However, information acquired recently has disclosed major inadequacies in the accounting system of the National Development Bank which is responsible for the undisbursed balance of Credit 222. Corrective action has just been agreed upon with the Government. The remaining five projects are proceeding somewhat slowly but overall satisfactorily.

31. IFC's commitments have been for textile and sugar companies plus equity participation in Ecuador's largest private DFC. The best current prospects for the future are in cement, textiles, asbestos pipe, and possibly forest industries and petrochemicals.

F. WORLD BANK PROGRAM

Agriculture and Rural Development

32. In agriculture, one main issue is how to make better use of Ecuador's favorable resource endowment and to increase output faster than the rate of population growth. Only by expanding and raising the productivity of agriculture can Ecuador create employment for its labor force and raise living standards for most of its people. Its agriculture has a large growth potential with many import-substitution possibilities but these are largely unrealized. In fact, on a per capita basis, agricultural output fell 7% during 1970-75 while imports soared. In order to reverse these trends, Ecuador will have to continue pressing its recent actions. Since 1974, producer prices have been raised; the volume of credit increased; and import duties on agricultural inputs reduced, as were taxes on intermediate and capital goods used in farming. These measures have already begun to have some positive effects. The output of two important food crops (hard corn and rice) increased substantially in 1975 when total agricultural production rose to 11% above the 1970 level. Preliminary data on 1976 output indicate that these favorable trends continue to prevail. Further progress will depend on continued improvement of producer price incentives, on better marketing arrangements, on expansion of institutional credit, and on broader diffusion of extension and research.

33. Among the critical policy issues for future economic growth in Ecuador also is how to improve the lot of the poor campesinos. Some of the above actions will help, as should the stepped-up transportation investment. There still remains some margin for further expansion of areas under cultivation. However, particularly in the Sierra, there are physical constraints impeding additional settlement or extension of arable land although there is still ample scope for productivity increases. Considering these factors, the newly established national rural development program needs to be strengthened.

34. For these reasons, the lending program proposals continue the emphasis on agriculture and rural development support that was approved last year. This concentration is reflected in the preponderance of loans recommended in these fields, which comprise 43% of the proposed FY78-82 funding and nine of the 19 Bank loans slated for this period. This activity should provide an adequate basis for agreement with Government authorities on their needs to (a) correct the uncertainties and biases of producer prices; (b) improve credit policy; and (c) bring about some organizational change. Integrated rural development projects scheduled for three regional areas would constitute a major portion of the activity in the sector. The remainder would include an agricultural credit project; an expansion of the Milagro irrigation project along with flood-drainage control measures in the Guayas Basin; two agro-industry schemes; and a new marketing/storage proposal. Other planned loans for rural electrification and roads, as well as for rural education (and for a reforestation possibility in "reserve"), complement these projects. The nine agricultural and rural development projects (detailed below) plus these four projects in other sectors are consistent with the emphasis of the program in spreading economic benefits among the poorest segments of the population.

35. The preparation of the first two rural development projects, to be located in a Sierran province and the Quevedo lowlands respectively, is advancing thanks to technical assistance work financed through two FY76 Bank loans. This preparation work--and the subsequent execution of these projects--should provide a most valuable experience for the newly created Rural Development Planning Unit. The third of these projects would take place in the Esmeraldas River Basin, based on an extensive OAS reconnaissance study. These three projects have slipped one year each behind our initial projections. It now appears that we had been unduly optimistic in assuming that the new unit in the Planning Board, in conjunction with Bank staff, could mobilize project preparation work sufficiently rapidly to accommodate the earlier targets. The unit has instead been preoccupied with trying to diagnose Ecuador's past experience and to define national policy. Our better appreciation now of the inherent difficulties indicates that these projects would be ready in FY78, FY79 (with a possibility of its acceleration) and FY82.

36. The proposed program includes two projects designed to develop the large production potential of the Guayas River Basin with an emphasis on measures to overcome the poor drainage and flooding in its one million ha delta. An FAO feasibility study which should be completed next summer is expected to provide the basis for a Second Milagro Irrigation project in FY78. Some delays have arisen here as well as a result of the difficulties which were confronted in completing the cadastral work. Supplementing this activity in the Basin area, consultants are expected to begin soon clearing the way for a major flood protection project, the first stage of a multi-year program.

37. The remainder of the program includes a follow-up to this year's proposed agricultural credit loan; two agro-industry proposals; and a storage/marketing project. In spite of rapidly increased credit offered to them since 1970, the vast majority of Ecuadorean farmers have no access yet to institutional credit. Loans have been largely confined to two crops, and are usually made for no more than one year. Credit is available infrequently to smaller,

poorer farmers, and is only rarely accompanied by adequate technical assistance. This year's agricultural credit project and the proposed FY81 repeater loan would draw on the experience of the three past successful livestock credit operations to address these problems. Both projects also would extend, although to a declining degree, further livestock credit to meet the still growing domestic beef and dairy demand. A small portion would be devoted furthermore to advancing small scale enterprises processing agricultural products. A more substantial agro-industry component is programmed to begin in FY78 with an African oil palm plantation project in the Esmeraldas area, for edible oil import substitution. Consultants (H.V.A. International) have just completed a feasibility study of a proposed 4,000 ha oil-seed plantation combined with an oil palm processing factory. This factory will also industrialize the output of small and medium farmers, who would become independent oil palm growers in this same area. It bears considerable potential for reducing the oils imports which increased from \$3.3 million to \$12.3 million between 1970 and 1975. The second project in this category, scheduled for FY81-S, would be the second stage of the Cayapas forest industry complex which the Ecuadoreans have just launched on their own. Finally, the economic mission's report stressed that present marketing arrangements discouraged production and that inadequate handling, storage and distribution facilities increase market risks and costs. A combined FAO-Bank mission recently visited Ecuador to help prepare a package, probably to include silos and warehouses, refrigerated facilities, training in marketing, and the establishment of grades and standards. The resulting project to set up a more adequate marketing system is scheduled for FY80-S.

Electric Power

38. From 1965 to 1975, Ecuador trebled its installed power capacity to 551 mw. Its electricity output and consumption also have increased rapidly in recent years. Nevertheless, Ecuador still has one of the lowest levels in Latin America. Power shortages are common in the capital city, some of whose industries are frequently idled for lack of electricity; only some 12% of the total rural population can obtain power. Overall, the more than 13% annual past growth in power demand is expected to continue. The need for additional generation and transmission is, therefore, substantial. This program has received reasonable priority in Government allocations, e.g. investments by Ecuador's national power authority (INECEL) totalled \$57 million in 1975. INECEL is working on two hydroelectric units (Pisayambo, 70 mw; Paute, 500 mw) as well as a 204 mw thermal plant in Guayaquil. Improvements in INECEL's managerial and technical capacity and in the regional systems which will be responsible for distribution, in addition to better sector planning and tariff policy, are the major policy problems in this field.

39. We propose two operations in the power sector to help meet the aforementioned deficiencies. The first, for about \$25 million, in FY79 would be an initial rural electrification approach to expand the availability of power outside the present largely urban market, both for domestic use and the expanded mechanization of agricultural production. Beyond extending electricity service, the proposed loan also would finance a study of improvements in the financial condition and administration of INECEL. The

Bank, moreover, is reviewing a reconnaissance study concerning a second FY79 prospect, i.e., generation works to supplement currently installed capacity in the Quito area before a major segment of the sizable Paute hydroelectric station comes on stream. The proposed FY79 loan might include part of these new generation facilities if it proves impossible to prepare the rural electrification project on schedule. The proposed second loan for \$40 million scheduled for FY81-S, would be directed to the main components of INECEL's planned \$1.2 billion investments in 1977-85 for expanded generation and transmission. It would also provide for further implementation of the improvements suggested as a result of the FY79 project.

Transport

40. Other inadequacies in Ecuador's infrastructure concern the still serious gaps in its transportation network, partly reflecting the country's rugged topography and marked climatic variations. The present system is restricted to an incomplete trunk road network which is inadequately maintained and which cannot meet the demands of increased inter-regional trade or the full transport of export crops and imports at reasonable cost. Therefore, completing the construction of the basic trunk road system, a complementary system of feeder roads, and improved maintenance, are the highest priorities in the transportation sector. This has absorbed substantial public investment, an average of 37% of total public investment in 1972-74, and the Ecuadorean plans call for sizable sums in the next few years. There are serious institutional deficiencies in this sector, particularly in planning among the individual modes. These could be eased by implementation of the technical assistance and institutional measures provided for in the Bank's FY76 highways loan and through this year's follow-up project. Comparable efforts, moreover, form an integral part of the support also in last year's loan for the improved direction of Ecuador's principal port authority, in Guayaquil.

41. The lending program recommendations include additional road projects designated for FY80-S and 82-S. No Bank loans for major trunk road investments seem advisable before then, owing to the heavy commitments in this respect made by the Government over the last two years--to be financed partly by the Bank's Fourth and Fifth (scheduled for FY77) Highways loans. However, in line with the proposed lending strategy, some support for rural roads improvements will be given in coordination with the agricultural and rural development projects planned for FY78-82. The two road projects included in the program would, therefore, concentrate on construction, improvement and maintenance of secondary and feeder roads in order to help reduce the obstacles farmers face in marketing their agricultural produce.

42. Apart from road activity, a port project is programmed for expansion of fishing port facilities at Manta, following on the feasibility study concerning these improvements which was conducted under the Fisheries (EC-555) Credit. These studies indicated the need to expand the fishing port, but additional market studies are required in order to determine the size of the fleet and scope of the expansion. Meanwhile, engineering studies to prepare

detailed plans, which could be executed in phases to accommodate the fleet are being arranged. It is expected that these studies will be completed in time for preparation of the project for FY78.

Industry

43. A Bank sector review in late 1975 has shown that industrial development in Ecuador has been quite successful with an average real growth rate of 8.1% in 1965-74. This has been based on the expansion of relatively small firms in a great variety of industries. Yet the contribution of Ecuadorian industry to total income, employment and export diversification is still rather limited. This is attributable to the small size of the domestic markets; to restricted progress in taking advantage of the opportunities of the Andean common market; and to the limited success of Ecuador's non-traditional industrial exports. Infrastructural deficiencies and the scarcity of long-term financing capital in Ecuador remain serious obstacles.

44. To date, the Bank has focused on helping Ecuador obtain industrial financing on reasonable terms and on strengthening the two major DFCs. The most recent contribution, the \$26 million loan approved by the Executive Directors in December 1976, added a notable dimension: bringing about more appropriate industrial growth financing throughout the economy by changes in the interest rate and commission structure. With more domestic resources than in the past, and with the reasonably good prospects of other foreign finance, the Bank's own role in providing long-term resources should become less vital in the future. For this reason, the lending program recommendations include only one other DFC loan, for \$30 million in FY80-S, mainly oriented toward additional institutional improvements. As in the case of the FY77 loan, the amount for the future operation is intended to signify a continuing decrease in real terms in Bank financial support. The Bank's emphasis instead would be placed on direct advancement of promising industrial opportunities. The African oil palm (FY78) and forest industry (FY82-S) projects referred to in paragraph 37 are important import-substitution and employment-creation possibilities. These projects, together with the recommendations of the recent sector report, should enhance the dialogue with the Ecuadorean authorities on further improvements of industrial policies.

45. In addition, the proposed program includes two "reserve" industrial projects, one for FY81 in the petrochemical subsector--probably linked to the industrialization of the Guayaquil Gulf gas fields--and another in a still unidentified activity, for which the CV-CFN project pipeline offer several alternatives. If the Bank eventually decides to approve loans for these projects, they would be likely subjects for substantial cofinancing with private or export-financing sources.

Urban Development and Water Supply

46. A bank mission in mid-1976 began the identification of assistance for improving living conditions in one of the Latin America's most severe

slums: the "suburbio" of Guayaquil, Ecuador's largest city. This project would be directed to increasing employment opportunities and expanding services such as housing improvements (supplementing the imaginative policies of the housing bank in Guayaquil). A \$20 million loan is programmed for this purpose in FY80. In coordination with this, a Second Water Supply project for the city of Guayaquil is programmed for FY82-S.

Education

47. Our first education project served as an initial approach to support the Ecuadorean Government's efforts to broaden the curricula of its school system, and to expand its supply of trained teachers and adequate facilities. The second project, approved in FY75, was designed to assist in the introduction of related improvements in vocational training, geared to meet the economy's skills requirements. The Government's recent stress on improving socio-economic conditions of the rural poor has highlighted the need for increased education services in the countryside. We propose a third project (FY79-S) for the purposes of extending educational benefits--especially at the primary level--to the least privileged parts of Ecuador's population, and of contributing to the required increase in productivity of the agricultural labor force.

Project Preparation

48. There has been a substantial improvement in project preparation over the last two years, partly as a result of the work of the National Preinvestment Fund (FONAPRE). It has made possible the development of a much more extensive project pipeline, thus facilitating better investment choices, than has been true in Ecuador in recent years. The Government has requested the Bank's help in further strengthening these capabilities, and in accelerating the development of more projects suitable for external financing. An initial loan to strengthen the project preparation work of FONAPRE is now being processed for approval later in FY77, along with arrangements for complementary financing from the UNDP. Another loan is planned for FY79.

Population

49. Ecuador's population is growing at 3.4% per annum, a high rate even by South American standards. Over the past 60 years, crude death rates declined by half while the crude birth rate fell only 20%. The average woman now has about 5.2 children--and about 45% of the population is under 15 years of age. If these trends continue, the population would double by the year 2000 even if the crude birth rate falls from its present level of 37.5 (1974) to 31.2. Efforts to redress these trends have been underway in Ecuador for a decade. These involved at last count the part-time services of 256 physicians and 1,100 auxiliaries in 103 health centers, 117 subcenters with a small number of family planning clinics and hospitals. There are a national population council, population units in public health and welfare agencies, and (unlike other Latin American countries) a family planning program in the armed forces. These have had some effects which could alter future fertility. In 1974, there were some 51,700 users of family planning services,

up from 28,400 in 1973. They included slightly over 6% of married women aged 15-44, twice as many as in 1974. Several agencies have helped finance family planning services. Only recently, UNFPA began a \$1.3 million 4-year program and IADB approved further technical assistance preliminary to a proposed loan. Because of the gravity of the implications of increased population pressure, we are planning to review the situation with the Government in order to establish what additional support may be needed and whether Bank participation would be welcome. The proposed lending program includes a "reserve" project in FY80 for this possibility. In addition, the contents of proposed rural development projects will be reviewed to ensure adequate attention to possible family planning components.

Economic Work Program

50. An economic report which includes a projects list was sent to the authorities in December 1976. For the time being, two missions are being planned for FY77: First, since the economic mission was unable to review the problems of agricultural pricing in detail, as requested by the President of the Planning Board and the former Finance Minister, we might field a small mission during FY77 to review the problem. Second, if petroleum output does not increase during 1977 and if petroleum development investment does not increase, it will be necessary to review the economic prospects of the country before the end of calendar 1977. An updating economic mission, including a petroleum economist, has been programmed for the latter part of this year. A water supply sector study is to be undertaken in FY78. A tourism sector study is planned for FY79, with a view to identifying labor-intensive projects which could be partly financed through future Urban Development and DFC loans. Regular economic missions would be scheduled to meet the requirements of possible future Consultative Group meetings.

G. CONCLUSIONS AND RECOMMENDATIONS

51. In the last CPP, it was estimated that it would take until the early 1980s for Ecuador to achieve substantial increases in oil production. The prognosis now is less favorable. While a moderate increase is possible before 1980, it is now clear that the larger expected increase--up to 400,000 b/d--will not be achieved before the late-1980s. Meanwhile, to sustain satisfactory investment levels and growth rates, the country will have to cope with sizable balance-of-payments current deficits.

52. Given the country's stage of development, and its overall economic prospects, it would be necessary for Ecuador to continue to obtain a substantial part of the required foreign capital in better than market conditions. Since bilateral aid is no longer an important source of foreign financing for this country, IDB and the Bank will continue to be the main providers of official capital. The proposed Bank program averages \$73.5 million per year. This would be equivalent in per capita terms, to \$10.3 at current prices, and to \$8.4 at 1977 prices, a level that we consider appropriate for a country with an income per capita in 1975 of \$550--still in the lower brackets of the middle-income LDC's.

Attachments:

- I Revised Lending Program
- II Cumulative Estimated and Actual Disbursements on Loans and Credits
- III Social Indicators Data Sheet
- S1 Selected Economic Development Data
- S2 Page 1: Import Detail
- Page 2: Export Detail
- Page 3: Debt and Creditworthiness
- Page 4: Balance of Payments and External Assistance

Population: 7.1 million
 Per Capita GNP: US\$250
 Area: 371,000 sq. km.
 Literacy: 65%

EXCHANGE: REVISED LENDING PROGRAM
 (US \$ million)

	Actual				Interest	Projected				Reserve
	Through FY72	FY73	FY74	FY75		FY76	FY79	FY80	FY81	
Loanstock I-III	15.5				17.0					
Agricultural Credit I										
Agricultural Credit II										
Seeds										
Milagro I										
Milagro II										
Plantation										
Rural Development (Prep.)										
Rural Development I										
Rural Development II										
Rural Development III										
Rural Development IV										
Marketing/Storage										
Reforestation										
IMC I										
IMC II										
IMC III										
IMC IV										
Agro-Industry I										
Agro-Industry II										
Industry (Unidentified)										
Industry (Petrochemicals)										
Education I										
Education II										
Education III										
Education IV										
Roads I-III										
Roads IV										
Roads V										
Roads VI										
Roads VII										
Ports I										
Ports II										
Ports III										
Population										
Water Supply I										
Water Supply II										
Power I-III										
Power IV										
Urban Development I										
Project Preparation I										
Project Preparation II										
Lending Program										
IMD										
IMA										
Total										
of which IMA										
Commitment Deflator										
Lending Program at Constant FY72										
Steady Projects										
IMD										
IMA										
Net Transfer										
IMD/IMA Gross Disbursements										
IMD/IMA Gross Disbursements										
Interest & Charges										
Net Transfer										

As of end of FY.
 1/ The exchange adjustment of \$1.6 million as of June 1972 has been included in these figures.
 2/ The exchange adjustment of \$1.9 million as of June 1973 has been included in these figures.
 3/ The exchange adjustment of \$1.4 million as of June 1974 has been included in these figures.
 4/ The exchange adjustment of \$1.4 million as of June 1975 has been included in these figures.
 5/ The exchange adjustment of \$1.4 million as of June 1976 has been included in these figures.

Attachment II

ECUADOR

ECUADOR: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS OF LOANS AND CREDITS

(\$ millions)

as of December 31, 1976

Project & No.	Amount:		Date:		Closing Date	Forecast Date	FY 75	FY 76				FY 77				FY 78	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
	- Original	- Approved	- Cancelled	- Signed				1	2	3	4	1	2	3	4							
Education	5.1	6/15/68	Orig:	12/31/72	9/30/70 (loc)	-	-	-	-	3.6	4.4	5.1	-	-	-	-	-	-	-	-	-	-
Project	-	6/27/68	Rev:	12/31/76	10/ 1/76	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 124	5.1	9/30/68	Act:	-	-	2.3	2.9	2.9	3.4	3.4	3.6	3.9	-	-	-	-	-	-	-	-	-	-
Fisheries	5.3	9/ 1/68	Orig:	10/31/74	9/30/70 (loc)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	9/ 5/68	Rev:	5/ 1/77	6/30/72	3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ISAD 555	4.6	9/ 4/69	Act:	-	-	2.8	2.9	3.3	3.4	3.4	3.6	3.6	-	-	-	-	-	-	-	-	-	-
Third	10.0	11/24/70	Orig:	12/31/76	11/10/70	9.4	9.6	9.8	9.9	10.0	-	-	-	-	-	-	-	-	-	-	-	-
Livestock	-	12/15/70	Rev:	2/28/77	10/27/76	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA 222	10.0	9/30/71	Act:	-	-	5.2	5.7	5.8	5.9	6.1	6.6	6.6	9.0	10.0	-	-	-	-	-	-	-	-
Development	8.0	12/15/70	Orig:	6/ 1/74	10/31/70	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance	-	2/ 5/71	Rev:	3/31/76	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ISAD 721	7.8	10/15/71	Act:	-	-	7.8	7.8	7.8	7.8	7.8	7.8	7.8	-	-	-	-	-	-	-	-	-	-
Third	6.8	2/ 1/72	Orig:	12/31/74	1/20/73	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Power	-	2/15/72	Rev:	6/30/77	6/ 6/76	-	-	-	-	3.4	3.6	3.7	6.3	6.8	-	-	-	-	-	-	-	-
IDA 246	6.3	12/15/72	Act:	-	-	4.6	5.0	5.1	5.1	5.4	5.4	5.5	-	-	-	-	-	-	-	-	-	-
Second DFC	20.0	6/26/73	Orig:	12/31/77	6/ 6/73	17.7	19.6	20.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Project	-	8/17/73	Rev:	-	6/28/74	8.0	10.2	12.3	15.3	17.7	18.9	20.0	-	-	-	-	-	-	-	-	-	-
ISAD 930	20.0	2/27/74	Act:	-	-	8.5	11.6	12.2	13.0	13.6	14.9	15.7	-	-	-	-	-	-	-	-	-	-
Milagro	5.5	7/ 5/73	Orig:	8/31/79	6/ 6/73	2.7	3.0	3.2	3.4	3.6	3.8	3.9	4.1	4.3	4.9	5.5	-	-	-	-	-	-
Irrigation	-	8/17/73	Rev:	-	3/31/75	-	-	-	-	2.8	3.6	3.8	4.0	4.2	4.3	4.9	5.5	-	-	-	-	-
IDA 425	5.5	1/17/74	Act:	-	-	.3	2.5	3.6	3.7	3.8	3.9	4.0	-	-	-	-	-	-	-	-	-	-
Water	23.2	6/25/74	Orig:	6/30/78	6/13/74	4.9	6.7	8.5	10.3	12.1	14.0	15.8	18.3	20.7	23.2	-	-	-	-	-	-	-
Supply	-	7/23/74	Rev:	-	6/10/76	.2	.3	.3	.3	.3	.5	.9	1.0	3.0	17.0	23.2	-	-	-	-	-	-
ISAD 1030	23.2	1/29/75	Act:	-	-	.2	.3	.3	.3	.3	.4	.4	-	-	-	-	-	-	-	-	-	-
Vocational	4.0	5/22/75	Orig:	9/30/78	4/ 1/75	-	-	-	-	1.4	1.7	1.9	2.4	2.8	3.8	4.0	-	-	-	-	-	-
Training	-	9/ 3/75	Rev:	-	1/21/76	-	-	-	-	1.5	2.0	2.5	2.8	3.0	4.0	-	-	-	-	-	-	-
ISRD 1157	4.0	11/24/75	Act:	-	-	-	-	-	-	-	.2	.2	-	-	-	-	-	-	-	-	-	-
Seeds	3.0	3/30/76	Orig:	6/30/80	3/ 5/76	-	-	-	-	-	-	.1	.3	.5	1.8	2.6	3.0	-	-	-	-	-
Project	-	5/24/76	Rev:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ISRD 1229	3.0	10/20/76	Act:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical	4.0	3/30/76	Orig:	12/31/80	3/18/76	-	-	-	-	-	-	.9	1.4	1.8	3.2	4.0	-	-	-	-	-	-
Assistance	-	5/24/76	Rev:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ISAD 1230	4.0	10/20/76	Act:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fourth	10.5	3/30/76	Orig:	12/31/79	3/15/76	-	-	-	-	-	-	1.6	2.8	3.8	7.8	10.5	-	-	-	-	-	-
Highway	-	5/24/76	Rev:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ISRD 1231	10.5	10/13/76	Act:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Second	33.3	5/11/76	Orig:	12/31/81	4/20/76	-	-	-	-	-	-	4.1	6.4	8.7	18.9	28.5	33.3	33.4	33.5	-	-	-
Port	-	5/24/76	Rev:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ISRD 1255	33.3	5.2.	Act:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Controller's

LAND AREA (THOU KM2)		ECUADOR - SOCIAL INDICATORS DATA SHEET				
TOTAL 293.6		ECUADOR			REFERENCE COUNTRIES (1970)	
AGRIC. ..		1960	1970	MOST RECENT ESTIMATE	ALGERIA	PERU
GDP PER CAPITA (US\$)		220.0	330.0	550.0	520.0	520.0
POPULATION AND VITAL STATISTICS					VENEZUELA	
POPULATION (MID-YR, MILLION)		4.3	6.0	7.1	13.4	13.3
POPULATION DENSITY PER SQUARE KM.		15.0	21.0	25.0	6.0	10.0
PER SQ. KM. AGRICULTURAL LAND		30.0	40.0
VITAL STATISTICS						
CRUDE BIRTH RATE (/THOU, AV)		46.3	45.0	41.8	50.0	42.9
CRUDE DEATH RATE (/THOU, AV)		16.9	12.7	9.5	18.4	14.7
INFANT MORTALITY RATE (/THOU)		100.0	76.6	70.2	..	65.1
LIFE EXPECTANCY AT BIRTH (YRS)		51.0	57.2	59.6	50.7	53.4
GROSS REPRODUCTION RATE		..	3.3	3.2	3.5	2.9
POPULATION GROWTH RATE (%)						
TOTAL		3.0	3.3	3.5	2.9	2.8
URBAN		5.0	4.1	5.6	7.0	4.7
URBAN POPULATION (% OF TOTAL)		36.0	38.3	41.6	45.4	52.5
AGE STRUCTURE (PERCENT)						
0 TO 14 YEARS		45.0	47.6	46.1	47.2	45.0
15 TO 64 YEARS		51.8	49.5	51.2	48.4	51.9
65 YEARS AND OVER		3.2	2.9	2.7	4.4	3.1
AGE DEPENDENCY RATIO		0.9	1.0	1.0	1.1	0.9
ECONOMIC DEPENDENCY RATIO		1.7	1.8	1.8	2.6	1.5
FAMILY PLANNING						
ACCEPTORS (CUMULATIVE, THOU)		..	14.2	107.9
USERS (% OF MARRIED WOMEN)		6.3
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSAND)		1403.0	1700.0	1903.0	2600.0	4300.0
LABOR FORCE IN AGRICULTURE (%)		57.0	54.0	..	50.0	45.0
UNEMPLOYED (% OF LABOR FORCE)		15.0	5.0
INCOME DISTRIBUTION						
% OF PRIVATE INCOME REC'D BY-						
HIGHEST 5% OF HOUSEHOLDS	
HIGHEST 20% OF HOUSEHOLDS	
LOWEST 20% OF HOUSEHOLDS	
LOWEST 40% OF HOUSEHOLDS	
DISTRIBUTION OF LAND OWNERSHIP						
% OWNED BY TOP 10% OF OWNERS	
% OWNED BY SMALLEST 10% OWNERS	
HEALTH AND NUTRITION						
POPULATION PER PHYSICIAN		..	2870.0	2110.0	7690.0	1920.0
POPULATION PER NURSING PERSON		2820.0	2400.0	3200.0
POPULATION PER HOSPITAL BED		520.0	430.0	470.0	330.0	470.0
PER CAPITA SUPPLY OF -						
CALORIES (% OF REQUIREMENTS)		81.0	89.0	91.0	71.0	98.0
PROTEIN (GRAMS PER DAY)		46.0	49.0	47.0	45.0	62.0
-OF WHICH ANIMAL AND PULSE		24.0	32.0	..	9.0	24.0
DEATH RATE (/THOU) AGES 1-4		21.5	14.6	..	12.0	..
EDUCATION						
ADJUSTED ENROLLMENT RATIO						
PRIMARY SCHOOL		83.0	95.0	96.0	75.0	107.0
SECONDARY SCHOOL		12.0	26.0	25.0	11.0	35.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)		12.0	12.0	12.0	15.0	12.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)		29.0	29.0	30.0	20.0	19.0
ADULT LITERACY RATE (%)		..	68.0	69.0	26.0	..
HOUSING						
PERSONS PER ROOM (URBAN)		2.1	2.8	..
OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)		58.0	77.0	..
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)		32.0	..	41.0	34.0	..
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)		6.0	..	8.0	12.0	..
CONSUMPTION						
RADIO RECEIVERS (PER THOU POP)		41.0	279.0	..	52.0	134.0
PASSENGER CARS (PER THOU POP)		2.0	5.0	5.0	10.0	17.0
ELECTRICITY (KWH/YR PER CAP)		89.3	156.0	183.0	138.0	407.0
NEWSPRINT (KG/YR PER CAP)		2.0	2.3	3.8	0.01	3.6

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Most Recent Estimate between 1973 and 1975.

⇒ Venezuela has been selected as an objective country because of its experience in economic development based on petroleum exports.

Ecuador 1960 /a Excluding nomadic Indian jungle population; /b 1950-62; /c 1962; /d Government hospital establishments.
1970 /a Excluding nomadic Indian tribes; /b 1962-70; /c Ratio of population under 15 and 65 and over to total labor force; /d Income recipient.

MOST RECENT ESTIMATE: /a Ratio of population under 15 and 65 and over to total labor force; /b 1972; /c 1969-71 average; /d Percentage of occupied houses not connected to public water supplies; /e 1976.

Algeria 1970 /a 1966; /b Excluding military personnel in barracks and 274,663 nationals abroad of whom 229,020 are economically active; also excluding 1,200,000 mainly occupied in agriculture; /c Including midwives; /d 1964-66; /e Total, urban and rural.

Peru 1970 /a 1966; /b Excluding Indian jungle population; /c 1961-70; /d Ratio of population under 15 and 65 and over to total labor force; /e Urban only; /f Including evening schools.

Venezuela 1970 /a Excluding Indian jungle population; /b Ratio of population under 15 and 65 and over to total labor force.

R10, January 21, 1977

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km²)

Total - Total surface area comprising land area and inland waters.
Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1973-75 basis); 1960, 1970 and 1975 data.

Population and vital statistics

Population (mid-yr. million) - As of July first: if not available, average of two end-year estimates; 1960, 1970 and 1975 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.

Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics

Crude birth rate per thousand, average - Annual live births per thousand of mid-year population; can-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Crude death rate per thousand, average - Annual deaths per thousand of mid-year population; can-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.

Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instruction for pupils of 12 to 17 years of age; correspondence courses are generally excluded.

Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing

Persons per room (urban) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Electricity (kwh/vr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita; generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newsprint (kg/vr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newspaper.

SELECTED ECONOMIC DEVELOPMENT DATA
(million US\$)

	Actual		Estimate		At 1974 Prices and Exchange Rates										Growth Rates		Percent of GDP		1973 Share of GDP
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988			
A. National Accounts																			
Gross Domestic Product	3,222	3,605	3,767	4,003	4,262	4,572	4,855	5,131	5,426	5,752	6,050	100.0	103.5	102.2	100.7	100.0	100.0		
Terms of Trade Adjustment	-370	-46	-127	-46	-47	-92	-111	-112	-93	-46	-46	-0.7	-3.5	-2.2	-0.7	-11.5	-8.5		
Gross Domestic Income	2,852	3,605	3,640	3,957	4,175	4,480	4,744	5,019	5,333	5,668	6,004	100.0	100.0	100.0	100.0	100.0	100.0		
Imports of goods and NPS	665	1,043	995	1,000	1,038	1,097	1,109	1,187	1,285	1,321	1,491	28.9	27.3	23.7	21.9	20.0	20.0		
Exports of goods and NPS	795	1,235	695	1,067	1,007	1,093	1,140	1,170	1,222	1,303	1,491	28.9	24.6	23.3	21.9	24.7	24.7		
(Import capacity)	-150	-192	100	-67	31	4	-31	17	63	18	-	-	-5.3	0.3	-	-4.7	-		
Resource Gap																			
Consumption Expenditures	1,989	2,493	2,583	2,812	2,915	3,072	3,211	3,374	3,601	3,747	4,473	62.2	71.0	62.2	65.7	61.0	61.0		
Investment Expenditures	713	920	1,137	1,078	1,291	1,412	1,502	1,662	1,795	1,939	2,331	31.7	31.7	33.1	34.3	22.1	22.1		
Resource Availabilities	2,702	3,413	3,740	3,890	4,206	4,484	4,713	5,036	5,396	5,686	6,804	100.0	102.7	100.3	100.0	83.9	83.9		
Domestic Savings	863	1,112	1,037	1,145	1,260	1,408	1,533	1,645	1,732	1,821	2,331	30.8	29.0	32.8	34.3	26.8	26.8		
National Savings	727	947	1,012	1,100	1,231	1,368	1,484	1,590	1,668	1,846	2,266	28.3	27.8	31.7	33.3	23.3	23.3		
Net Factor Services	-169	-79	-75	-91	-45	-58	-45	-70	-78	-91	-78	-2.0	-2.0	-1.4	-1.1	-4.0	-4.0		
Gross National Product	3,053	3,422	3,664	3,941	4,214	4,514	4,790	5,061	5,348	5,681	6,772	100.0	101.5	100.8	99.5	94.8	94.8		
Gross National Income	2,683	3,422	3,567	3,891	4,179	4,422	4,679	4,949	5,255	5,577	6,728	94.9	94.9	98.0	98.6	90.3	90.3		
Net Current Transfers	33	18	28	12	19	16	16	15	14	16	13	0.5	0.5	0.3	0.2	1.0	1.0		
GDP at Current US\$	2,556	3,605	4,230	4,992	5,741	6,648	7,627	8,707	9,940	11,383	16,604	100.0	100.0	100.0	100.0	100.0	100.0		
B. Sector Output																			
(Share of GDP at 1974 prices)																			
Agriculture	.209	.212	.215	.210	.207	.201	.198	.196	.194	.191	.185								
Industry	.287	.282	.282	.289	.295	.298	.300	.303	.306	.309	.317								
Services	.524	.525	.507	.499	.498	.501	.502	.501	.500	.500	.498								
C. Price Indices (1974=100)																			
Domestic Price Index	78.4	100.0	112.3	124.7	134.7	145.4	157.1	169.7	183.2	197.9	242.4								
Consumer Price Index (General)	81.1	100.0	114.5	127.1	137.5	146.3	156.1	167.9	180.8	201.7	253.9								
Import Price Index	78.9	100.0	119.8	127.7	135.8	143.8	153.2	162.8	170.9	180.9	214.4								
Export Price Index	53.8	100.0	105.0	122.5	125.0	132.7	139.6	148.5	158.8	170.0	208.0								
Terms of Trade Index	66.2	100.0	87.6	93.0	92.2	93.5	93.3	93.5	94.3	95.3	96.1								
Exchange Rates (Ducres per US\$)	25	25	25	25	25	25	25	25	25	25	25								
D. Selected Indicators																			
Average IOR			1971-75	1976-80															
Import Elasticity			2.6	4.72															
Marginal Domestic Savings Rate			1.34	0.66															
Marginal National Savings Rate			0.47	0.44															
Imports/GDP			0.46	0.43															
Domestic Investment/GDP			0.201	0.238															
Resource Gap/GDP			0.243	0.304															
E. Labor Force																			
Agriculture																			
Industry																			
Services																			
Total																			
In millions																			
As % of Total																			
1975																			
1965-70																			
1970-75																			
1975-80																			
1980-85																			
F. Public Finances																			
(Central Government)																			
Current Receipts	468	654	573	634	708	777	836	867	899	932	1,070	18.1	15.7	17.3	15.7	15.7	15.7		
Current Expenditures	309	397	396	435	463	493	526	560	596	635	749	11.0	10.9	11.2	11.0	11.0	11.0		
Savings	159	257	176	199	245	284	310	307	303	297	321	6.1	4.8	6.1	4.8	4.7	4.7		
Deficit (-) or Surplus (+)	5	26	-42	-40	-27	1	30	35	22	8	72	7.1	4.9	6.1	4.9	6.1	6.1		
Public Investment 1/	214	235	325	369	413	463	518	554	593	635	778	12.3	8.9	10.9	10.9	11.9	11.9		

1/ Includes public enterprises.

1/3/77

1/ Includes public enterprises.

3/3/77

IMPORT DETAIL
(Million US\$)

	1973	Actual 1974	1975	Estimate 1976	1977	1978	1979	Projected 1980	1981	1982	1985
A. Constant Prices (1974=100)											
Primary and inter- mediate goods	204.7	300.2	320.6	363.7	394.2	427.3	463.2	502.1	544.2	564.9	650.3
Capital goods	160.7	274.2	397.4	342.3	373.0	406.4	442.9	482.7	526.4	571.2	654.3
Consumer goods	86.0	109.2	95.0	120.2	224.6	215.5	153.4	157.4	161.5	132.6	134.9
Fuels and lubricants	118.7	232.0	134.6	116.2	8.4	9.4	10.2	4.7	12.8	12.2	12.4
Total goods	570.1	915.6	947.6	942.4	1,000.2	1,058.6	1,069.7	1,146.9	1,244.9	1,280.9	1,451.9
Non-factor services	74.9	127.7	47.7	57.4	37.8	38.5	39.1	39.6	39.9	40.0	39.0
Total goods and NFS	645.0	1,043.3	995.3	999.8	1,038.0	1,097.1	1,108.8	1,186.5	1,284.8	1,320.9	1,490.9
B. Price Indices (1974=100)											
Primary and inter- mediate goods	84.9	100.0	133.4	142.7	151.3	160.4	170.0	180.2	191.0	202.4	241.1
Capital goods	92.0	100.0	117.5	124.1	130.4	136.9	143.7	150.9	158.4	166.4	192.6
Consumer goods	74.9	100.0	108.0	113.1	118.8	124.7	131.0	137.5	144.4	151.6	186.3
Fuels and lubricants	52.0	100.0	106.9	109.3	118.8	127.3	136.6	147.4	156.2	164.4	201.8
Total goods	78.6	100.0	120.4	128.1	135.9	143.8	153.2	162.8	170.8	180.7	214.0
Non-factor services	81.8	100.0	106.3	121.9	132.2	142.8	153.4	164.3	175.2	187.5	230.0
Total goods and NFS	78.9	100.0	119.8	127.7	135.8	143.8	153.2	162.8	170.9	180.9	214.4
C. Current Prices											
Primary and inter- mediate goods	173.8	300.2	427.7	519.0	596.4	685.2	787.4	904.7	1,039.4	1,143.3	1,567.9
Capital goods	147.8	274.2	467.0	425.0	486.2	556.2	636.5	728.4	833.8	950.5	1,260.1
Consumer goods	64.4	109.2	102.6	136.0	266.8	268.7	200.9	216.4	233.2	201.0	254.0
Fuels and lubricants	61.7	232.0	143.9	127.0	10.0	12.0	14.0	17.0	20.0	20.0	25.0
Total goods (CIF)	447.8	915.6	1,114.2	1,207.0	1,359.3	1,522.1	1,638.8	1,866.5	2,126.4	2,314.8	3,107.0
Non-factor services	61.3	127.7	50.7	70.0	50.0	55.0	60.0	65.0	70.0	75.0	90.0
Total goods and NFS	509.1	1,043.3	1,191.9	1,277.0	1,409.3	1,577.1	1,698.8	1,931.5	2,196.4	2,389.8	3,197.0

2/28/77

EXPORT DETAIL
(million US\$)

	Actual	1974	1975	Estimate	1977	1978	1979	Projected	1980	1981	1982	1985
A. Constant Prices (1974 = 100)												
Bananas	126.6	125.0	123.8	132.7	132.9	125.4	133.1	138.3	138.7	140.9	148.6	
Coffee	71.5	67.4	65.2	76.3	67.3	69.4	71.4	72.6	74.5	76.4	81.5	
Cocoa	40.9	102.9	49.5	30.1	57.4	66.4	81.4	82.9	83.0	82.8	95.9	
Sugar	27.4	42.5	18.5	12.0	27.5	29.6	30.8	32.9	34.6	36.0	41.1	
Petroleum	757.4	737.3	606.3	656.8	597.3	673.3	700.9	700.8	699.6	735.4	735.8	
Others	89.8	112.2	106.6	150.1	158.2	168.1	181.7	203.5	233.1	264.3	385.6	
Total goods	1,113.5	1,187.3	969.9	1,058.0	1,040.6	1,132.2	1,199.3	1,231.0	1,263.5	1,335.8	1,488.5	
Non-factor services	51.8	47.6	52.1	54.7	53.0	52.5	52.1	51.7	51.4	50.7	48.0	
Total goods and NFS	1,165.4	1,234.9	1,022.0	1,112.7	1,093.6	1,184.7	1,251.4	1,282.7	1,314.9	1,386.5	1,536.5	
B. Price Indices (1974 = 100)												
Bananas	99.0	100.0	126.7	108.7	116.9	126.2	132.0	140.1	153.1	167.1	218.0	
Coffee	91.5	100.0	98.6	268.0	220.1	222.0	225.8	235.4	242.6	250.0	273.7	
Cocoa	63.5	100.0	76.2	110.3	112.3	97.0	82.7	83.7	86.5	89.4	98.9	
Sugar	45.6	100.0	81.6	40.8	42.2	61.5	66.4	70.6	75.5	80.8	99.0	
Petroleum	37.2	100.0	109.2	110.5	118.6	128.0	137.4	146.8	157.1	168.1	206.0	
Others	81.7	100.0	114.5	122.0	132.2	142.8	153.4	164.3	175.2	187.5	230.3	
Total goods	52.5	100.0	104.4	122.5	124.7	132.2	139.0	147.9	158.2	169.3	207.3	
Non-factor services	81.7	100.0	114.5	122.0	132.2	142.8	153.4	164.3	175.2	187.5	230.0	
Total goods and NFS	53.8	100.0	105.0	122.5	125.0	132.7	139.6	148.5	158.8	170.0	208.0	
C. Current Prices												
Bananas	125.3	125.0	156.9	144.2	155.4	158.2	175.7	193.7	212.4	235.4	323.9	
Coffee	65.4	67.4	64.3	204.5	148.2	154.0	161.3	170.8	180.8	191.0	223.0	
Cocoa	26.0	102.9	37.7	33.2	64.5	64.4	67.3	69.3	71.8	74.0	94.8	
Sugar	12.5	42.5	15.1	4.9	11.6	18.2	20.5	23.2	26.1	29.1	40.7	
Petroleum	282.1	737.3	616.8	725.8	708.4	861.8	963.0	1,028.8	1,099.1	1,236.2	1,515.8	
Others	73.4	112.2	122.1	183.2	209.1	240.2	278.7	334.4	408.3	495.6	888.1	
Total goods	584.7	1,187.3	1,012.9	1,295.8	1,297.2	1,496.7	1,666.5	1,820.2	1,998.5	2,261.3	3,086.3	
Non-factor services	42.3	47.6	59.7	66.7	70.0	75.0	80.0	85.0	90.0	95.0	110.0	
Total goods and NFS	627.0	1,234.9	1,072.6	1,362.5	1,367.2	1,571.7	1,746.5	1,905.2	2,088.5	2,356.3	3,196.3	

2/28/77

Source: Mission estimates

DEBT AND CREDITWORTHINESS

(million US\$)

	Actual			Estimated	Projected						
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
A. Medium and Long-Term Debt											
1. Total Debt Outstanding	328	320	430	660	852	1,029	1,200	1,376	1,535	1,696	2,177
2. Included Undisbursed	549	596	754								
3. Public Debt Service	46	94	50	92	119	171	190	231	257	289	311
Amortization	31	77	33	67	72	108	114	124	137	177	188
Interest	15	17	17	25	47	63	76	87	98	112	123
4. Total Disbursements	52	71	142	298	263	284	285	299	316	338	349
5. IBRD Disbursements	4	5	10	12	17	28	43	56	60	62	95
6. IBRD Debt Service	5	6	6	8	9	11	15	19	27	37	47
7. Bank Group Disbursements	8	9	18	20	20	30	45	57	61	63	66
8. Bank Group Debt Service	5	7	7	8	10	12	15	19	28	37	48
B. Debt Burden											
1. Public Debt Service Ratio	7.3	7.6	4.7	6.8	8.7	10.9	10.9	12.1	12.3	12.3	10.0
2. Public Debt Service/GDP	1.8	2.6	1.2	1.8	2.1	2.6	2.5	2.7	2.6	2.5	1.9
3. Public Debt Service/Central Government Revenue	12.5	14.3	7.6	11.6	12.6	15.1	14.5	15.6	15.5	15.6	12.0
C. Terms											
1. Interest on Total DOD/Total DOD	4.6	5.3	4.0	3.8	5.5	6.1	6.4	6.3	6.4	6.6	5.7
2. Total Debt Service/Total DOD	14.0	29.4	11.6	13.9	14.0	16.6	15.9	16.8	16.7	17.0	14.3
D. Dependency Ratio for M & LT Debt											
1. Gross Disbursements/Imports (Incl. NFS)	10.2	6.8	11.9	23.3	18.7	18.1	16.8	15.5	14.4	14.1	11.0
2. Net Transfers/Imports (Incl. NFS)	5.3	1.7	2.4	1.6	1.8	1.6	1.5	1.3	1.4	1.3	0.9
3. Net Transfers/Gross Disbursements	51.9	25.3	20.4	7.0	9.5	8.8	8.8	8.4	9.5	8.9	8.6
E. Exposure											
1. IBRD/Disbursements/Gross Total Disbursements	7.7	7.0	7.0	5.4	6.4	9.8	15.1	18.7	19.0	18.3	18.6
2. Bank Group Disbursements/Gross Total Disb.	15.4	12.7	12.7	6.7	7.6	10.6	15.8	19.1	19.3	18.6	18.9
3. IBRD DOD/Total DOD	11.0	11.6	10.0	8.2	8.3	9.6	11.8	14.4	16.0	17.5	20.5
4. Bank Group DOD/Total DOD	16.5	17.9	16.5	13.0	12.4	13.2	15.0	17.1	18.4	19.6	22.1
5. IBRD Debt Service/Total Debt Service	10.9	6.4	12.0	8.7	7.6	6.4	7.9	8.3	10.5	13.0	15.2
6. Bank Group Debt Service/Total Debt Service	10.9	7.4	14.0	8.7	8.4	7.0	7.9	8.3	10.9	13.0	15.5
F. External Debt (Disbursed only)											
	Outstanding			Outstanding							
	December 31, 1975			December 31, 1980							
	Amount	Percent		Amount	Percent						
	430	100.0		1,376	100.0						
1. IBRD	43	10.0		198	14.4						
2. Bank Group	71	16.5		235	17.1						
3. IDB	57	13.3		454	33.0						
4. Other Multilateral	3	0.7		8	0.6						
5. Governments	120	27.9		170	12.4						
(Of which Centrally Planned Economies)	(2)	(0.5)		(-)	(-)						
6. Suppliers	60	14.0		187	13.6						
7. Financial Institutions	117	27.2		305	22.1						
8. Bonds	2	0.5		17	1.2						
9. Total Public M & LT Debt	430	100.0		1,376	100.0						
G. Debt Profile											
1. Total Public Debt Service											
1974-78/Total Public											
DOD and 1973	172.7										

3/3/77

BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE
(million US\$)

Attachment 52
Page 4 of 4

	Actual				Estimated	Projected							
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1985
A. Summary Balance of Payments													
1. Imports (incl. NFS)	392	509	1,043	1,192	1,277	1,409	1,577	1,699	1,932	2,196	2,390	3,197	
2. Exports (incl. NFS)	365	627	1,235	1,073	1,363	1,367	1,571	1,747	1,905	2,089	2,356	3,196	
3. Resource Balance	-27	118	192	-119	86	-42	-6	48	-27	-107	-34	-1	
4. Factor Services	-66	-138	-183	-78	-76	-69	-88	-104	-118	-138	-173	-180	
5. Transfers, net	15	27	18	29	21	25	25	25	25	30	30	30	
6. Balance on Current Account	-77	7	27	-168	31	-86	-69	-31	-120	-215	-177	-151	
7. Private M & LT Capital	87	52	75	38	18	-39 /1	-3 /1	35	40	45	50	50	
8. Public M & LT Capital	47	34	-13	96	231	191	176	171	175	159	161	161	
(Disbursements)	(109)	(68)	(60)	(140)	(298)	(263)	(284)	(285)	(299)	(316)	(338)	(349)	
(Amortization)	(-63)	(-35)	(-73)	(-44)	(-67)	(-72)	(-108)	(-114)	(-126)	(-157)	(-177)	(-188)	
9. Allocation of SDR's	4	-	-	-	-	-	-	-	-	-	-	-	
10. Capital Transactions, n.f.e.	14	-2	23	-24	-90	-20 /2	-36 /2	-36 /2	-16 /2	-16 /2	-16 /2	-	
(incl. errors and omissions)													
11. Change in Reserves	-74	-90	-112	58	-189	-26	-68	-139	-79	27	-18	-60	
(- increase)													
12. Reserve (net)	128	226	339	246	435	461	529	668	747	720	738	968	
(end of period)													
B. Loan Commitments													
External Public Debt													
Outstanding and Disbursed													
(end of period)													
1. Total	302	328	320	430	660	852	1,029	1,200	1,376	1,535	1,696	2,177	
2. IBRD	34	36	37	43	54	71	99	142	198	246	296	446	
3. IDA	12	18	21	28	32	35	37	37	37	37	37	35	
4. IDB	36	35	39	57	88	171	271	379	454	512	565	687	
5. Corporacion Andina de Fomento	1	2	2	3	7	10	10	9	8	6	3	1	
6. Suppliers' Credit	75	78	62	60	56	82	117	161	187	216	235	273	
7. Governments (market economics)	89	94	102	120	143	164	180	178	170	172	168	161	
Of which Governments (centrally planned)	(4)	(4)	(3)	(2)	(2)	(2)	(1)	(1)	(-)	(-)	(-)	(-)	
8. Financial Institutions	51	63	55	117	235	295	292	274	305	331	379	574	
9. Bonds	4	3	3	2	25	24	23	20	17	15	13	-	
C. Memorandum Items													
1. Average Interest (%)	5.0	4.9	5.5	6.4	8.4	8.1	6.7	8.0	8.3	8.5	8.5	8.5	
2. Average Maturity	19.6	23.8	25.3	11.4	10.6	15.2	19.6	15.2	12.7	14.0	11.6	10.5	

/1 Includes US\$82 million for the purchase of Gulf shares in the consortium. The rest (US\$35.6 million) is considered in 1978.
/2 The US\$20 million represents an estimate of the annual amortization for unreported external credits. Also from 1978 onwards includes amortization for the US\$82 million for the purchase of Gulf assets.

3/3/77

CONFIDENTIAL

ECUADOR - COUNTRY PROGRAM PAPER

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APR 11 2013

WBG ARCHIVES

Postscript

53. This CPP was reviewed at a meeting chaired by Mr. Knapp on March 25, 1977. Concern was expressed about the Government's petroleum policy and the quality of Ecuador's economic management in recent years. Mr. Knapp approved the Lending Program proposed in the CPP for FY's 78 and 79 in the amount of \$60 million and \$68 million respectively, but cut the FY's 80-82 program from \$80 million annually to \$70 million. His view was that the lending program should not rise above the present \$60-70 million p.a. level unless there is convincing evidence of an improved development effort and that performance should, in any case, remain under careful review. At the next review of the program, the analysis should focus on the Government's overall economic management, on its petroleum policy and on the progress of Government efforts to strengthen the public sector.

54. The revised Attachment I reflects the new approved FY78-82 Lending Program of \$338 million. The program contains a maximum of five standby projects in FY80-82.

LAC Regional Office
May 10, 1977

Population: 7.1 million
Per Capita GNP: US\$150
Area: 271,000 sq. km.
Literacy: 69%

ECUADOR: REVISED LENDING PROGRAM
(US \$ million)

Attachment I

	Through FY72	Actual				Current FY77	Projected					Total FY69-73	Total FY74-78	Total FY77-81	Total FY78-82	Reserve
		FY73	FY74	FY75	FY76		FY78	FY79	FY80	FY81	FY82					
Livestock I-III	15.5					15.5										
Agricultural Credit I																
Agricultural Credit II																
Seeds																
Milagro I										20.0						
Milagro II																
Fisheries																
Rural Development (Prep.)	5.3		5.5		3.0		20.0									
Rural Development I																
Rural Development II							15.0	20.0								
Rural Development III					4.0											
Guayusa Drainage																
Marketing/Storage																
Reforestation									10.0	30.0(8)	30.0					
																10.0 (FY79)
UPC I	8.0															
UPC II		20.0														
UPC III						26.0										
UPC IV																
Agro-Industry I									25.0(8)							
Agro-Industry II							15.0									
Industry (Unidentified)																
Industry (Petrochemicals)											15.0(8)					20.0 (FY80)
																20.0 (FY81)
Education I	5.1															
Vocational Training																
Education II				4.0												
									15.0(8)							
Roads I-III	40.0															
Roads IV																
Roads V																
Roads VI					10.5	17.5										
Roads VII									15.0(8)							
Ports I	13.0															
Ports II											25.0(8)					
Ports III					33.5											
							10.0									
Population																10.0 (FY80)
Water Supply I			23.2													
Water Supply II																
Power I-III	16.8															15.0 (FY82)
Rural Electrification																
Power IV								25.0								
Urban Development /																
Project Preparations I						8.0			20.0	30.0						
Project Preparations II								8.0								
Lending Program		20.0	23.2	4.0	51.0	67.0	60.0	68.0	70.0	70.0	70.0	33.3	203.2	335.0	338.0	
IMRD -																
IDA			5.2													
Total	103.7	20.0	28.7	4.0	51.0	67.0	60.0	68.0	70.0	70.0	70.0	31.6	210.7	335.0	338.0	
Number of which IDA			1	1	4	4	4	4	4	3	3	6	15	19	18	
Commitment Deflator		75.2	81.5	87.0	92.2	100.0	107.3	114.9	123.0	131.6	140.8					
Lending Program at Constant FY77\$		26.6	35.2	4.6	54.7	67.0	55.9	59.2	57.0	53.0	50.0	79.9	217.4	292.1	275.1	
Standby Projects							12.0	10.0	20.0	10.0						
IMRD																
No.							1	2	1	2						
IMRD O/S 1/ incl. undiab.	46.42/	68.12/	86.84/	86.43/	130.65/	192.0	245.9	307.4	370.8	429.5	484.2	164.21	1,543.6	1,837.8	1,837.8	
excl. undiab.	34.32/	41.32/	41.05/	46.52/	45.35/	56.5	79.9	118.2	167.1	212.3	252.6		634.0	830.1	830.1	
IMRD Gross Disbursements	59.3	5.4	3.8	8.7	5.8	16.8	29.6	44.7	55.4	56.5	55.6	12.3	25.9	203.0	214.8	
Repayments	26.5	2.7	3.1	3.9	4.8	5.5	6.1	6.4	6.5	11.3	15.3	15.8	17.0	35.8	45.6	
Net Disbursements	32.8	2.7	0.7	4.8	1.0	11.3	23.5	38.3	48.9	45.2	40.3	-3.5	8.9	167.2	169.2	
Interest & Charges	24.7	2.1	2.4	2.8	3.1	3.1	5.5	6.5	12.5	17.0	20.9	15.6	12.4	46.6	64.4	
Net Transfer	8.1	0.6	-1.7	2.0	-2.1	8.2	18.0	29.8	36.4	28.2	19.4	-19.1	-3.5	120.6	131.8	
IMRD/IDA Gross Disbursements	68.1	10.5	6.5	14.0	11.8	20.5	32.1	46.2	55.9	56.7	55.6	19.2	46.9	211.4	246.5	
Repayments	26.5	2.7	3.1	3.9	4.9	5.6	6.2	6.5	6.6	11.5	15.5	15.8	17.0	36.4	46.3	
Net Disbursements	41.6	7.8	3.4	10.1	7.0	14.9	25.9	39.7	49.3	45.2	40.1	3.4	29.9	175.0	200.2	
Interest & Charges	24.7	2.2	2.6	3.0	3.3	3.3	5.7	8.7	12.7	17.2	21.1	15.6	13.1	47.6	65.4	
Net Transfer	16.9	5.6	0.8	7.1	3.7	11.6	20.2	31.0	36.6	28.0	19.0	-12.2	16.8	127.4	134.6	

- 1/ As of end of FY.
2/ The exchange adjustment of \$1.6 million as of June 1972 has been included in these figures.
3/ The exchange adjustment of \$5.9 million as of June 1973 has been included in these figures, with an increase of \$4.3 million since FY72.
4/ The exchange adjustment of \$4.9 million as of June 1974 has been included in these figures, with a decrease of \$1.0 million since FY73.
5/ The exchange adjustment of \$1.6 million as of June 1975 has been included in these figures, with an increase of \$0.7 million since FY74.
6/ The exchange adjustment of \$3.4 million as of June 1976 has been included in these figures, with a decrease of \$2.5 million since FY75.

POLITICAL SITUATION

1. After more than six years of military dictatorship, Ecuadorians went to the polls for national elections on July 16, 1978. None of the six major candidates for the presidency obtained a majority and, after repeated delays, a run-off election was finally held on April 29, 1979. The two competing candidates in the run-off were Jaime Roldos, standard bearer of the "Concentration of Popular Forces" (CFP)--a populist movement--and Sixto Duran Ballen of the conservative "Constitutionalist Front".
2. In the run-off election, Roldos won a smashing victory over Duran Ballen getting about two-thirds of the votes in an election in which the turnout was heavy. Roldos made a strong showing not only in Guayaquil, his hometown, and in the Costa region, but also in the Sierra, which has traditionally been more conservative.
3. Until the July 1978 elections, Roldos was a little known political figure in Ecuador. Assad Bucaram, the former mayor of Guayaquil and the populist founder of the CFP, figured to be the party's candidate for the presidency. However, Mr. Bucaram--who is viewed as a dangerous demagogue by Ecuador's military and economic establishments--was barred from doing so by a provision in the 1978 constitution requiring that both parents of presidential candidates be born in the country; Mr. Bucaram's father and mother both immigrated to Ecuador from Lebanon.
4. Checkmated in his attempt to gain the country's highest elected office outright, Bucaram--Ecuador's most powerful political "boss"--hand-picked Roldos, a 38 year old lawyer, to run as his stand-in. Roldos had long been active in CFP politics and is, moreover, linked to Bucaram by marriage; his wife is Mr. Bucaram's niece. The conventional wisdom at the time was that Roldos would be a pliant proxy for the aging Bucaram.
5. During the electoral campaign, relations between Bucaram and Roldos gradually cooled as the latter began to assert his independence while reaching out to the military and the private sector to broaden his political base. In the campaign, Roldos and his vice-presidential running mate, Osvaldo Hurtado--the bright young head of Ecuador's small Christian Democratic Party--emphasized their commitment to democratic change, redistribution of wealth and attention to the poorest sectors of society. Their main political theme was to balance growth with social justice. Both members of the ticket campaigned vigorously but were careful to strike a responsible, moderate stance. The result was the landslide victory referred to in paragraph two.
6. Despite his impressive mandate, Roldos' first two months in office have been stormy ones. Following his inauguration on August 10 for a five year term, he came under heavy political fire from Bucaram, who had been elected president of Ecuador's unicameral legislature. With 30 seats in the 69 member Congress, Bucaram's CFP constitutes far and away the strongest bloc in the legislature.

7. As the result of the growing rift between Roldos and Bucaram, the Administration's initiatives have, so far, been paralyzed. Under the 1978 constitution, the full Congress is only in session for two months a year. It was scheduled to recess on October 10, delegating its duties to three small committees. Once this happened, it was hoped that the clashes between the Administration and Bucaram would subside. However, the Congress has voted to continue in "extraordinary" session until mid-November 1979. Roldos--who had vetoed several Bucaram-inspired bills including one to revalue the Sucre, Ecuador's already over-valued currency--had no choice but to accept the extension since the Congress had failed, inter alia, to approve the 1980 budget.

8. There are indications that Bucaram's harrassment of the President may be backfiring. Bucaram's prestige has suffered and most responsible spokesmen, including Ecuador's major newspapers, have become openly critical of him. Roldos' stock, on the other hand, appears to be rising. On October 9, for example, Roldos and Hurtado were enthusiastically received at a large rally in Guayaquil, Bucaram's stronghold. It is widely rumored that Roldos may form a separate political party, the Force of Change Movement. This would be a broad-based coalition to which Roldos hopes to attract many CFP leaders. If successful in launching the movement, Roldos might be able to wrest effective control of the Congress from Bucaram and perhaps politically eclipse him altogether.

9. Only time will tell how successful Mr. Roldos will be in achieving equitable growth while implanting a lasting democratic tradition in Ecuador. To do so, he will have not only to neutralize the challenge from Mr. Bucaram but also to gain and keep the support of Ecuador's economic elite while maintaining the armed forces--frequent participants in the country's politics in the past--on the sidelines. This will require skill and political astuteness on Mr. Roldos' part...and a healthy measure of luck.

10. President Roldos has already carved out an important position for himself on the international scene as the forerunner of a growing Latin American trend towards democracy. As President-elect, he paid a visit to the leaders of several Latin American democracies (Colombia, Venezuela, the Dominican Republic and Costa Rica) and to the U.S. He was also the first important Latin American political figure to visit the revolutionary Government in Nicaragua. The important turn-out at his inauguration, which included Mrs. Carter and Secretary Vance as well as several Latin American heads of state, underscores the increasing attention which the international community has given to Mr. Roldos and his Government.

11. Roldos' cabinet, composed of politicians and former private sector executives, has been described as "centrist and progressive". While most members of the economic team are competent individuals, some ministers (e.g., Agriculture and Industry) are technically weak, political appointees. It is rumored that they will be replaced in early 1980 when a cabinet shake-up may take place.

12. Two non-cabinet officials deserve special mention: the Vice President and Leon Roldos, the President's brother.

13. Under the new constitution, Vice President Hurtado would be responsible for economic planning as head of the National Council for Economic Development (NCED). The Planning Board (JUNAPLA) would become the NCED's technical secretariat, under the Vice President. Although the new constitution envisages the establishment of this new system, additional legislation is required to define precisely the scope and function of the NCED. A bill to this effect was presented to Congress in August, 1979, but has not yet been approved. As of this writing, therefore, whether Hurtado will have a major rôle in policy-making or become a weak ceremonial figure is still not clear.

14. Leon Roldos, the President's brother, has been appointed President of the Monetary Board. Given his political influence and pragmatic and dynamic personality, however, he also acts as a far ranging troubleshooter for the President. Given his influence and penchant for involving himself in many important issues, Leon Roldos is said to have caused resentment among some government officials. This could create tensions within the Administration.

15. Mr. Leon Roldos visited the Bank in July 1979. Since then, he has taken a special interest in Bank projects and operations. He was appointed Bank Governor in September 1979. As such, he headed the Ecuadorian Delegation to the Annual Meetings in Belgrade.

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ECONOMIC SITUATION

I. General Background

1. Ecuador is still, despite its considerable natural resources, one of the less developed countries in Latin America. Among the ten major South American countries, it ranks seventh in GNP per capita.

2. Its rich natural resources consist largely of a wide variety of climates and soils as well as petroleum, which provide the productive base for numerous agricultural crops, livestock, forestry and oil production. The Coastal Region, with its rainy tropical climate and fertile soils, is suited for most tropical and semitropical products, as well as for cattle ranching. The Sierra Region with its diverse altitudes is suited for most temperate crops and livestock raising. The Oriente Region, largely unexplored and undeveloped, is believed to have an important agricultural potential. It has also recently attained economic prominence through the discovery of considerable petroleum deposits. Finally, lying at the confluence of the warm Equatorial Current and the cold Humboldt Current, Ecuador's off shore waters are rich in marine resources.

3. The development of Ecuador has been based essentially on the exploitation of natural resources. In the 1950s and 60s, economic growth --about 5 percent per annum-- has stemmed almost exclusively from the expansion of agricultural export crops: first cacao, then coffee and more recently bananas. In the 70s, petroleum exports have replaced in importance the agricultural exports of the previous period and have given, so far, a strong push to the economy by raising the average annual growth rate to 8.3 percent between 1970 and 1978.

4. During the last decade, only Brazil in South America experienced a higher growth rate than Ecuador. But the benefits of this growth have been highly concentrated in Ecuador and large segments of its population have remained at the subsistence level.

5. Ecuador's development has taken place in a framework of strong regionalism and protracted political instability. Both factors, which appear in other countries of the continent, have been particularly acute in Ecuador and have often led to violent confrontations.

II. The 70s

(i) Macroeconomic Aspects

6. After a long period of moderate and agriculture-led growth, the picture

of economic development changed dramatically in the 70s. During 1970-78, economic growth accelerated to 8.3 per annum from 5 percent in the 50s and 60s, boosted by the exploitation of oil resources from 1972 onwards and by recurrent hikes in its price. The economy was carried on a wave of steeply increased public spending, buoyant optimism of private investors, the disappearance of foreign exchange and savings constraints and the spillover into domestic demand of the sudden increase in income. All economic sectors expanded rapidly, including agriculture, which grew by 4.5 percent per year during that period.

7. Domestic savings increased more rapidly than domestic expenditures and the foreign resource balance moved from a strongly negative level of -8.4 percent of GDP in 1971 to a positive level of 5.2 percent of GDP two years later. Even though the volume of petroleum exports, having attained

DOMESTIC SAVING AND INVESTMENT, 1950-78
(as percentage of GDP; in current prices)

	1950-68	1968-73	1973-78
Gross Domestic Investment	14.6	20.6	25.7
External Saving	- .4	3.4	-0.8
Domestic Saving	15.0	17.2	26.5
Public Saving	3.7	2.7	7.1
Private Saving	11.3	14.5	19.4

its peak in 1973 declined by almost one-third as its production fell and domestic consumption rose, the repercussions of this for the balance of payments was less damaging as the export prices of oil and of some traditional exports increases helped to compensate for this decline. The terms of trade were highly favorable to Ecuador and are calculated to have added the equivalent of an average of 3 percent of GDP per year to foreign exchange income.

8. While the major traps for suddenly rich countries - such as high rates of inflation, large and inefficient industrial concerns and acute bottlenecks in infrastructure - have been avoided, the development process in Ecuador was less than optimal. A number of findings could be quoted in support of this statement. Firstly, the growth has not been of the sort which could have contributed to develop an export base other than oil and traditional agriculture.

9. Secondly, the financing of development has been excessively dependent on revenues from oil. The private sector has relied strongly on tax exemptions and collection of non-petroleum revenues has slackened, and they decreased in real terms as a source for financing public expenditures.

ECONOMIC INDICATORS FOR ECUADOR

	Average 1970-76	1977	1978	1979 a)	1980 a)
		(Annual rate of growth)			
GDP	8.9	7.6	5.3	5.0	4.9
Inflation	12.5	12.3	10.8	11.0	15.0

(As percentage of GDP)

Balance of Trade

Exports (inc. NFS)	23.6	27.2	23.6	23.4	23.3
Imports (inc. NFS)	24.2	30.7	24.6	24.2	23.8

	Average 1970-76	1977	1978	1979 a)	1980 a)
<u>Public Sector</u>					
Current Revenues	20.2	17.8	23.1	23.4	21.4
Capital Revenues	1.4	1.0	0.2	0.2	0.2
Current Expenditure	13.0	14.1	20.1	19.9	16.1
Invest. Expenditure	9.8	8.8	10.5	11.4	9.9
Deficit/surplus	- 1.2	- 4.1	- 7.3	- 7.7	- 4.4

a) Estimates

Sources: The World Bank. Ecuador - Development Problems and Prospects. Special Report. July 1979.

Ministerio de Finanzas, Oficina Nacional de Presupuesto.
Situación Financiera del Sector Público.

Banco Central del Ecuador and Junta Nacional de Planificación
y Coordinación. Previsiones de la Actividad Económica,
August 1979.

10. Thirdly, the benefits of the accelerated economic growth have not been distributed evenly. Although all social indicators have improved, they still bear witness to acute social injustice, reflecting flagrantly unequal distribution of income, especially in the rural areas and a deterioration over time of the relative income share received by the poorest urban 20 percent of population.

11. Fourthly, the effectiveness of the services of public administration lagged behind the requirements of a rapidly growing economy.

12. On the whole, the country's economic policies have been shaped by resource availability, a short-term phenomenon, instead of being geared to development priorities, a long-term consideration.

13. The easy availability of oil revenues did not unduly distort the structure of growth but it affected market signals and value relationships. The policy framework which resulted could affect negatively the future growth. In particular, the exchange rate has been slowly losing its significance as an export incentive and as a yardstick for efficient import substitution. During 1971-77 period, the index of consumer prices in Ecuador has grown much more rapidly - by 45 percent for the entire period - than the comparable U.S. index, while the dollar exchange rate moved up by only 2 percent. The likely effects on exports of the resulting decline in the real exchange rate have been compounded by incentives given to private sector through generous tax exemptions, subsidies, promotion laws, import tariffs which have hindered the transformation of agro-products and the production of manufactured goods of low-to-medium complexity. Therefore, non-oil exports were discouraged. The volume of the nine main non-oil commodities or commodity-based products exported by Ecuador (bananas, coffee, cacao, fish, timber, sugar, processed coffee, processed cacao, processed fish) increased by only 2 percent per annum between 1973 and 1977.

14. At the same time, imports have become increasingly cheap compared with domestic prices. This, combined with investment incentives and low domestic oil prices, has turned the import-substitution process towards the capital-intensive forms of production and resulted in a steep increase of imports of equipment and intermediate goods. Imported equipment and intermediates have accounted for 94 percent and 80 percent respectively of all inputs used by industry.

(ii) Social Aspects

15. Despite the rapid economic growth which led to the present relatively high average per capita income level, much of the Ecuadorian population continues to live in poverty. In 1975, the average annual per capita income of the poorest 25 percent of urban dwellers represented less than one-fifth of the country average per capita income. Forty two percent of the rural population had no piped water, 88 percent had no electricity and 87 percent were without sewerage facilities. While open unemployment is only about three percent of the country's labor force, underemployment is estimated to be as high as 30 percent.

16. Ownership of land and other productive resources is highly concentrated, limiting access of the poor to income-producing assets. Farms of less than five hectares accounted for 75 percent of the number of all farms, but held only 11 percent of all arable land, compared to farms exceeding 50 hectares, which held 61 percent of total land. While the agrarian reform in

Ecuador dates back to 1964, only about one-seventh of the land distribution planned for the past period was carried out. Also and perhaps more importantly, modern agricultural methods used by most of the large farms made few inroads into smaller farms. As a result, the productivity per hectare of farms above 10 ha is, compared to that of smaller farms, 67 percent higher in the production of wheat, 63 percent in the production of rice and 98 percent in the production of corn.

17. The high rate of population growth, the highest in South America, although falling fractionally - 3.4 percent in 1974-79 against 3.5 percent in 1970-74 - remains a serious impediment to the solution of underemployment and poverty.

18. During the past decades - and in particular during the years following the beginnings of oil exploitation (1972) and the increase of petroleum export prices (1973) - an important urban middle class has emerged. It is composed mainly of the small entrepreneurs, civil servants - who account for over 10 percent of urban employment - and of employees of the modern sectors. This urban middle class has been growing in size and in relative income and has been the major beneficiary of recent economic growth.

19. The urbanization process, reflecting a massive immigration - the share of urban population in total population increased from 28.5 percent in 1950 to 41.6 percent in 1975 - has resulted in a growing importance of those exposed to change, which has been much more rapid in the cities than in rural areas. A rapid increase in schooling has taken place everywhere, including the rural areas. The general level of nutrition, while still inadequate, has improved; recent studies indicate that the caloric intake is 14 percent below the recommended level; it was 24 percent below it only a decade before. The protein gap remained substantial, the intake 40 percent below the theoretically required.

20. The economy and society of Ecuador suffer from a pronounced dualistic nature. The indigenous population of Ecuador accounts for over one-third of total population, and it is in this group, settled predominantly in rural areas, as well as within the marginal urban population that poverty is most deeply anchored. This population has a lower average level of productivity and benefits considerably less from basic infrastructure - education, public utilities, roads - than other segments of the population. Furthermore, the pattern of development did not create enough employment opportunities needed to absorb the growing urban labor force, part of which is underemployed. The informal sector, which includes the underemployed, represented in mid-70s over 50 percent of the total urban employment.

(iii) Sectoral Aspects

21. Three sectors most vital to Ecuador's future are agriculture, industry, and petroleum. Agriculture accounted for 20 percent of GDP in 1978, a decline from 28 percent in 1970. The agricultural sector has been growing by 4.5

percent during 1970-78. On the whole and to the extent that statistics of this sector are reliable, growth of the agricultural sector could be considered satisfactory, especially when compared to other countries. However, Ecuador's agricultural potential is also higher than in other countries, especially taking into account the reserves of unexploited arable land and water resources. With growth of agricultural production lagging somewhat behind overall growth of the private consumption, demand for food has been increasingly satisfied by imports.

22. Ecuadorian agriculture was --and still is-- constrained by inadequate infrastructure, limited farm-level technical guidance, substantial price fluctuations, erratic credit availability, marketing shortcomings, poor management at farm level and uncertainties with regard to the future of the land redistribution program. All these hampered farmers' investment intentions and delayed productivity increases.

23. The Government intervenes in the distribution of agricultural products by regulating - often unnecessarily - the pricing and marketing of farm products. This often results in high-cost distribution systems, has motivated smuggling to neighboring countries due to low prices paid to producers on some crops and has worsened the position of low-income consumers. The existing subsidy system is regressive and rather counterproductive. Wheat import subsidies ostensibly introduced to stabilize food prices also benefit higher income groups and adversely affect incentives to produce cereals, roots and tubers domestically.

24. The industrial sector expanded in 1970-78 by 10.2 percent annually. It represented 16.8 percent of GDP in 1978. It has been stimulated by fast income growth, a favorable investment climate, generous fiscal investment incentives, tariff protection, financial stability and, to a limited extent, by the emergence of the Andean common market. The sector is however still fairly thin, with a small modern oligopolistic segment operating mainly in the import-substitution of consumer goods, and the remainder consisting of a large number of traditional small-size firms.

25. Export incentives are relatively recent and limited. The major constraints to more dynamic industrial development were the inward-looking nature of this sector despite the small size of the domestic market, the still insufficient physical infrastructure, a heavy concentration of industrial ownership in the modern sector of industry and the related reluctance by owners-managers to accept new share capital needed for expansion and, finally, limitations on available financing for other than well established firms.

26. Petroleum production on a major scale began in Ecuador in 1972. Increases in international prices since 1973 considerably enhanced the sector's role in the economy: it contributed 16 percent to Ecuador's GDP, accounted for about 50 percent of export earnings and for 37 percent of

current public revenues in 1974. Production, after reaching a peak of 76 million barrels per year in 1973 declined afterwards. It fell to a level of around 65 million until 1978 but will probably rebound to 77 million barrels in 1979. Net crude oil exports (excluding the sale to pay for imports of derived products) which attained 59 million barrels in 1973, have been declining steadily to 42 million barrels in 1978.

27. The rapidly increasing domestic consumption which amounted to only 10 million barrels 1/ in 1973, reached 32 million barrels 1/ in 1978, as it has been stimulated by economic growth and the low domestic petroleum prices, kept unchanged in nominal (current) terms for the last ten years.

28. Exploration activities have been at a standstill since early 1973 until 1978. The number of exploratory wells drilled fell from a peak of 20 in 1972 to only 3 in 1977. This had its reason in inadequate incentives to attract foreign capital and lack of funds and experience to undertake the required exploration work by the domestic state-owned oil company. The low level of drilling activity caused decline in oil reserves from about 1.460 million barrels in 1974 to 1.166 million barrels in 1978.

29. Administrative inefficiencies have hampered seriously planning, overall coordination and control of petroleum operations concentrated in the hands of a consortium formed by CEPE, the domestic oil company, holding 63 percent of the shares of the consortium (Texaco is holding the remainder).

30. Lately, the Government has introduced changes in the petroleum law in the hope of reverting the falling trend. While 23 new wells will be drilled in 1979, oil reserves would probably reach their lowest level of 1.092 million barrels by the end of the year, allowing for fifteen years of production at the present production capacity.

III. Short-term Issues - Current and in the Immediate Future

31. A new Government took power on August 10, 1979. It has not yet prepared a coherent development strategy, and a precise judgement on what will be decided is yet difficult to venture in view of the fluidity of the political scene. Nevertheless, the Government is aware of some of the main economic and social problems, is willing to give more weight to the social issues, and is keeping under close scrutiny economic problems of immediate importance. Particularly, in the area of administrative improvements, it is trying to organize the short-term economic planning, to enhance the power of the institution in charge of medium-term planning and to revive controls on key economic parameters like the foreign debt.

32. Three most pressing issues will have to be faced in the short-run:

1/ Product equivalent

i) the foreign debt; ii) the fiscal deficit and iii) the petroleum sector.

33. (i) The Foreign Debt. Ecuador, which had followed for a long time a prudent foreign debt policy, abandoned this attitude in 1977.

34. New commitments which had remained below US\$200 million per year before 1976 (excluding military debt), have exceeded US\$500 million since 1977. Although disbursements have lagged significantly behind commitments, they have followed the same pattern as commitments. While during the period 1971-75, disbursed debt had increased by an annual rate of 16.5 percent, between 1976 and 1979, the growth rate of disbursements accelerated to 46.3 percent p.a. During 1977 alone, the outstanding and disbursed foreign debt (military debt included), increased by about 75 percent. As a result, by the end of 1979, disbursed debt is expected to attain US\$2.100 million. ^{1/} If military debt is added to this amount, near US\$3.100 million would have been accumulated. Average maturities of new borrowing have also shortened sharply in recent years, from 19.6 years in 1970-73 to only 11.0 years in 1975-78. This has been the result mainly of a shift from official to private sources of foreign credit. In 1977, private sources of official borrowing accounted for as much as 78 percent of committed amounts.

35. The highly expansionary fiscal policy followed by the Military Government in recent years and its decision to resort to foreign debt for its deficit financing are at the core of the sharp change in the debt structure. The inability of the Government to maintain the level of non-petroleum tax effort, the quickly expanding current and military expenditures and the unchanged level of petroleum revenues accruing to the public sector resulted in a growing fiscal deficit which reached 7.3 percent of GDP in 1978. Foreign exchange was made abundantly available to Ecuador thanks to the established international creditworthiness and the Government decided to abolish the controls on new debt, exercised until 1977, by the "Foreign Credit Committee" so as to make an increasing recourse to foreign borrowing in order to finance its deficit, rather than to mobilize domestic resources for this purpose.

36. The effects of this rapid increase in foreign borrowing is now felt acutely in debt servicing. The debt-service ratio, excluding military debt, will jump from 12 percent in 1978 to around 33 percent in 1979. However, the Government has undertaken recently (early 1979) serious efforts toward changing the debt structure and this percentage, which would be considered very high in different circumstances, includes a prepayment of loans contracted on least favorable conditions.

^{1/} Bank Group Lending constituted about 11 percent of outstanding (including undisbursed) non-military debt by the end of 1978. IDB lending represents about 21 percent of this total.

Ecuador: Foreign Debt and Debt Service
(US\$ million)

	<u>1977</u>	<u>1978</u>	<u>1979 a)</u>	<u>1980 a)</u>
1. Exports (NFS included)	1.603	1.734	2.185	2.575
2. Debt Service (military debt excluded)	117	208	724 b)	403
Debt Service as Percentage of Exports	7.3	12.0	33.1	15.7
Debt Service as Percentage of Exports (military debt included)	20.9	33.2	54.0	30.5

a) Estimates

b) Includes pre-payment of a number of hard-term loans, equal to US\$510 million. To prepay these loans, a medium-term loan has been contracted on more favorable conditions. If this pre-payment is subtracted, the debt-service ratio would decline to 9.8.

37. (ii) Fiscal Deficit. As a result of combination of stagnating oil revenues, a decline of non-petroleum tax effort and rising expenditures, the fiscal deficit which revolved around only 1 percent of GDP during 1972-76 has been increasing and is expected to reach 7.7 percent of GDP in 1979. The new Government has decided to reduce the size of the fiscal deficit, criticized strongly the "irresponsible indebtedness policy" of the previous Government, and decided to slow down the accumulation of foreign debt and to utilize it more efficiently.

38. Several factors militate against such intentions: a) short term inflexibility of revenues and expenditures; b) the lack of clarity as to the development priorities and c) political considerations.

39. (a) The Government could obtain additional revenues by increasing the domestic price of petroleum and its derivatives and by increasing non-petroleum revenues. The latter represented 18.6 percent of GDP in 1972, but will not exceed 14.0 percent in 1979. However, political sensitivities are standing in the way of such improvements, which would call among other for a gradual alignment of the domestic prices to international levels. It is therefore expected that other measures will be taken instead to "rationalize" consumption, but this cannot have any significant impact on fiscal revenues. The existing oil price subsidy is likely to disappear only during the decade of the eighties.

40. Furthermore, adjustment of the non-petroleum taxes would require Congress approval. Congress has made known to the President that his proposition will not be endorsed. Even if approved, the inefficiency of tax administration will limit seriously the immediate effects of such measures. Only about 1.0 percent of GDP is expected to be added to the present level of revenues during 1980.

41. (b) The Government is under the strong internal pressure to increase capital expenditures. A large list of identified and prepared projects is waiting in the pipeline. They represent the equivalent of over US\$1 billion a year, much more than the public sector has been investing before. Practically all projects are considered to have priority. Furthermore, the new Government is proposing new, ambitious and highly necessary projects in the social sector which it wants to carry out immediately. A plan to eradicate illiteracy and a strong effort to help small-scale farmers through integrated rural development projects are among those. Finally, the Government realizes that nine-tenths of the funds likely to be available for public capital expenditures are already committed to old projects.

42. A clear definition of priorities and their strict application could help to solve the difficult choice the Government is facing. But, they are left in wanting. Priorities established during the campaign and revised later for the preparation of the budget are still too vague, and numerous and, therefore, cannot be used as a clear yardstick by the ministries and public institutions, to decide why and how their budgeted capital expenditures should and could be reduced. Consequently, the internal pressure for increased expenditures continues.

43. (c) Political reasons make the reduction of deficit through a reduction in capital expenditures even more difficult. Since most of funds for 1980 are already committed to "old" projects, new projects imply additional expenditures. Following possibilities should be considered. Firstly, if, to reduce the deficit, the Government decides not to undertake investment ventures promised during the election period, its political image would be affected. Secondly, if a weeding of the old projects is carried out and new projects are added, vested provincial interests might suffer. Thirdly, the Congress is now in the process of approval of the 1980 budget, and, it is expected, that non-priority expenditures will be added to it without the Government being able to mobilize additional resources. As the President has no veto power over the budget, there is no way to prevent that this occurs.

(iii) Petroleum Issues

44. Prices of petroleum products in Ecuador have been maintained at levels fixed a decade ago, with the exception of slight modifications for tax purposes. Crude oil for domestic consumption is priced at present at US\$1.48 per barrel and prices of oil derivatives average about US\$6.40 per

barrel. Both are among the lowest in the world. The price per gallon of 80-octane gasoline is below US\$0.20. This has brought about a 16 percent p.a. increase in consumption of petroleum products in recent years. Moreover, it led also to more than rationally justified purchases of capital goods and transport equipment applying energy-intensive processes and lowered domestic relative prices of energy-using products. As a result it encouraged the Ecuadorian entrepreneurs to specialize in the export production of goods which are not in the country's long-term comparative advantage.

45. An increase in domestic prices of petroleum, could provide adequate resources to the public sector and enable it to finance capital investment largely from its own savings and reduce its reliance on excessive foreign borrowing for deficit financing.

46. Furthermore, the domestic price increases of petroleum products would eliminate the implicit regressive subsidy received essentially by the urban middle class of Ecuador. A part of new revenues obtained from such increases should be used to cushion the impact of the price change on the poorest population.

47. The appropriate time-scheduling of petroleum price adjustments is of importance. The existing sharp difference between domestic and international petroleum prices cannot be eliminated in one single move, even if such a measure was politically feasible because consumers' real incomes would suffer unduly from such one-time cut and expenditures would fall accordingly. As labor unions would press for higher wages, private business in Ecuador would find itself caught between higher costs, resulting from higher energy and wage bills and a falling demand resulting from curtailments in consumption.

48. Exploration for petroleum has been at a standstill and recoverable reserves have declined. By the end of 1979 a ratio between reserves and annual production would decline from 1:22 in 1974 to 1:13. Ecuador may soon become a net importer if this trend continues. To alleviate future financial and foreign exchange problems, a vigorous effort of exploration should be carried out. To do that, problems such as the insufficiency of incentives to foreign capital and the instability in the general regulations binding the petroleum industry should be quickly solved. Finally, the financial difficulties of the publicly-owned oil company and its lack of experience in exploration could be remedied through financial and technical advice, which the Bank could, at least partly, provide.

IV. Long Term Issues

49. Ecuador is facing three major issues in the foreseeable future. The first is the necessity to start eliminating the dualism in its economy. The second is the inability of the public sector to operate

efficiently. The third is the shortfall in its foreign exchange and fiscal revenue, compared to the country's needs. The solution to the first is, or should become, a long-term target, the solution to the second has both the long and the short-term implications, while the importance of the third, which is of recent making, should not become more than that of a medium-term constraint.

(i) Dualism

50. The review of the structure of the economy points to a pronounced - even increasing in some sectors - economic dualism. A large number of farms and a substantial number of enterprises in the manufacturing industry, construction and commerce continue to subsist outside the realm of modern production and organization methods, use obsolete equipment, benefit little from newly constructed public infrastructure.

51. As a result, these units, belonging all to a traditional sector, produce goods and services with very low productivity methods, and, commensurately, pay wages or provide revenues permitting barely to maintain a subsistence level. As a whole, they contribute little to the growth of the economy.

52. While the traditional sector helps to maintain the level of employment, it does so at a macro-economic cost. Three components of such cost could be singled out. Firstly, its low wages and revenues are inadequate for those who aspire for a standard of living higher than that of a mere subsistence. Consequently, there exists a permanent strong pressure on wage levels, but the production methods do not permit that wages and revenues be increased without inflationary effects. This notwithstanding, the Ecuadorian Congress has recently (October 1979) approved a doubling of the minimum wage and other adjustments in the salaries of the public administration which would double the originally expected deficit of the Central Government in 1980 and should generate a strong inflationary thrust.

53. Secondly, traditional industrial and agricultural enterprises while co-existing alongside with those of the modern sector, have barely any production linkages with them, be it through input supply to the modern sector or through subcontracting. The absence of linkages removes the modern sector from the country's comparative advantage, such as labor and domestic raw materials, and induces it to rely increasingly on imported intermediates.

54. Thirdly, the traditional part of the dual sector continues to be exclusively inward-oriented. Its contribution to exports is non-existent and, because of the size of its units and its obsolete techniques of production, it can hardly compete efficiently against imports in areas where such competition could exist. It provides, therefore, and for wrong reasons, a justification for introduction or continuation of protection against imports. In turn, such protection benefits the modern sector, which does not need it and whose efficiency could be affected by it.

55. A multitude of policies could and needs to be designed to reduce the pronounced dualism of the Ecuadorian economy. In industry, such policies should consist in extending more ample credit to small and medium scale enterprises to permit them to modernize. Next, the existing incentives for large enterprises --especially those which bias their choice of techniques toward excessive capital-intensity-- should be replaced by a policy framework which would induce them to seek actively sources of supply in the traditional industrial sector and in domestic agriculture. In agriculture, improved extension services, better commercial distribution network and some adjustments in the landholding pattern could become instruments towards modernization of its traditional subsectors.

(ii) Public Administration

56. One of the major constraints to the economic development of Ecuador is the weakness of its public administration. Numerous reorganizations which have taken place since 1970 have led to a somewhat perplexing situation and have complicated the decision-making process.

57. State enterprises lack autonomy and flexibility. The decentralization of economic decisions is insufficient and decentralized entities are not coordinated among themselves. Highly centralized and rigid personnel structure, poor and deteriorating pay scales for professionals and inadequate recruiting and training systems for public servants have resulted in unstable and low quality personnel.

58. An unsatisfactory budgetary process has encouraged borrowing, is biased against self-financing of investment and sets up special accounts without a possibility to control their use. Earmarked funds and special accounts have created rigidities which create inducement to use the funds even if reasons for their creation weakened while at the same time make it difficult to shift resources to high priority uses.

59. Improvement in the efficiency of the public sector would have a beneficial impact on the identification, preparation and execution of development projects in Ecuador. Realistic national and sectoral operative plans should become a necessary framework for better project identification and evaluation. Streamlining the budgetary process should eliminate costly delays in project execution. Improved coordination among public institutions should allow undertaking of joint efforts at the project level. Finally, more flexible personnel policies and efforts to attract qualified staff would help to assure work continuity and would help to eliminate problems associated with the high rate of turnover among administrators at the project level.

(iii) Financial Disequilibria

60. Another major problem that Ecuador confronts is that of the financial disequilibria, which are short-term in their character. When the revenue from petroleum started to provide additional resources, the intensity of resource mobilization efforts needed to pay for country's imports and for its public expenditures, slackened in Ecuador. Both the efforts to promote exports of non-traditional and agricultural goods and efforts to raise taxes were lagging behind the rapid growth of the economy. However, public expenditures and imports kept growing quickly, adjusting themselves to the high level of petroleum revenue. By 1976 they exceeded what petroleum revenue could provide, especially as the petroleum revenue itself ceased to grow, with low priced domestic consumption of oil and its products preempting an increasing part of the overall oil production. Fiscal and balance-of-payments current deficits re-emerged and strong financial measures had to be taken in order to maintain these deficits within manageable proportions. These measures were directed mainly toward slowing down of expenditures, rather than toward deepening of the revenue sources.

61. Such policies are acceptable, or even necessary, for meeting short-term stabilization targets. However, in the long-term perspective, it is the sources of foreign exchange and public revenue which will have to be broadened. The use of demand management policies alone would, in Ecuador, hold down the economic growth below the level achieved during the petroleum boom or, more importantly, below the country's human and natural resource potential. If the latter prevails, it would also make the solution of the problem of economic dualism difficult, because it entails a shortage of means necessary to expand infrastructure to reach the rural poor or to expand credit to reach small-scale industrial, agricultural and commercial enterprises.

62. In the increase in domestic prices of oil Ecuador has at its disposal an immediate and highly effective measure to increase Government revenues which would also free more oil for exports. But Ecuador should also make recourse to other economic policies. Non-traditional and agricultural exports should be stimulated, tax administration should be improved, unnecessary tax exemptions should be abolished and import tariff structure should be revised. These measures would not only be useful to expand sources of foreign exchange and public revenues but they would also allow a more balanced economic growth and would steer the sources of this growth closer to the country's comparative advantage.

V. Outlook

63. In the medium term, the Ecuadorian economy has fair growth prospects: it is expected to grow by at least 5 percent annually. It is unlikely that the external sector will continue to play as strong a growth-propelling role as in the past, mainly because oil exports are expected to continue to decline and because agricultural exports may be constrained by adverse world market price movements. The prospects of the Ecuadorian economy

could be strengthened, however, through timely implementation of improved policies in the petroleum, agriculture and manufacturing sectors. The new Government is now working on a new five-year development plan covering the 1980-84 period. Ecuador's economic administration includes the Planning Board, the Central Bank, and the Ministry of Finance. The talents of this administration could be used to design the required strategic framework, provided that they act in unison, which has not always been the case in the past and does not appear to be the present case either.

64. Given its outlook and expected debt service burden in the medium term, Ecuador remains creditworthy.

65. Tables containing social indicators and economic data for Ecuador are attached.

TABLE 3A
ECUADOR - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.)	ECUADOR			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE) ^{1/}		
	1960	1970	MOST RECENT ESTIMATE ^{2/}	GEOGRAPHIC REGION ^{3/}	SAME INCOME GROUP ^{4/}	NEXT HIGHER INCOME GROUP ^{5/}
TOTAL	283.6					
AGRICULTURAL	73.0					
GNP PER CAPITA (US\$)	..	370.0	910.0	1124.4	1097.7	1942.6
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	201.0	297.0	455.0	743.1	730.7	1646.7
POPULATION AND VITAL STATISTICS						
POPULATION, MID-YEAR (MILLIONS)	4.4	6.0	7.3	..	..	..
URBAN POPULATION (PERCENT OF TOTAL)	34.4	39.5	41.6	59.3	49.0	51.2
POPULATION PROJECTIONS						
POPULATION IN YEAR 2000 (MILLIONS)			14.0	..	..	..
STATIONARY POPULATION (MILLIONS)			26.0	..	..	..
YEAR STATIONARY POPULATION IS REACHED			2080	..	..	..
POPULATION DENSITY						
PER SQ. KM.	16.0	21.0	26.0	23.5	44.6	28.2
PER SQ. KM. AGRICULTURAL LAND	91.0	100.0	100.0	80.5	140.7	100.5
POPULATION AGE STRUCTURE (PERCENT)						
0-14 YRS.	45.4	46.6	46.1	40.9	41.3	35.4
15-64 YRS.	52.0	50.8	51.2	54.4	55.3	56.3
65 YRS. AND ABOVE	2.6	2.6	2.7	3.9	3.5	5.1
POPULATION GROWTH RATE (PERCENT)						
TOTAL	2.9	3.0 ^{1/}	3.0 ^{1/}	2.4	2.4	1.7
URBAN	5.0 ^{2/}	4.4	4.1	3.7	4.5	3.0
CRUDE BIRTH RATE (PER THOUSAND)	47.0	43.0	41.0	32.8	31.1	27.5
CRUDE DEATH RATE (PER THOUSAND)	17.0	13.0	10.0	8.5	9.2	9.1
GROSS REPRODUCTION RATE	..	3.3	3.1	2.4	2.2	1.8
FAMILY PLANNING						
ACCEPTORS, ANNUAL (THOUSANDS)	..	9.0	32.3	..	..	..
USERS (PERCENT OF MARRIED WOMEN)	..	..	6.3	17.7	34.7	..
FOOD AND NUTRITION						
INDEX OF FOOD PRODUCTION PER CAPITA (1969-71=100)	89.8	101.0	98.0	99.4	104.4	102.0
PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)	81.0	91.0 ^{2/}	93.0 ^{2/}	107.0	105.0	120.8
PROTEINS (GRAMS PER DAY)	46.0	49.0	47.4	60.4	64.4	80.9
OF WHICH ANIMAL AND PULSE	24.0	22.0	21.9	28.3	23.5	31.3
CHILD (AGES 1-4) MORTALITY RATE	23.0	16.0	10.0	6.7	8.6	5.1
HEALTH						
LIFE EXPECTANCY AT BIRTH (YEARS)	51.0	56.0	59.6	63.6	60.2	65.6
INFANT MORTALITY RATE (PER THOUSAND)	140.0	118.0	..	76.1	46.7	45.5
ACCESS TO SAFE WATER (PERCENT OF POPULATION)						
TOTAL	..	34.0	40.0	63.4	60.8	69.4
URBAN	..	76.0	82.0	79.5	75.7	85.1
RURAL	..	7.0	13.0	38.6	40.0	43.0
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)						
TOTAL	..	22.4	35.8	58.8	46.0	70.1
URBAN	..	..	..	77.8	46.0	88.3
RURAL	..	..	..	24.5	22.5	33.2
POPULATION PER PHYSICIAN	2600.0	2870.0	1570.0	1841.9	2262.4	1343.2
POPULATION PER NURSING PERSON	2280.0	1605.0	..	933.7	1195.4	765.0
POPULATION PER HOSPITAL BED						
TOTAL	520.0 ^{2/}	430.0	..	563.4	453.4	197.6
URBAN	..	190.0	..	279.4	253.1	260.2
RURAL	..	4740.0	..	1140.9	2732.4	1055.0
ADMISSIONS PER HOSPITAL BED	..	17.0	..	25.7	22.1	17.3
HOUSING						
AVERAGE SIZE OF HOUSEHOLD						
TOTAL	5.1 ^{2/}	5.2	5.3	5.0	5.3	4.7
URBAN	..	..	..	4.8	5.2	4.4
RURAL	..	..	..	5.3	5.4	5.1
AVERAGE NUMBER OF PERSONS PER ROOM						
TOTAL	2.5 ^{2/}	..	..	1.3	1.9	1.1
URBAN	2.1 ^{2/}	..	..	1.3	1.6	1.2
RURAL	2.8 ^{2/}	..	..	1.5	2.5	1.2
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)						
TOTAL	32.0 ^{2/}	..	41.2	54.3	50.0	66.0
URBAN	78.5 ^{2/}	..	84.3	80.1	71.7	85.1
RURAL	6.0 ^{2/}	..	11.6	14.2	17.3	..

- 1/ Official sources give 3.5 and 3.4 percent for 1970 and 1978, respectively.
 2/ JUNAPLA gives figures of 76.0 and 86.3 percent for 1968 and 1974, respectively.

TABLE 3A
ECUADOR - SOCIAL INDICATORS DATA SHEET

	ECUADOR			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE) ^{/a}			
	1960 ^{/b}	1970 ^{/b}	MOST RECENT ESTIMATE ^{/b}	SAME GEOGRAPHIC REGION ^{/c}	SAME INCOME GROUP ^{/d}	NEXT HIGHER INCOME GROUP ^{/e}	
EDUCATION							
ADJUSTED ENROLLMENT RATIOS							
PRIMARY:	TOTAL	83.0	97.0	102.0	107.3	102.5	101.7
	MALE	87.0	99.0	104.0	109.1	108.6	110.0
	FEMALE	79.0	95.0	101.0	107.4	97.1	92.8
SECONDARY:	TOTAL	12.0	26.0	42.0	40.5	33.5	51.2
	MALE	13.0	28.0	43.0	40.4	38.4	56.4
	FEMALE	10.0	24.0	40.0	39.0	30.7	43.7
VOCATIONAL ENROL. (% OF SECONDARY)		29.0	29.0	23.0	18.5	11.5	18.3
PUPIL-TEACHER RATIO							
PRIMARY		39.0	38.0	38.0	37.1	35.8	27.1
SECONDARY		11.0	15.0	17.0	17.9	22.9	25.3
ADULT LITERACY RATE (PERCENT)		67.5/ ^f	68.0	73.9	77.4	64.0	86.1
CONSUMPTION							
PASSENGER CARS PER THOUSAND POPULATION		2.0	5.0	6.4	29.1	13.5	53.4
RADIO RECEIVERS PER THOUSAND POPULATION		41.0	279.0	..	172.1	122.7	225.9
TV RECEIVERS PER THOUSAND POPULATION		0.5	25.0	37.0	67.9	38.3	102.6
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION		54.0	41.0	49.0	76.1	40.0	78.5
CINEMA ANNUAL ATTENDANCE PER CAPITA		..	4.0	5.6	4.2	3.7	3.6
LABOR FORCE							
TOTAL LABOR FORCE (THOUSANDS)		1400.0	1700.0	2172.0	.	.	.
FEMALE (PERCENT)		16.2	19.1	20.1	21.5	25.0	24.5
AGRICULTURE (PERCENT)		57.4	50.9	47.0	30.2	43.5	28.9
INDUSTRY (PERCENT)		19.4	22.2	24.0	23.8	21.5	30.6
PARTICIPATION RATE (PERCENT)							
TOTAL		32.5	31.7	31.6	30.9	33.5	33.8
MALE		54.3	51.0	50.2	47.3	48.0	51.3
FEMALE		10.5	12.2	12.8	13.3	16.8	16.3
ECONOMIC DEPENDENCY RATIO		1.5	1.7	1.6	1.5	1.4	1.3
INCOME DISTRIBUTION							
PERCENT OF PRIVATE INCOME RECEIVED BY							
HIGHEST 5 PERCENT OF HOUSEHOLDS		..	..	..	23.7	20.8	..
HIGHEST 20 PERCENT OF HOUSEHOLDS		..	..	..	58.7	52.1	57.6
LOWEST 20 PERCENT OF HOUSEHOLDS		..	..	..	2.9	3.9	3.4
LOWEST 40 PERCENT OF HOUSEHOLDS		..	..	..	9.9	12.6	11.0
POVERTY TARGET GROUPS							
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)							
URBAN		..	..	269.0	265.6	270.0	..
RURAL		..	..	183.0	185.1	183.3	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)							
URBAN		..	..	307.0	396.3	282.5	550.0
RURAL		..	..	77.0	308.1	248.9	403.4
ESTIMATED POPULATION BELOW ABSOLUTE POVERTY INCOME LEVEL (PERCENT)							
URBAN		..	..	40.0	35.2	20.5	..
RURAL		..	..	65.0	46.6	35.3	..

.. Not available
.. Not applicable.

NOTES

^{/a} The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.

^{/b} Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1974 and 1977.

^{/c} Latin America & Caribbean; ^{/d} Intermediate Middle Income (\$551-1135 per capita, 1976); ^{/e} Upper Middle Income (\$1136-2500 per capita, 1976); ^{/f} 1962; ^{/g} 1950-62.

Most Recent Estimate of GNP per capita is for 1978.

August, 1979

COUNTRY DATA - ECUADOR

AREA	POPULATION	DENSITY	
283,600 km ²	7.9 million (1978)	28 persons per km ²	
	Rate of Growth: 3.4% (1974-79)		
<u>POPULATION CHARACTERISTICS (1974)</u>		<u>HEALTH (1977)</u>	
Crude Birth Rate (per 1,000)	45.0	Population per physician	1,570
Crude Death Rate (per 1,000)	10.2	Population per hospital bed	990
Infant Mortality (per 1000 live births)	70.0		
<u>INCOME DISTRIBUTION (1975)</u>		<u>DISTRIBUTION OF LAND OWNERSHIP (1974)</u>	
Highest Quartile	70.0	% of farms: Below 5 ha.:	5.0
Lowest three quartiles	30.0	Above 50 ha.:	
<u>ACCESS TO PIPED WATER (1977)</u>		<u>ACCESS TO ELECTRICITY (1974)</u>	
% of Population Covered	46.1	% of Dwellings	41.2
		(Urban)	84.3
		(Rural)	11.6
<u>NUTRITION (1974)</u>		<u>EDUCATION (1974)</u>	
Daily Calorie intake per capita	1,985	Adult literacy rate (%)	74
Daily Protein intake per capita (grs)	37	Primary School enrollment (%)	102
GNP PER CAPITA IN 1978: US\$910 ^{1/}			

GNP PER CAPITA IN 1978: US\$910^{1/}

ECONOMIC INDICATORS

<u>GROSS DOMESTIC PRODUCT IN 1978</u>			<u>ANNUAL RATE OF GROWTH (% constant 1970 Sucres)</u>	
	<u>US\$ Mln.</u>	<u>%</u>	<u>1970 - 77</u>	<u>1978</u>
GDP at Market Prices	7,482	100.0	8.6	5.3
Gross Domestic Investment	1,970	26.3	11.1	- 7.7
Gross National Saving	1,809	24.2	7.0	27.2
Resource Balance	- 6	0.0	22.2	-
Exports of Goods, NFS	1,734	23.2	8.1	- 3.0
Imports of Goods, NFS	1,738	23.2	12.4	13.5

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1977

	Value Added ^{2/}		Labor Force ^{3/}		V. A. Per Worker	
	US\$ Mln.	%	Mln.	%	US\$	%
Agriculture	1,248	20.3	.943	43.1	1,323	47.1
Industry	2,188	35.6	.449	20.5	4,873	173.5
Services	2,716	44.1	.788	36.4	3,403	121.1
Unallocated	..	..	..	..	..	..
Total/Average	6,152	100.0	2.190	100.0	2,809	100.0

GOVERNMENT FINANCE

	(as percentage of GDP)		
	Average	1977	1978
	1970-76		
Current Receipts	20.2	17.8	23.1
Capital Receipts	1.4	1.0	0.2
Current Expenditures	13.0	14.1	20.1
Capital Expenditures	9.8	8.8	10.5
Deficit	- 1.2	- 4.1	- 7.3

MONEY, CREDIT and PRICES	1973	1974	1975	1976	1977	1978
	(Million sucres outstanding end period)					
Money and Quasi Money	12,515	17,430	19,816	26,814	32,238	36,215
Bank Credit to Public Sector (net)	- 53	-1,427	-2,134	-2,132	-4,972	-6,531
Bank Credit to Private Sector	11,444	16,441	21,340	29,018	36,354	43,649
(Percentages or Index Numbers)						
Money and Quasi Money as % of GDP	19.6	18.6	18.3	20.6	20.0	15.7
General Price Index (1970 = 100)	132.0	162.0	185.2	204.1	230.5	260.7
General Price Index (Growth rate yearly average)	12.0	22.7	14.3	10.2	12.9	13.1

.. not available
- not applicable

NOTE: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

1/ Social Indicators Data Sheet.

2/ Industry includes mining, manufacture, electricity and water and construction.

3/ Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job. Labor force for 1977 are estimated based on average annual growth rates by sector during the period 1972-76.

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

	1975	1976	1977	1978
	(Millions US \$)			
Exports of Goods, NFS	1110	1419	1603	1734
Imports of Goods, NFS	-1295	-1340	-1811	-1738
Resource Gap (deficit = -)	-185	79	-208	-4
Net Factor Payments	-67	-117	-170	-206
Net Transfers	32	31	36	40
Balance on Current Account	-220	-7	-341	-161
Direct Foreign Investment	95	-20	35	40
Net MLT Borrowing				
Disbursements	137	233	637	514
Amortization	-33	-56	-105	-247
Subtotal	104	177	532	267
Capital Grants	-	-	-	-
Other Capital (net)	-45	53	-114	-109
Other items n.i.e.	-	-	-	-
Increase in Reserves (-)	65	-203	-112	37
Gross Reserves (end year)	312	559	744	765
Net Reserves (end year)	257	457	613	646
Fuel and Related Materials				
Imports				
of which: Petroleum	14	7	9	9
Exports				
of which: Petroleum	617	737	651	558

RATE OF EXCHANGE (official Rate)

Since - 1971
US \$ 1.00 = 25 Sucres
S 1.00 = US \$0.04

MERCHANDISE EXPORTS (AVERAGE 1976-78)

	US \$ Mln.	%
Petroleum	648	45.9
Bananas	163	11.5
Coffee	220	15.6
Cacao	48	3.4
Fishery	37	2.6
All other commodities	297	21.0
Total	1,413	100.0

EXTERNAL DEBT, DECEMBER 31, 1978

	US \$ Mln.
Public Debt, incl. guaranteed	1.564 ^{1/}
Non-Guaranteed Private Debt	
Total outstanding and disbursed	1.564

DEBT SERVICE RATIO for 1978 ^{2/}

	%
Public Debt, incl. guaranteed	12.0 ^{1/}
Non-Guaranteed Private Debt	..
Total outstanding and Disbursed	12.0

IBRD/IDA LENDING, (Apr. 1979) (Million US \$):

	IBRD	IDA
Outstanding and Disbursed	77.2	36.5
Undisbursed	158.2	1.6
Outstanding incl. Undisbursed	235.4	38.1

.. not available
- not applicable

^{1/} Excludes military debt.

^{2/} Ratio of Debt Service of Goods and Non-Factor Services.

GUAYAQUIL AND GUAYAS PROVINCE
WATER SUPPLY PROJECT

(Loan 1030-EC)

1. This project has been on the Bank's list of problem projects for a number of years. The main project/loan features are summarized below:

<u>Loan Amount (US\$M):</u>	23.2	
<u>Date of Agreement:</u>	July 23, 1974	
<u>Date of Effectiveness:</u>	January 29, 1975	
<u>Closing Date:</u>		
Original Date:	June 30, 1978	
Present Date:	June 30, 1981	
<u>Project Cost (US\$M)</u>	<u>Total</u>	<u>Foreign Exchange</u>
Appraisal Estimate:	38.3	23.2
Current Estimate:	60.2	30.0
<u>Disbursements as of</u>		
September 30, 1979 (US\$M):		
Actual	9.4	
Appraisal Estimate:	23.2	
<u>Executing Agency:</u>	Guayaquil Water Supply	
	Agency (EMAP-G)	

Project Description

2. The project consists of (i) improvements and extension of the water supply systems in Guayaquil and the towns of Duran and Daule; (ii) provision of water by means of a pipeline to several towns on the arid Santa Elena peninsula; and (iii) preparation of a master plan for the Guayaquil water supply system for the year 2000, including a feasibility report for needs up to 1990.

Project Execution

3. This project has undergone repeated delays and is now about three years behind schedule. As the result of the slippages in execution, the project also faces cost overruns of about 60 percent. The main reasons for

the long delays are: (i) frequent management changes in EMAP-G; (ii) slippage in the hiring of consulting firms and changes in the firms responsible for project design and supervision; (iii) a year's delay in calling for bids on the Santa Elena pipeline on the grounds that it might conflict with the Daule-Peripa multipurpose project (for details on Daule-Peripa see Section F5 of the brief); and (iv) more recently, a lack of counterpart funds.

4. In 1978, the Government decided to proceed with the Santa Elena pipeline because it was found to be complementary to, and not in conflict with, the Daule-Peripa project. EMAP-G proceeded to award the pipeline's construction contract and work on the pipeline --the project's single largest component-- finally began. As of this writing, work is underway on approximately 90 percent of the project.

The Counterpart Funds Problem

5. The project faces a serious counterpart funds problem which the previous Government failed to resolve despite repeated assurances to the contrary. Unless the new Government provides the necessary funds, the project will be delayed still further and the Bank may be forced to consider a suspension of disbursements. The facts are outlined below.

6. EMAP-G requires S/525 million (\$21 million) from the Government through mid CY81 to complete the project. S/200 million (\$8 million) of this amount is needed through the end of CY79. After many delays, contractors are finally working on most of the project's components. Work may cease, however, unless the S/200 million needed between now and the end of the year is provided in a timely manner.

7. The military Government agreed in writing in 1975 to lend S/425 million (\$17 million) in counterpart funds to EMAP-G and to participating municipalities on the Santa Elena Peninsula. ^{1/} The loan was to bear an interest of three percent and to be repayable over 25 years. In the waning months of the regime, however, the former Finance Minister advised EMAP-G and the municipalities that the Government had unilaterally hardened the terms of the loan to 10 years and eight percent interest as part of a belated effort to introduce greater financial discipline in public sector agencies. EMAP-G and the municipalities would not be able to service this loan, however, unless more generous terms are offered.

^{1/} This amount corresponded to the best estimate of the project's counterpart needs at that time. Due to cost overruns, in 1978 the Bank estimated that the Government's contribution would have to increase by a minimum of S/100 million (\$4 million). The Government was so informed and promised to provide the additional S/100 million through FONADE (the National Development Fund). As of this writing, however, no action has been taken by the Government to firm up this financing commitment.

8. While the issue of the terms of the Government loan is an important one, it may take time to sort it out and negotiate a new loan agreement between the Government, on the one hand, and EMAP-G and the municipalities, on the other. Therefore, a Bank program mission which visited Ecuador in August, 1979, tried to persuade the new Government officials to provide the urgently needed counterpart funds at once, perhaps in the form of an advance. Bank staff were informed that the Government would review the matter and Leon Roldos, the President's brother, indicated that he would take a personal interest in resolving the problem. In Belgrade, the Ecuadorian delegation reiterated the Administration's concern over the lack of counterpart funds and promised prompt action to provide the needed funds in a timely fashion. As of this writing, however, there has been no evidence of Government action on this matter.

9. A political complication is that the Mayor of Guayaquil, who is also President of EMAP-G's Board of Directors, is a bitter political foe of Assad Bucaram, President of the Ecuadorian Congress. Mr. Bucaram has vowed to have the Mayor replaced and initially, at least, the new Administration appeared hesitant to incur Mr. Bucaram's wrath by providing funds to EMAP-G. As the rift between Roldos and Bucaram grows, however, this political consideration may fall by the wayside.

10. Should the problem of counterpart funds remain unresolved at the time Mr. McNamara visits Ecuador, he may wish to bring it up with the Government. This issue not only typifies the execution problems facing Bank projects in Ecuador but is also the single most important problem facing an ongoing Bank project in the country.

NOTE ON GUAYAS BASIN

1. Ecuador's Guayas River Basin in the country's Pacific coast is a region of tremendous agricultural potential. With about 2.8 million hectares of arable land and considerable transport and marketing infrastructure already in place, the area contains about 40 percent of Ecuador's population and produces about 90 percent of Ecuador's rice and 50 percent of its banana, coffee and cacao output. The region's agricultural potential is constrained, however, by rainfall patterns, salt water intrusion, and soil type. Eighty percent of annual rainfall, for example, occurs over a four-month period causing flooding and the heavy clay soils offer poor drainage throughout the year. Another feature of the area is the large but arid Santa Elena peninsula, whose good soils are presently lying fallow because of insufficient water resources.

2. Recognition of the area's agricultural importance has generated interest in developing the region as a whole since the early 1960's, when natural resource surveys began. Since that time, the Spanish, Canadians, OAS, IDB and World Bank have all assisted Ecuador in financing feasibility studies for the area.^{1/} The Guayas Basin Development Study Commission (CEDEGE) was established in 1965 to undertake the preparation of a regional development plan. In 1973, CEDEGE's authority was expanded to include the execution of such plans. After over seven years of study, CEDEGE selected as its initial stage of regional development the Daule-Peripa Multi-Purpose River Development Project, and sought financing from the IDB for its first phase.

Daule-Peripa Project

3. The \$350 million first phase of this project would set the stage for long-range control of water resources in the region --flood control in the rainy season and irrigation in the dry season---as well as for the agricultural development of the arid Santa Elena peninsula through a water transfer scheme. Additional benefits are contemplated for hydroelectric power generation at the dam site, and from additional supply of drinking water to the city of Guayaquil.

4. The first phase consists of the construction of (i) a 78 meter high dam on the Daule river, about 10 Km. below the confluence of the Daule and Peripa rivers, creating a reservoir with capacity for six billion cubic meters of water (enough for irrigating a potential 100,000 hectares of land) and future hydroelectric generation of 625 MW, and (ii) irrigation infrastructure for 17,000 hectares on the right bank of the Daule river.

5. The IDB is expected to consider a loan package of \$165 million (\$70 million in FSO funds, \$70 million in complementary financing at commercial rates, and \$25 million from the Venezuelan Trust Fund) in late October/early November for this first phase of the project. The rate of return presented in the IDB project report was only 8.5 percent even with some

^{1/} The Bank's First Technical Assistance Project (Loan 1230-EC) provided \$2.1 million for studies in the basin. Most of this is expected to be used for topographical surveying.

optimistic benefit calculations. The paper suggested, however, that later stages would have higher returns, taking into account sunk costs.

6. A minimum of \$300 million additional investment would be needed to attain benefits of power generation, potable water and extended irrigation (33,000 hectares on the Daule left bank and another 50,000 hectares in the Santa Elena peninsula). A tentative schedule for these investments runs to the end of this century and could require postponement of other development projects, given Ecuador's financial constraints.

7. Bank staff have questions about the first stage proposal as formulated. Our reservations are based on (a) the apparent lack of full analysis of alternatives, including possible lower-cost ways of making use of the basin's potential or different phasing of the proposed scheme and (b) the magnitude of the full-scale regional development investment plan, which could overtax the country's financial resources. The Bank's technical observations, which have been communicated to CEDEGE management, also refer to the project's power generation component. A master power plan defining a least-cost power investment program (including analysis of the Daule-Peripa site) has yet to be completed, although Bank funds have been available for it under Loan S-006 since mid-1977.

8. In the course of exchanges of information, Bank technical staff shared these concerns with IDB personnel but, in late 1978, a copy of a Bank memorandum containing some of these observations was leaked by IDB staff to CEDEGE. This resulted in tense relations between CEDEGE management and Bank staff. CEDEGE feared that the IDB would slow down its processing of the project, or drop it altogether, as the result of our comments. Thereafter, at the explicit request of CEDEGE in January of this year, we agreed not to exchange any further information on Daule-Peripa with the IDB.

9. The Bank's June 1979 Economic Report included a heavily-caveated priority ranking of Ecuador's investment projects, reflecting the findings of a mission which visited the country in mid-1978. This Report ranked the Daule-Peripa project as a low-priority investment on the basis of information available at that time. Extracts of the Report's references to this project and to the Guayas basin are attached.

Extracts on Guayas Basin and Daule-Peripa from
Ecuador - Development Problems and Prospects - Special Report (July 1979)

475. CEDEGE. Established in 1967 as a project preparation agency, CEDEGE (Comision de Estudios Para El Desarrollo de la Cuenca del Rio Guayas) is now implementing projects in its area of responsibility, the lower Guayas Basin. The basin covers 3.5 million ha or approximately half the coastal region of Ecuador. It is situated just south of the equator between a low coastal mountain range and the high Andes. Its climate is hot and humid, with average monthly temperatures ranging between 23° and 27° C and an average annual rainfall of 1,500 mm or higher. The Guayas basin had 2.3 million people in 1971, about one-third of the national population. In the period 1971-73, the population of the basin has grown at an estimated 5.4 percent per annum (5.2 percent in the city of Guayaquil) in comparison with the overall 3.4 percent growth rate for the country, thus indicating the extent of inter-regional migration into not only the metropolitan center but to the rural areas. The migrants, like the rest of the rural population, are confronted with adverse economic and social conditions. Health services and schooling are deficient.

476. The Lower Guayas Basin covers about 1.5 million ha, including the ecologically similar area extending to the Naranjal river. The lowlands have favorable conditions for substantial agricultural production similar to such areas as the river deltas of Mekong, Ganges, Irrawaddy and Mississippi. The soils are excellent but suffer from poor drainage and serious annual floods. According to recent estimates, at least 200,000 ha in the Basin are flooded every year because of river overflow and insufficient drainage of rainfall. The flooding and poor drainage cause large-scale crop losses (mainly rice), serious damage to roads and buildings, and poor sanitary conditions, especially in villages and small towns. Moreover, haphazard construction of roads and dikes, typically undertaken without access to any type of plan, is progressively worsening the situation.

477. CEDEGE has tended to concentrate attention on the potential of the coastal area for irrigation, with only secondary emphasis on flood-control and drainage. 1/ This concentration may result in part from a tradition of

1/ For example, studies are nearing completion for the Daule-Peripa project. At a cost on the order of US\$500 million to US\$600 million, the project would construct a dam to store 5.4 million m³ of water, irrigate 50,000 ha in the Daule watershed, provide water for Guayaquil and for 50,000 ha of irrigation in the Santa Elena peninsula, and produce 50 million Kwh of electricity. (These studies were initiated in the context of long-run energy development planning, and in recognition of the power-irrigation relationship, the impressive magnitude of the Guayas resource, and the considerable amount of time required to develop and analyze data for projects of this type. Like ongoing studies for other major projects, the Daule-Peripa studies provide an invaluable body of information for the public decision-making process, the appropriate time-phasing of project implementation, and the determination of the optimum national investment pattern for the years ahead.)

irrigation, largely rudimentary, practiced for centuries in the comparatively dry Sierra. The lack of emphasis on flood control and drainage in the Lower Guayas Basin is also due to the fact that a comprehensive long-range development plan has yet to be prepared. In turn, the latter has been caused in large part by absence of adequate basic data such as aerial photography in the center and eastern sections of the basin where flood control has to be carried out through a system of dikes, floodways, drainage canals and river channel improvements because sites for storage reservoirs are lacking. Such works, if properly planned and phased, would contribute to a very significant increase in the agricultural production of this fertile region (preliminary estimates range between 5 and 10 times) and to improving the living conditions of the rural poor. Moreover, these types of works are considerably less costly per ha, and higher yielding, than conventional irrigation projects, as well as being non-redundant with respect to any complementary irrigation development work which may be undertaken in the future.

478. CEDEGE's annual budget is about S/ 330 million, including foreign loans for the 11,000 ha Babahoyo project under implementation. Technical staff numbers about 120.

XIII. PUBLIC INVESTMENT

1. Major Public Sector Investment Projects, 1979-83

1026. Whether or not economic and social development can be given further momentum in the five-year period from 1979 to 1983 depends on the choice of sound public sector investment projects and on their efficient implementation. The public sector's ability to identify and prepare high-priority projects has been considerably enhanced compared with earlier years. There are now a fairly large number of projects in the pipeline for the Government and external aid agencies to consider for financing. There still remain, however, some important shortcomings in the planning and execution of projects to which reference has been made elsewhere in this report (ref. Chapter XIV).

1027. This chapter of the report presents a list of public sector projects (including some mixed public/private sector projects) for which external financing may be required during the five-year period (1979-83) (Table 72). These projects are at different stages of identification/preparation, which range from mere project concepts to fully prepared projects practically ready for implementation. Many projects, particularly those listed for implementation in 1980 or later will require considerably more work and planning effort before they can reach the implementation stage.

1028. Project Priorities. The projects list includes some 125 projects, involving a total estimated investment cost of about US\$6.8 billion ^{1/} (with a foreign exchange component of about US\$4.3 billion). ^{1/} It is clear that an investment of such magnitude will exceed by far the public sector's absorptive capacity and would strain the Government's financial resources. Many projects which are listed for implementation during 1979-80 may well be delayed and some dropped altogether. The list in its entirety does not necessarily reflect the Government's current priorities, at this time, except that some 22 projects in petroleum, road transport, electric power, industry and fisheries sectors which are advanced in preparation and have been singled out for early consideration for financing by external aid agencies (these projects are identified in the Project Briefs; ^{2/} see references to them in the "Mission's Comment" sections). The Bank Mission has attempted to give the projects listed its own rating ("A", "B", or "C" as indicated in the "Mission's Comment" sections) which are defined as follows:

^{1/} Preliminary estimates without adequate price and physical contingency provisions.

^{2/} For full version of Project Briefs see Volume II of the Development Problems and Prospects of Ecuador (grey cover report) No. 2373-EC of June 18, 1979.

- "A": Projects which, prima facie, appear feasible and worthy of pursuing as priority investments;
- "B": Projects which appear to be feasible and can be desirable investment propositions subject to availability of the required investment funds;
- "C": Projects which, on the basis of data available at this time, do not appear to be feasible on technical, economic or financial grounds, or may not qualify for financial support at this time.

The Bank Mission, in an attempt to formulate a project-specific five-year public investment program, has grouped all projects into three broad categories, taking into account the sectoral/subsectoral priorities advanced in this report, status of preparation of proposed projects and relevant intersectoral relationships. Included in the Mission's first category are projects which, in the Mission's judgment, appear to be feasible and should receive priority consideration for in-depth studies and when justified--financing during the 1979-83 period. The Mission's second category includes projects which, in the Mission's opinion, may also be feasible but should have a somewhat lesser priority than those included in the first category. The remaining projects, which constitute the third category, are a mixed group; the Mission has doubts on their priority or feasibility on technical, economic or financial grounds. It should be emphasized, however, that this tentative categorization of projects has been made on the basis of the presently available data; the position may change as feasibility studies are completed or new economic priorities may emerge, or, as new projects--not considered in this list--appear feasible and high in the new socio-economic priorities. It may change also if new projections of market conditions alter their economic rate of return. Finally, displacements of degree of absorptive capacity among public institutions as much as general changes in the absorptive capacity of the public sector as a whole may alter seriously the priority ratings established here. So, the Government, as well as potential external lenders, should take the Mission's listing and ranking as highly tentative and subject to further detailed analysis relevant to each project.

Table 72: PUBLIC SECTOR INVESTMENT PROJECTS: 1979-83

<u>Sectors/Projects</u>	<u>Est. Total Cost (US\$ million)</u>	<u>Est. External Financing Required</u>	<u>Est. Year of Commitment</u>
<u>Agriculture</u>			
<u>Credit/General Agriculture</u>			
Agricultural Storage and Marketing	20.0	10.0 (?)	1980
Cacao Rehabilitation	30.0	10.0	1979
Oriente Oil Palm	50.0	25.0 (?)	1980
Oilseeds Development	33.0	16.5	1979
Livestock Development	19.8	10.0 (?)	1979
Agricultural and Livestock Development in Carchi	132.0	24.5	1979
Milk Production	56.7	31.4	1979
Wheat Production	45.0	35.0	1979
Subtotal	385.5	162.4	
<u>Forestation</u>			
Cotopaxi and Pichincha Forestation	14.3	7.2	n.a.
<u>Irrigation/Drainage</u>			
Churute	4.0	3.0	1979
Manuel J. Calle	21.0	10.5	1979
Samborondon	20.0	10.0 (?)	1979
Chaupi-Palama	45.6	25.6	1980
El Artezan-El Angel-Mira	20.0	10.0	1979
Mocha-Tisaleo-Cevallos	3.6	1.8	1980
Pedro Moncayo	4.4	2.2	1979
Pillaro	12.0	7.2	1980
Pimanpiro	7.2	3.6	1981
Tabacundo	32.0	12.8	1979
Carrizal-Chone	66.0	33.0	1979
Daule-Peripa	220.0	165.0	1980
Santa Elena	150.0	100.0	1979
Jubones	100.0	50.0	1978
Naranjal Siete	32.0	16.0	1981
Rio Jama	42.1	21.5	1979
Subtotal	779.9	472.2	
<u>Land Settlement</u>			
Puerto Illa-Chone	40.0	20.0	1979
Nor Oriente Land Settlement	20.0	10.0	1980
San Miguel de Putumayo	n.a.	n.a.	n.a.
Subtotal	60.0	30.0	

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(Agriculture - Irrigation/
Drainage)

Project Name: Daule-Peripa

Location: Guayas Province

Executing Agency: CEDEGE (Comision de Estudios para el Desarrollo de la Cuenca del Rio Guayas)

Total Estimated Cost: \$220 million (for dam only); total cost: probably \$400 m.

External Financing Required: \$165 million (for dam only)

Expected Year of Commitment: 1980, subject to availability of finance.

Purpose of the Project: To provide for irrigation, drainage and flood control works in the Daule/Peripa basin; power generation; and drinking water supply for the city of Guayaquil. The project, extending over an area of about 32,000 km², would benefit approximately 2 million people. Some 90% of the annual rain in the project area falls during the January - May period. The project would allow year-round crop raising by irrigation, with increased production and diversity of crops.

Project Description: The project will include:

- (a) Daule-Peripa Dam over the Daule River, near its confluence with the Peripa River: The dam will be 80 m. high and 250 m. long, with a storage capacity of 5,400 million cubic meters. It will have two control towers of 9 m. diameter (1,700 m³/s) and three gates (17 m. wide and 8.5 m. high), with a maximum capacity of 3,500 m³/s;
- (b) Lateral dikes amounting to 12 km. in total length, of various heights up to 15 m. (average: 10 m.);
- (c) Power House: Four generators of 65,000 KW each, together with ancillary equipment;

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- (d) Balzar Dam: A dam built on the Daule River, 10 km. from Balzar City, after the confluence of the Daule and Puca rivers.

Under a first stage of development, irrigation, flood control and drainage works over an average of 30,000 ha. will be provided on both sides of the Daule River. In addition, water at a rate of 54 m³/s will be extracted from the Daule River for diversion to the Santa Elena Peninsula (about 44 m³/s of it for agricultural use over an area of 50,000 ha.) and the remainder 10 m³/s to provide drinking water for the city of Guayaquil.

Present Status:

- (a) A feasibility study on the Daule-Peripa dam will be completed by 1978;
- (b) A feasibility study on Balzar dam will be completed by 1979;
- (c) A feasibility study on the proposed irrigation and drainage system over 30,000 ha. of land has been completed. A flood control study is under way;
- (d) A feasibility study on water extraction from the Daule River for diversion to Santa Elena Peninsula has been completed.

Execution Period:

About four years.

Mission's Comment:

The project requires major investment of financial and manpower resources. The mission's priority rating: "C". Alternative investment opportunities in the lower Guayas, with lower cost per hectare than the Daule River development, should be considered before a commitment on Daule-Peripa project as proposed.

DISBURSEMENTS/REPAYMENTS/NET FLOWS: Cumulative to FY74, FY75-79 and FY80-82 (Projected)

Loan No.	Project Name	Cumulative Through FY74						Projected		
			FY75	FY76	FY77	FY78	FY79	FY80	FY81	FY82
51	Second Highway (IDA)	7.5	.1							
379	Second Highway	9.0								
501	Livestock Dev.	3.7								
124	Education (IDA)	1.2	1.3	.9	1.0	-	.2	.5		
555	Fisheries	2.1	.7	.6	.2	.1	.1	.5		
173	Second Livestock (IDA)	1.5								
222	Third Livestock (IDA)	2.5	2.7	.9	.5	3.4	.1	-		
721	DFC I	7.6	.2							
930	DFC II	.9	7.6	5.1	2.6	2.0	1.8			
286	Third Power (IDA)	3.7	.9	.8	.4	1.0	-			
425	Milagro Irrigation (IDA)	.1	.2	3.5	.4	.1	.1	.8	.3	-
1030	Water Supply	-	.2	.1	1.0	4.6	3.0	4.8	5.6	3.9
1157	Vocational Training				.2	-	-	1.6	2.2	-
1229	Seeds Project					.1	.5	1.0	1.4	-
1230	Technical Assistance					.1	.2	1.0	1.2	1.5
1231	Fourth Highway					1.3	2.5	2.2	3.1	1.4
1255	Second Port				1.0	-	7.6	8.2	10.4	6.2
1359	Third DFC					3.7	15.2	6.3	.8	-
1429	Fifth Highway					.1	3.4	6.8	7.2	-
S006	Technical Assistance II						.1	2.4	3.6	3.6
1459	Agricultural Credit							4.5	5.0	5.0
1644	Rural Development I							2.2	3.3	4.0
1731	DFC IV							10.0	10.0	10.0
	Gross Disbursements	<u>85.1</u>	<u>14.0</u>	<u>11.8</u>	<u>7.3</u>	<u>16.5</u>	<u>34.8</u>	<u>52.8</u>	<u>54.1</u>	<u>35.6</u>
	Principal Repayments	<u>32.4</u>	<u>4.0</u>	<u>4.9</u>	<u>5.4</u>	<u>6.1</u>	<u>5.8</u>	<u>7.9</u>	<u>10.7</u>	<u>13.7</u>
	Net Disbursements	<u>52.7</u>	<u>10.0</u>	<u>6.9</u>	<u>1.9</u>	<u>10.4</u>	<u>29.0</u>	<u>44.9</u>	<u>43.4</u>	<u>21.9</u>
	Interest and Charges	<u>29.5</u>	<u>2.9</u>	<u>3.3</u>	<u>3.5</u>	<u>3.8</u>	<u>5.4</u>	<u>8.0</u>	<u>11.0</u>	<u>14.0</u>
	Net Transfers	<u>23.2</u>	<u>7.1</u>	<u>3.6</u>	<u>-1.6</u>	<u>6.6</u>	<u>23.6</u>	<u>36.9</u>	<u>32.4</u>	<u>7.9</u>

ECUADOR

SUMMARY OF MAIN POINTS

POLITICAL SITUATION

1. Jaime ROLDOS and Oswaldo HURTADO, center-left candidates, were elected President and Vice President, respectively, after a smashing victory over conservative candidates on April 29, 1979. Their inauguration on August 10 marked the end of six years of military dictatorship for Ecuador. During the campaign, Roldos emphasized his commitment to democratic change, redistribution of wealth and attention to the poorest sectors of society. One of his main promises was to balance growth with social justice.
2. Despite its mandate, the Roldos Administration has been virtually paralyzed during its first two months by a growing rift between the President and Assad Bucaram--President of the Congress and head of the CFP, the party whose standard bearer Roldos was. Bucaram resents Roldos' independence. The President, on the other hand, has vetoed populist legislation passed by the Congress and is trying to create a new political party--the Force of Change Movement--to build up his own political base. Roldos must fend off not only the challenge from Bucaram but also maintain the armed forces--frequent participants in Ecuador's politics in the past--on the sidelines.
3. Despite his internal political problems, Roldos has carved out an important position for himself on the international scene as the forerunner of what many see as a growing Latin American trend towards democracy.
4. Although Vice President Hurtado would have far-reaching responsibilities for economic planning under the new Constitution, what role he will actually play in the Government has not yet been determined. Leon Roldos, the President's brother, is head of the Monetary Board but is also a far-reaching and influential troubleshooter for the President. His importance, however, is said to have caused resentment among other administration officials.

ECONOMIC SITUATION

Background

5. Ecuador is one of South America's smallest and least developed countries, a member of the Andean Group and OPEC and a small petroleum exporter. Its population was about 7.3 million in 1977 and its per capita income for the same year was \$770. Over one third of the country's inhabitants are indians, most of whom live in the Sierra outside the modern economy. The country has considerable agriculture potential, forestry and marine resources and oil. The economy's three most important sectors are agriculture, industry and petroleum which accounted for 20%, 16.8% and 16% of GDP, respectively in 1978. The petroleum sector has been mainly responsible for Ecuador's rapid growth during the seventies. It accounts for about 56 percent of export earnings and for about 30 percent of Government revenues.

Population

6. Ecuador's rate of population growth, 3.4 percent per annum, is South America's highest. Due to a high rate of migration to cities, the urban growth rate is even higher--4.8 percent per annum. Approximately 41.6 percent of Ecuador's people now live in urban areas versus about 29 percent in 1950. Although the Government is aware that rapid population growth is a problem, it has not yet developed a policy to tackle the problem. Ecuador's well entrenched and conservative Catholic Church would make launching an effective family planning program politically difficult.

Income Distribution and Employment

7. Despite the rapid growth of the economy during the seventies, much of the population continues to live in abject poverty. In 1975, the per capita income of the poorest 25 percent of urban dwellers was less than one fifth of the national average. The situation in rural areas is even worse. While open unemployment is only about 3 percent of the country's labor force, underemployment is estimated to be as high as 30 percent.

8. Ownership of land and of other productive resources is highly skewed. Farms of less than 5 hectares, for example, account for 75 percent of the number of farms in the country but for only 11 percent of the arable land. On the other hand, the relatively small number of farms exceeding 50 hectares in size account for 61 percent of total land holdings.

9. An interesting development during the seventies was the emergence of an important urban middle class. This group--made up mainly of small entrepreneurs, civil servants and the employees of modern firms--has been the major beneficiary of the oil boom years.

10. The new Government is committed to promoting Ecuador's growth while more equitably distributing the fruits of this expansion. To do so, it will have to push for greater investments which would directly benefit the rural and urban poor (e.g., feeder roads, rural development projects, and small scale enterprise credit). This the Government seems prepared to do but may find to be politically difficult in view of competing demands for scarce Government funds from other projects. The Government would also have to take tough policy decisions to ease Ecuador's distributional problems. One would be to reverse present industrial policy which supports capital-intensive, import substitution industries which make little use of Ecuador's abundant human resources or raw materials. Another action would be to raise internal petroleum prices which mainly benefit Ecuador's middle and upper classes. Both measures would, however, be politically costly.

Economic Growth

11. Ecuador's GDP grew at an annual average rate of about 5 percent during the 1950s and 1960s. The growth rate increased sharply to 8.3 percent p.a. between 1970-78. The basic factors for this growth --South America's most rapid except for Brazil-- were petroleum exports, favorable terms of trade and high rates of savings and investment.

12. Ecuador's growth prospects for the medium term are good but considerably below the levels experienced during the seventies. In 1979, GDP is estimated to have grown at only five percent and the rate of growth is expected to continue at this more modest pace during the next few years. Factors expected to constrain growth include: (i) a marked slowdown in private sector investment during 1978/79 owing to the uncertain political climate; (ii) low investment in recent years in the petroleum sector, which has resulted in stagnating output at a time when domestic consumption of petroleum products has been growing rapidly; (iii) a slowdown in agricultural development; (iv) the Government's tight fiscal situation which will inhibit public investment; and (v) the weakness of the public sector which makes project preparation and execution difficult.

Foreign Debt

13. Although Ecuadorian Governments have traditionally followed a policy of prudent external debt management, the former military Government contracted over US\$500 million in new debt each in 1977, 1978 and again in 1979. As the result, Ecuador's public debt has ballooned to about 3.1 billion dollars, including the military debt. Excluding the latter, the external debt stands at about \$2.1 billion. More importantly, the average maturity of the debt has shortened sharply from 19.6 years in 1970-73 to only 11 years in 1975-78. This shortening reflects a shift from bilateral and multilateral borrowing to private sources of foreign credit. While Ecuador's debt service ratio is still manageable (about 16 percent in 1980 and projected to grow to about 25 percent by 1985) the new Government will have to exercise care in its external debt management to ensure that the external debt does not get out of control. The new Government seems to be moving in this direction and has indicated that it intends to make greater use in future of official financing from bilateral donors and international agencies, like the Bank.

Fiscal Deficit

14. The size of the Central Government's fiscal deficit has grown from about 1 percent of GDP annually during the 1972-76 period to an estimated 7.7 percent of GDP in 1979. This has been due to stagnating oil revenues, a slackening of Ecuador's nonpetroleum tax effort and rising expenditures. The new Administration is hopeful that it will be able to reduce the deficit in 1980 to about 4.4 percent of GDP. It has submitted to Congress a budget which would reduce expenditures and which assumes that non-oil revenues will increase as the result of new duties/taxes and improved tax administration. As of this writing, however, Congress has not yet acted upon the new Government's 1980 budget and it may prove politically impossible to rein in expenditures and to enact new tax measures. Taking action on rationalizing domestic prices for petroleum --something the new Government has not yet done-- would go a long way towards relieving Ecuador's fiscal difficulties.

TOPICS FOR DISCUSSION

Project Execution

15. Ecuador suffers from a peculiar inability to prepare and carry out projects. Although a shortage of counterpart funds has recently delayed some operations, the weakness of the country's public sector has been principally responsible for the disappointing performance in this area. One result of the project execution problem is that about \$160 million in Bank funds are currently committed but undisbursed for 15 projects. Another, is that several Bank operations are currently designated "problem projects" and are advancing slowly, or not at all. An example of this is the Guayaquil and Guayas Province Water Supply project. Mr. McNamara may wish to stress the need for improved project preparation and implementation. In this regard, he may point out that we are open to considering modifications in the design of ongoing projects. He might wish to add that unless the Bank and Ecuador successfully meet the challenge of improved project execution and preparation, it would be difficult for us to justify a major increase in our future lending to the country.

Future Lending

16. The Bank hopes to develop a lending program which should build up to three projects per year and to commitments of about \$100 million annually. The proposed program would blend infrastructure development with support for productive activities and projects to improve living conditions for the country's urban and rural poor. Technical assistance and institution building would be important features of our new projects.

17. A Bank programming mission will visit Ecuador in January to firm up a project pipeline for the next few years. Meanwhile, we expect to present a \$31 million loan for the Guayaquil Urban Development Project to our Board in mid-December. We are also working on a \$40 million feeder roads project, a \$25 million small scale enterprise scheme, a \$25 million loan for a second rural development project, a petroleum project, and loans to expand the Manta fishing port and to assist the National Power Company (INECEL) in its inter-connection project.

Consultative Group Meeting

18. Should the Ecuadorians mention the Consultative Group (CG), Mr. McNamara may wish to say that the Bank welcomes this initiative and is prepared to work with the Government on mounting a CG at a mutually convenient time. The Government would first, however, have to update its project list to take into account its own priorities. The CG and its timing could be discussed at the January programming mission.

Resident Office in Quito

19. Ecuadorian authorities may request that the Bank open a resident office in Quito. Mr. McNamara may wish to state that the Bank is prepared to review the office's establishment but that no firm commitment can be made now because of tight budgetary constraints. He might also point out that there are few field offices in Latin America. An alternative to the office would be for the Government to follow-up closely itself on project preparation and implementation. It could designate, for example, a team of aggressive "project expeditors". Both the President and the Vice President are receptive to this idea. Mr. McNamara might also wish to mention that Mr. Wiener agreed in Belgrade to a request made by Mr. Salgado, General Manager of the Central Bank, to visit Quito later this year or in early 1980 to assist the Government in its efforts to identify and overcome major bottlenecks in the public administration.

Government Development Strategy

20. The new Administration is currently drawing up its development strategy. In this regard, Mr. McNamara may wish to get the Government's views on agricultural and industrial policy and on how it intends to maintain economic growth while at the same time achieving better income distribution. He might also inquire into the new institutional arrangements which will have an impact on the formulation of economic policy. Information on future roles of the Vicepresidency, the Planning Board and the National Development Council in managing the economy would also be interesting.

Petroleum Sector Policies

21. Ecuador's petroleum sector is faced by two main problems: i) stagnating production and declining reserves; and ii) rapidly growing domestic consumption due to low prices.

22. Owing to a sharp fall-off in exploration during the mid-70s, Ecuador's production of crude has stagnated at about 200,000 barrels per day and its proven reserves have declined from about 1.5 billion barrels in 1974 to an estimated 1.1 billion barrels today. At the current rate of exploitation, and assuming no new discoveries, these reserves would be exhausted in less than 15 years. The military government belatedly took action to step-up exploration and introduced changes in the hydrocarbons law designed to encourage exploration in Ecuador by foreign oil companies. These changes have, however, so far failed to entice much interest. Texaco is the only international oil company actively engaged in exploration in Ecuador. It does so as a minority partner of a consortium in which the National Petroleum Company (CEPE) has over 60 percent of the shares.

23. The second major problem facing the sector stems from the low domestic price of petroleum, perhaps the single greatest distortion in the economy.

A gallon of gasoline in Ecuador costs only 18 ¢. This is one of the world's lowest prices and has not changed since 1975. It is, in great part, responsible for a 16 percent p.a. increase in the domestic consumption of petroleum products. Today, about a third of Ecuador's petroleum is consumed nationally, up from 23 percent in 1975. If present trends continue, Ecuador may become a net importer of petroleum by the mid-1980s.

24. Against this background, Mr. McNamara may wish to inquire how the Government proposes to stimulate exploration and how and when it will tackle the pricing problem. He might add that the Bank is ready to provide financing for the petroleum sector but that it would be impossible to justify lending to our Board without a package of measures aimed at rationalizing petroleum sector policies.

The Daule-Peripa Project

25. The U.S. Executive Director at the IDB Board has requested postponement of the vote on a \$165 million loan to help finance the first stage of the Daule-Peripa Project. Some in Ecuador mistakenly believe that the World Bank has actively lobbied against this project. Should this be mentioned, Mr. McNamara may wish to assure the Ecuadorian authorities that the Bank has not worked against Daule-Peripa. The project was never formally presented to us for financing. Consequently, the Bank has never done an in-depth appraisal of its merits and has so informed U.S. Treasury officials who have sought our views on it. Bank staff have always suggested that queries on Daule-Peripa should be addressed to IDB personnel. While it is true that our 1979 Economic Report put Daule-Peripa into the third and lowest priority ranking of projects, the entire rating system is heavily "caveated". It was a tentative exercise based on a necessarily quick review of Ecuador's investment needs. Moreover, the Economic Report was officially cleared by the earlier Government. Mr. McNamara may wish to round out his comments on this point by advising Ecuadorian authorities that the Bank is generally interested in supporting the Guayas Basin's development and has, in fact, a number of projects in the pipeline to assist in this process.

THE ANDEAN GROUP

1. Bolivia, Colombia, Chile, Ecuador and Peru signed the Treaty of Cartagena (Colombia) in May 1969 establishing the economic union known as the Andean Group. Venezuela joined the Group in 1973 and Chile withdrew from it in 1976. The Andean Group's main objectives were: (a) to gain a negotiating power both within LAFTA (Latin America Free Trade Association, created in 1960) and vis-a-vis countries and blocs of countries outside Latin America; (b) to establish conditions for the creation of a common market through a balanced complementary economic development; and (c) to accelerate growth of the integrated group.

2. To generate faster growth, the strategy originally designed and at least partly followed consisted in accelerating industrialization through import substitution. Capital intensive and large scale processes --such as production of steel, capital goods, automobiles, petrochemicals-- were emphasized. This called for both high protection and a broader market. The geographical location of these "integration" industries was to be distributed so that their benefits would be spread around within the Region. Since all Andean Group countries did not enjoy comparable levels of development, however, a special treatment was to be applied to Bolivia and Ecuador, the less developed members of the Group.

3. To implement the above political, technical and financial institutions were created. The Political Committee decides on all issues, except those of a clearly administrative and financial character. The Group created a Secretariat (Junta) which makes technical proposals to the Committee. Finally, the Andean Development Corporation (CAF) finances some industrial projects. The Junta is located in Lima and CAF is headquartered in Caracas.

4. The main achievements of the Andean Group have been: (a) the regional distribution of a number of basic industries; (b) establishment of regulations to give a common treatment to foreign capital; and (c) establishment of a common external tariff.

5. Distribution of new investments has been decided for the petrochemical, machinery and automobile industries. This has been a slow process, however, and nothing has yet been decided for a number of industries. Some of the investments which Ecuador expects to undertake within the Andean Group's framework are doubtful because of their high capital intensity, low use of domestic raw materials, limited market for the final products and uncertain export possibilities outside the Group. The large investments being contemplated for "integration" industries are not consistent with the broad goals of employment generation and better distribution of income. The Bank's Economic Report issued in June 1979, drew attention to this fact.

6. Although the Andean Group's success in economic integration has been modest, its member countries are playing a unified political role. The Group acted in unison on the Panama Canal Treaty issue and, more recently, in supporting the change of Government in Nicaragua. Finally, the Group has been lobbying strongly against trade barriers raised by the U.S. and the EEC.

7. A table giving indicators for the Andean Group is attached.

ANDEAN PACT INDICATORS

	Population		Area (thous. square km)	GNP		GNP Per Capita		Exports		Imports	
	1977 (thous.)	Growth 1970-77 (% p.a.)		1977 (US\$ million)	Growth 1/ 1970-77 (% p.a.)	1977 (US\$ million)	Growth 1/ 1970-77 (% p.a.)	1977 (US\$ million)	Growth 2/ 1970-77 (% p.a.)	1977 (US\$ million)	Growth 2/ 1970-77 (% p.a.)
VENEZUELA	13,500	3.1	912	35,910	5.7	2,660	2.5	9,548	- 10.5	10,353	14.0
COLOMBIA	24,600	2.8	1,139	17,712	6.4	720	3.5	2,302	- 1.2	1,563	- 0.8
ECUADOR	7,300	3.5	284	5,767	9.2	790	5.5	1,218	9.0	1,508	12.3
PERU	16,400	3.0	1,285	13,776	4.6	840	1.6	1,564	- 4.4	1,911	4.8
BOLIVIA	5,200	2.7	1,099	3,276	6.0	630	3.2	641	3.5	618	11.5
TOTAL	67,000		4,719	76,441		1,141		15,273		15,953	

Memorandum Item:

BRAZIL	116,100	2.8	8,512	157,896	9.8	1,360	6.8	12,054	6.5	13,229	7.9
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Source: The World Bank, World Development Report, 1979 August, 1979.

- 1/ GDP was used.
2/ In real terms.

C

THE STATUS OF BANK GROUP OPERATIONS IN ECUADOR

A. STATEMENT OF BANK LOANS AND IDA CREDITS* (as of September 30, 1979)

				-----US\$ million----- (less cancellations)		
Loan or Credit Number	Fiscal Year	Borrower	Purpose	Amount Bank	IDA	Undisbursed
10 loans and 4 credits fully disbursed				85.5	28.0	
124	1968 (IDA)	Ecuador	Education	-	5.2	.5
555	1969	Ecuador	Fisheries	4.3	-	.5
425	1974 (IDA)	Ecuador	Irrigation	-	5.5	1.1
1030	1974	Empresa Municipal de Agua Potable de Guayaquil	Water Supply	23.2	-	13.8
1157	1975	Ecuador	Education	4.0	-	3.8
1229	1976	Ecuador	Seeds	3.0	-	2.4
1230	1976	Ecuador	Technical Assistance	4.0	-	3.6
1231	1976	Ecuador	Highways	10.5	-	5.9
1255	1976	Guayaquil Port Authority	Ports	33.5	-	23.4
1359	1977	Ecuador	DFC	26.0	-	6.9
1429	1977	Ecuador	Highways	17.5	-	13.6
1459	1977	Ecuador	Agriculture	15.5	-	15.5
S006	1978	Ecuador	Technical Assistance	11.0	-	10.8
1644	1978	Ecuador	Rural Development	18.0	-	18.0
1731**	1979	Ecuador	DFC	40.0	-	40.0
Total				296.0	38.7	159.8
of which has been repaid				60.6	0.6	
Total now outstanding				235.4	38.1	
Amount sold				4.1		
of which has been repaid				1.8	2.3	-
Total now held by Bank and IDA				233.1	38.1	
Total undisbursed				158.2	1.6	159.8

*Includes exchange adjustments.

**Approved but not yet signed.

B. STATEMENT OF IFC INVESTMENTS (as of September 30, 1979)

<u>Fiscal Year</u>		<u>Type of Business</u>	<u>-Amount in US\$ Million-</u> <u>Loan</u>	<u>Equity</u>	<u>Total</u>
1966 & 1972	La Internacional, S.A.	Textiles	3.7	0.3	4.0
1969, 1973, 1975 & 1977	Compania Financiera Ecuatoriana de Desarrollo, S.A. (COFIEC)	DFC	-	0.4	0.4
1976	Sociedad Agricola e Industrial San Carlos, S.A.	Sugar Mill	5.0	-	5.0
1978	La Cemento Nacional CEM	Cement	<u>12.0</u>	<u>1.0</u>	<u>13.0</u>
	Total gross commitments		20.7	1.7	22.4
	Less cancellations, terminations repayments and sales		<u>3.4</u>	<u>0.5</u>	<u>3.9</u>
	Total commitments now held by IFC		<u>17.3</u>	<u>1.2</u>	<u>18.5</u>
	Total undisbursed		<u>11.5</u>	<u>0.2</u>	<u>11.7</u>

PAST LENDING TO ECUADOR

(By Fiscal Year and in 5-year Sub-periods)

<u>FY1950-54</u>		<u>US\$ Million</u>
Loan 94	Highways I (1954)	7.5
		<u>7.5</u>
<u>FY1955-59</u>		
Loan 137	Power I (1956)	5.0
Loan 176	Highway Maintenance (1958)	14.5
Loan 177	Power II (1958)	5.0
Loan 212	Ports I (1959)	13.0
		<u>37.5</u>
<u>FY1960-64</u>		
Loan 379	Highways II (1964)	9.0
Credit 51	Highways II (1964)	9.1*
		<u>18.1</u>
<u>FY1965-69</u>		
Loan 501	Livestock I (1967)	3.7
Credit 124	Education (1968)	5.2*
Loan 555	Fisheries (1969)	4.3
		<u>13.2</u>
<u>FY1970-74</u>		
Credit 173	Livestock II (1970)	1.8*
Credit 222	Livestock III (1971)	10.1*
Loan 721	DFC I (1971)	7.8
Credit 286	Power III (1972)	7.0*
Loan 930	DFC II (1973)	20.0
Credit 425	Milagro Irrigation (1974)	5.5
Loan 1030	Water Supply I (1974)	23.2
		<u>75.4</u>
<u>FY1975-79</u>		
Loan 1157	Vocational Training (1975)	4.0
Loan 1229	Seeds (1976)	3.0
Loan 1230	Technical Assistance I (1976)	4.0
Loan 1231	Highways IV (1976)	10.5
Loan 1255	Ports II (1976)	33.5
Loan 1359	DFC III (1977)	26.0
Loan 1429	Highways V (1977)	17.5
Loan 1459	Agricultural Credit (1977)	15.5
Loan S-006	Technical Assistance II (1978)	11.0
Loan 1644	Tungurahua Rural Development (1979)	18.0
**Loan 1731	DFC IV (1979)	40.0
		<u>183.0</u>
TOTAL		334.7
		=====

* Includes exchange adjustment

** Approved but not yet signed

C. PROJECTS IN EXECUTION

Credit 124-EC - Education Project: US\$5.1 million Credit of June 27, 1968;
Effective Date: August 30, 1968; Closing Date: December 31,
1980.

The project has faced difficulties from the start and is now about seven years behind schedule. Many of the 28 schools involved still require some work, consisting primarily in the completion of laboratories and workshops and in the installation or completion of electricity, water and sewerage connections. The credit's closing date has, therefore, been extended a sixth time to end 1981. The new Government has indicated its willingness to complete the project and an inventory of the work remaining to be done has been prepared. The construction/rectification process is progressing slowly.

Loan 555-EC - Fisheries Project; US\$5.3 million Loan of September 5, 1968;
Effective Date: September 4, 1969; Closing Date: March 31,
1980.

The first component of the project, tuna purse-seiner financing, was scaled down from 12 to 4 vessels owing to a less than anticipated demand and is now completed. A second component, the Manta Fishing School, is now operational although a dispute with the consultant responsible for the training program has somewhat weakened the school's effectiveness. The detailed design of facilities proposed for Manta Port has been completed. A fish marketing study, the final component of the project, has just begun and should be completed by year-end or early in 1981.

Credit 425-EC - Milagro Irrigation Project; US\$5.5 million Credit of August 17,
1973; Effective Date: January 17, 1974; Closing Date:
December 31, 1980.

The project aims at increasing agricultural production in an area covering about 11,300 ha. More than 80 percent of the Credit for irrigation and road infrastructure, equipment and vehicles has been disbursed. However, there is an urgent need to plan and implement on-farm development, including provision of production-supporting services such as applied research, agricultural extension and credit. Land titling is also lagging. Reprogramming of project activities by INERHI--in consultation with the Ministry of Agriculture (MAG) and the National Research Institute (INIAP) and assisted by outside consultants--is nearing completion.

Loan 1030-EC - Guayaquil and Guayas Province Water Supply Project; US\$23.2 million Loan of July 23, 1974; Effective Date: January 29, 1975; Closing Date: June 30, 1981.

Project execution has been delayed by frequent managerial changes, lack of counterpart funds and slippages in the hiring of consultants. As a result, the project is now about three years behind schedule. Recently, project execution has improved and construction is now underway on 90 percent of the project components. Because of the delays, however, the project faces severe cost over-runs and a serious problem of counterpart funds. More specifically, the water company requires US\$21 million equivalent from the Government through mid-CY81 to complete the project. US\$8 million of this amount are needed through the end of CY79 to avoid further major delays. More details on this problem project are contained in section F4 of the briefing book.

Loan 1157-EC - Vocational Training Project; US\$4.0 million Loan of September 3, 1975; Effective Date: November 24, 1975; Closing Date: September 30, 1980.

Project implementation is 2-1/2 years behind appraisal schedule due to frequent managerial changes, serious financial problems and technical difficulties with the design and space standards of the Quito and Guayaquil training centers. A new Vocational Training Law was enacted in October 1978 which is expected to resolve many of the financial and management problems which have been encountered. Bidding for construction of the training centers is expected to take place shortly. The closing date was extended by two years to permit the project's conclusion.

Loan 1229-EC - Seeds Project; US\$3 million Loan of May 24, 1976; Effective Date: October 20, 1976; Closing Date: June 30, 1980.

Project execution and loan disbursement have proceeded more slowly than anticipated, particularly regarding the civil works and equipment for the seed processing facilities to be carried out under the project. However, the implementing institutions (National Seeds Council, Improved Seeds Company, Department of Seed Certification and the Project Unit) have now been established and staffed. Procurement is underway and two experts have been hired. The Government has reviewed the organization and status of the Project Unit and the Seeds Certification Department and has provided them with greater autonomy.

Loan 1230-EC - Technical Assistance Project; US\$4.0 million Loan of May 24, 1976; Effective Date: October 20, 1976; Closing Date: December 31, 1980.

This is one of the Bank's problem projects in Ecuador and disbursements stand at only about US\$400,000, three and a half years after loan signing. The National Rural Development Planning Unit (UNDER) has been established within the Planning Board but delays in hiring of experts as well as its own staff's lack of planning experience has hampered its effectiveness. Preparation of the Guayas and Esmeraldas River Basin studies have experienced substantial delays. Altogether, disbursements are about 2-1/2 years behind schedule. On the brighter side, contractors for the study of the Ambato wholesale market are being selected and a rice irrigation feasibility study is

underway. In addition, the studies for the Tungurahua project financed in FY79 were financed under this loan. The Bank has proposed the possibility of redesigning the project to the new government in order to better tailor it to the country's needs and to speed up disbursements.

Loan 1231-EC - Fourth Highway Project; US\$10.5 million Loan of May 24, 1976; Effective Date: October 13, 1976; Closing Date: December 31, 1979.

After an initial delay of twelve months in the contracting process, all civil works and technical assistance elements under the project are in execution and advancing satisfactorily, although civil works are about six months behind the contractors' schedule. By September 30, 1979, US\$4.6 million had been disbursed. The technical assistance programs are already showing their positive effects on highway planning, engineering and maintenance. However, an extension of the project closing date by about one and a half years is expected to permit completion of the preparation studies for a rural development project in the Puerto Ila-Chone area, as well as civil works.

Loan 1255-EC - Second Guayaquil Port Project; US\$33.5 million Loan of May 24, 1976; Effective Date: March 11, 1977; Closing Date: December 31, 1981.

Although design and price disputes initially hindered the project's execution, works are now progressing satisfactorily and project problems are minor. Dredging and reclamation have been completed, piling and decking of the wharfs have advanced to about 30 percent, and buildings and other structures on land are 20 percent complete. By September 30, 1979, 38 percent of the loan amount (or US\$10.1 million) had been disbursed. Civil works are expected to be completed by August 1980 and the entire project by June 1982. A short formal extension of the closing date may be necessary.

Loan 1359-EC - Third Development Banking Project: US\$26.0 million Loan of February 18, 1977; Effective Date: August 9, 1977; Closing Date: June 30, 1981.

This project is one of the Bank's success stories in Ecuador. Project commitments have proceeded faster than anticipated and disbursements now stand at US\$19.1 million. The new financieras that were expected to receive US\$3 million under this loan, however, have not been able to meet the criteria required for participation. At the Government's request, therefore, the project is being modified to permit these financieras to have access to Bank funds through CFN, Ecuador's largest finance company.

Loan 1429-EC - Fifth Highway Project; US\$17.5 million Loan of September 22, 1977; Effective Date: January 10, 1978; Closing Date: June 30, 1981.

Construction of the Duran-Boliche and the Puerto Ila-Doblones roads is proceeding on schedule. Design changes on the Duran-Boliche road have generated an increase in costs which is expected to be partly offset by a reduction in costs on the other road. Engineering design of feeder roads in

Puerto Ila-Doblones region has been completed, with construction of these roads to begin after the rainy season ends. The study of regional secondary and feeder roads in three southern provinces is proceeding satisfactorily; the final report for this component is being drafted. By September 30, 1979, US\$3.9 million had been disbursed.

Loan 1459-EC - Agricultural Credit I Project; US\$15.5 million Loan of November 3, 1977; Effective Date: June 14, 1978; Closing Date: December 31, 1982.

The Loan continues a program of credit for livestock development financed under three previous loans and credits, and has been broadened to cover crop farms, small rural industries and local consulting services. In addition, there are applied research and technical assistance components. The National Development Bank (BNF), the largest lender in the agriculture sector, delayed participation in the project for over a year but recently signed a subsidiary agreement with the Central Bank. This brought to thirteen the number of banks and financieras that will participate. Arrangements have been made with the Ministry of Agriculture and Livestock (MAG) and a regional development agency (CREA) to coordinate the provision of extension services with development credit to small farmers. Disbursements are now expected to begin.

Loan S-006-EC - Second Technical Assistant Project; US\$11.0 million Loan of November 3, 1977; Effective Date: March 1, 1978; Closing Date: January 31, 1982.

This project has moved ahead at a disappointingly slow pace and eighteen months after effectiveness, only about US\$200,000 has been disbursed from the loan. A contract has been signed for only one of ten selected studies (the Petrochemical Study) and work is progressing on drafting satisfactory terms of reference and on bidding and contracting for some of the others. The project list has undergone revision and a final list is being prepared with the new government. Two of the four experts to be hired under the project have been recruited and are posted; their services are being paid for by UNDP.

Loan 1644-EC - Tungurahua Rural Development Project; US\$18 million Loan of May 11, 1979; Effective Date: September 28, 1979; Closing Date: June 30, 1985.

This integrated rural development project recently became effective and execution is expected to begin soon. A Project Unit has been established and experts are being recruited.

Loan 1731-EC - Fourth Development Finance Project; US\$40 million Loan.

This project was approved June 19, 1979 and is expected to be signed prior to Mr. McNamara's visit to Ecuador in November-1979.

Summary Descriptions

Proposed Bank Lending to Ecuador

During the Next 18 Months

1. Guayaquil Urban Development (\$31 Million, FY80): The project is aimed at building institutional capacity within the Municipality of Guayaquil and the national housing bank (BEV) for future urban development efforts, while directly improving living conditions for about 100,000 persons, ten percent of the population of Guayaquil. Private sector banks would offer artisan credit while the government entity charged with promoting small industry, CENAPIA, would provide technical assistance to small businesses. The Municipality of Guayaquil would build sites and services for 3200 lots in an area north of the city (Alegria), as well as coordinate urban improvements in two slum areas (Guasmo North and Lotización Mapasingue). The Banco de la Vivienda would offer 6,000 home improvement and 3200 construction loans in all project areas plus the Suburbio (the town's largest, oldest slum) as well as carry out a small 500-lot sites and services activity in an area called Floresta. Important emphasis would also be placed on (a) regularizing the land tenure system in neighborhoods benefitted by the project; and (b) involving the community in project execution. This proposed loan would cover 60% of the total cost of \$51 million, including all foreign exchange costs and \$24 million in local costs.
2. Small Scale Enterprise Credit (\$25 Million, FY81S): A complement to the Bank's four DFC loans, this project would strengthen channels of credit to small enterprises and provide technical assistance to public agencies currently responsible for this sector (such as CENAPIA). Interest rates to small entrepreneurs would be consistent with other Bank/Government programs in industrial finance (DFC's III and IV and rural industry), so as to assure positive incentives to financial intermediaries which work with this sector.
3. Highways VI (\$40 Million, 81S): This is a loan to finance (i) improved access to the Oriente region of Ecuador by improving the Rio Blanco-Puyo road; (ii) upgrading of about 1,000 Kms. of feeder roads in the provinces of Guayas, Los Rios y El Oro; (iii) preparation of a feeder road program in the Oriente, and (iv) institutional improvements, particularly in the field of road maintenance.
4. Rural Development II (\$25 Million, FY82S): An integrated rural development project involving the towns of Puerto Ila, Chone, Garrapata and Doblones in the central coastal region. Components would include: credit, extension, marketing and storage services, feeder roads and social infrastructure. Feasibility studies for this project were prepared under the Fourth Highway loan, as an analysis of areas of influence of highways being constructed.
5. Petroleum I (\$70 Million, FY82S): Contents, amount and timing depend on Bank/Government agreement on selection of components. Appraisal of this project has been delayed due to lack of progress on the part of CEPE, the government-owned oil company, in preparing necessary studies, and also to government inaction on gasoline price issue (see main text

of Brief). Potential components include (i) rehabilitation of existing oil fields in the Santa Elena peninsula, (ii) secondary recovery in Sacha and Shushufindi oil fields, (iii) construction of an oil pipeline from La Libertad to Guayaquil and (iv) exploration both offshore and in the Oriente regions. The new Government is in the process of defining its priorities among these components. Given the remaining preparation work to be done on the Sacha-Shushufindi portion, one solution (suggested to the government) is the appraisal of a smaller (\$25 million) loan for the immediate future (FY82S) which could include Santa Elena rehabilitation and seismic exploration. A second much larger project for funding in some two years would continue to be prepared.

6. Our pre-condition to proceeding with any petroleum sector lending is government action on domestic petroleum pricing. Recent conversations with the new Government indicated that new cabinet officials are at work on a politically palatable set of actions (e.g. higher charges for bunker fuel used in generation of thermoelectricity, higher license and import charges on large cars, and introduction of a higher octane gasoline at increased price).

7. Third Port (\$10 Million, FY80R): Studies are completed for this with exception of market analysis of demand for fish products, for which a contract was recently executed. The new government is reviewing development priorities but has indicated its interest in concentrating on Manta Port in the immediate future.

8. Power Distribution (\$30-40 Million; FY82R): Discussions concerning this project have only recently begun, but preparation of the project by INECEL is advanced. The second phase of a major electrical interconnection system would be financed, including construction of transmission lines and substations.

Population: 7.3 million (1977)

GNP Per Capita: \$770 (1977)

Land Area: 283,600 Km²

Adult Literacy: 74% (1976)

ECUADOR

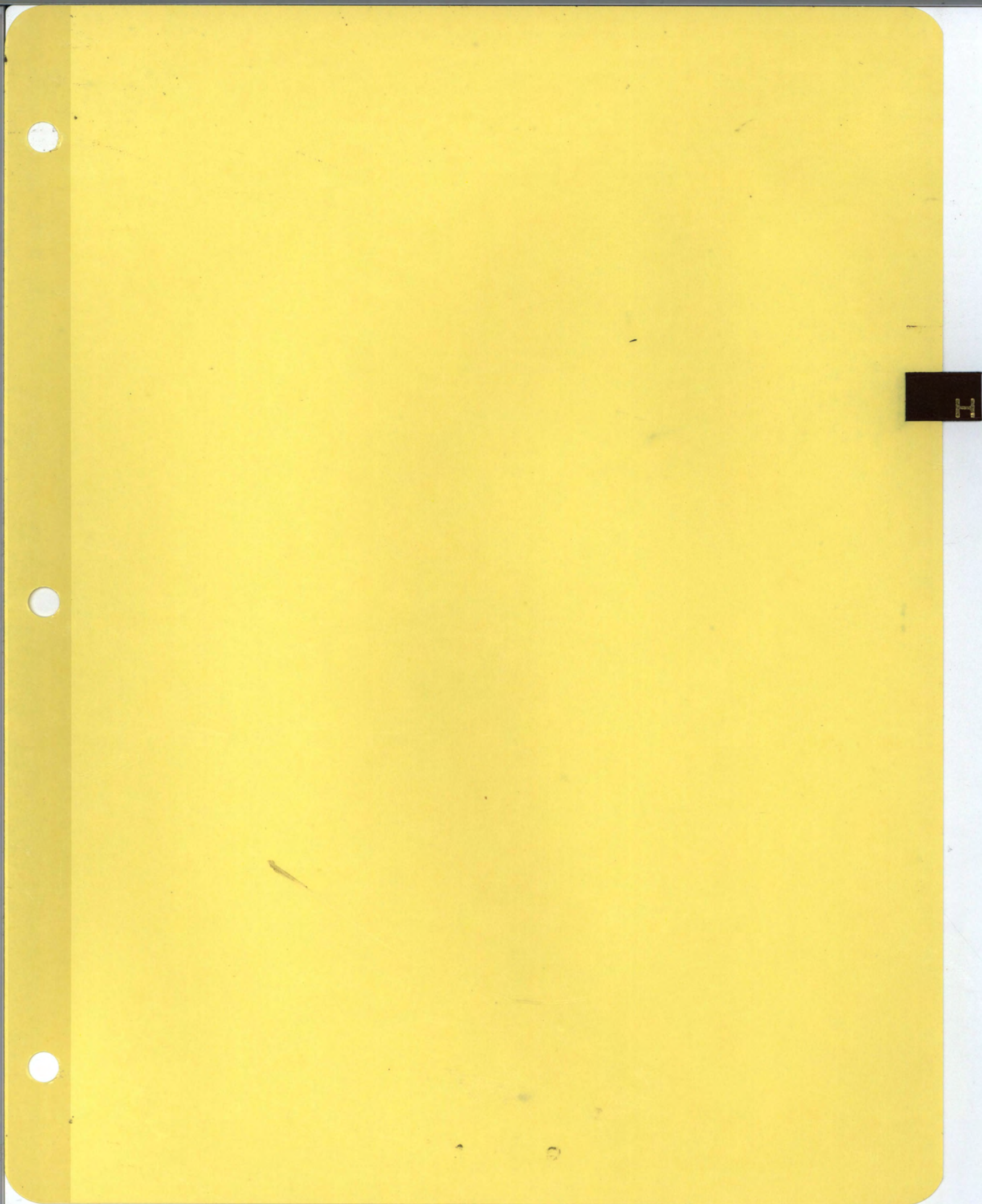
5-Year Lending Program

Project	Appraisal Departure	Board Date	FY80	FY81	FY82	FY83	FY84	Total FY80-84
Rural Dev. II (S)	11/79	07/80			25.0(S)			
Guayas Dev. I (S)							40.0(S)	
SSI (S)	11/79	06/80		25.0(S)				
DFC.V (S)						50.0(S)		
Highways VI (S)	11/79	05/80		40.0(S)				
Highways VII (S)						60.0(S)		
Power Gen.							60.0	
Petroleum I (S)	N.S.	N.S.			70.0(S)			
Health/Population (S)	01/80	09/80			20.0(S)			
Guayaquil Urban Dev.	11/26(A)	11/79	31.0					
Urban Dev. II							60.0	

Reserve Projects

Manta Ports (10; 81R)
Power Trans. (60; 82R)
Water (35; 82R)
Petroleum (50; 83R)
Rural Educ. (20; 83R)
Rural Dev. (40; 84R)
Agric. Credit (10; 84R)

Total: Value	31.0	65.0	115.0	110.0	160.0	481.0
Number	1	2	3	2	3	11
Of which "S": Value		65.0	115.0	110.0	40.0	330.0
Number		2	3	2	1	8



ECUADOR

TUNGURAHUA RURAL DEVELOPMENT PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Republic of Ecuador.

Amount: US\$18.0 million

Terms: Payable in 17 years, including 6 years of grace, at 7.35 percent interest per annum.

Relending Terms for Agricultural Credit Component: Repayment period for subloans would be up to twelve years, including grace periods of up to five years. Up to 90 percent of subloans could be rediscounted at the Central Bank at interest rates that would yield spreads of between three and six percent to the financial intermediaries. Interest rates to ultimate beneficiaries would be 11 percent for small farmers and 14 percent for others.

Project Description: This project aims at improving the productivity, income and general living conditions of 16,000 poor rural families (about 83,000 persons) living in Ecuador's Tungurahua province. Project components include (i) credit and other agricultural support services; (ii) the rehabilitation and expansion of irrigation works; (iii) construction and improvement of rural roads; (iv) rural electrification; and (v) other social services, e.g., provision of potable water and health services.

Special Risks: The only special risk which this project faces would be the occurrence of organizational and management problems owing to Ecuador's little experience, to date, with integrated rural development projects of this type.

Estimated Costs:

		-----US\$ million-----		
		<u>Local</u>	<u>Foreign</u>	<u>Total</u>
(a)	Irrigation & On-farm Works	2.6	1.8	4.4
(b)	Credit	5.2	2.4	7.6
(c)	Tree Plant Production	0.1	0.1	0.2
(d)	Storage Facilities	0.1	-	0.1
(e)	Extension Services and Training	1.3	0.7	2.0
(f)	Roads and Electrification	1.0	0.8	1.8
(g)	Social Services	1.1	0.5	1.6
(h)	Chibuleo Area Development	0.5	0.3	0.8
(i)	Consultant Services	0.2	1.0	1.2
(j)	Project Administration	2.1	0.5	2.6
<u>Baseline Costs</u>		<u>14.2</u>	<u>8.1</u>	<u>22.3</u>
Contingencies: Physical		1.1	0.7	1.8
Price		3.8	2.1	5.9
<u>Total Project Costs</u>		<u>19.1</u>	<u>10.9</u>	<u>30.0</u>

Financing Plan:

		-----US\$ million-----		
		<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Bank		7.1	10.9	18.0
Government		11.0	-	11.0
Beneficiaries		<u>1.0</u>	<u>-</u>	<u>1.0</u>
Total		19.1	10.9	30.0

Estimated Disbursements:

		----- US\$ million by Fiscal Year -----						
		<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Annual		2.25	3.25	4.00	4.00	2.50	1.50	0.50
Cumulative		2.25	5.50	9.50	13.50	16.00	17.50	18.00

Rate of Return:

The economic rate of return is estimated at 21 percent for the components of the project with directly quantifiable benefits, which represent 74 percent of the total costs of the project.

Appraisal Report:

Report No. 2154-EC dated November 28, 1978.

INTRODUCTION

The following description of the Tungurahua Rural Development Project is extracted from the President's Report recommending it to the Board and issued on December 6, 1978. The discussion of the rural sector has been reduced to a brief sketch of its institutional framework and a paragraph on Bank lending for agriculture since the sector's general characteristics are discussed in the "Economic Situation" section of this briefing book (see F.3). Following Part II (The Project) of this note, there is a short paragraph updating the status of project execution.

PART I - THE RURAL SECTOR

Institutional Framework

1. The Ministry of Agriculture and Livestock (MAG) has overall responsibility for the planning, programming, and implementation of Ecuador's agriculture/rural development effort. There are a number of autonomous agencies attached to MAG that deal with land reform, irrigation, agricultural research, storage and marketing. Several regional development agencies are also associated with MAG. Extension services offered by MAG were, until recently, organized along specific crop lines. Given the diversity that is typical of farming in Ecuador, however, MAG is in the process of restructuring itself in order to be able to provide integrated extension services to individual farmers.
2. Institutional credit to the agricultural sector has grown rapidly in recent years, from about US\$66 million in 1971 to about US\$500 million in 1977. About 70 percent of this credit is provided by the state-owned National Development Bank (BNF) and the remainder by commercial banks. Despite the rapid expansion of institutional credit for agriculture, only about 10 percent of farmers have access to it. Many other farmers utilize a large but unquantified volume of informal credit available from suppliers or money lenders.
3. Created in 1966 as an autonomous unit reporting to MAG, the Ecuadorian Water Resources Agency (INERHI) is responsible for developing irrigated agriculture and ensuring the rational use of water resources.

Bank Group Lending

4. Bank Group lending for agriculture in Ecuador has been growing and now includes seven loans and credits totalling US\$43.5 million. The bulk of our lending in the sector, four loans and credits for US\$31 million, has helped finance credit projects. The Bank Group also extended a US\$5.5 million credit (425-EC) in 1973 for an integrated agricultural development project based on irrigation in the Milagro area of the Costa. A loan to improve seeds (Loan 1229-EC approved on March 30, 1976) and a technical assistance loan (Loan 1230-EC) approved on the same day, round out Bank Group lending for agriculture in Ecuador.

PART II - THE PROJECT

5. The proposed project was prepared by the staff of MAG and INERHI with the assistance of international consultants. Financing for the project's preinvestment studies, which were submitted to the Bank in October 1977, was provided under the Bank's technical assistance loan (1230-EC). The project was appraised in November 1977. Negotiations of the loan took place in Washington from November 15 through 22, 1978.

The Project Area

6. The project would be carried out in the Province of Tungurahua which is located in the Ecuadorian Andes approximately 140 km south of Quito (see the attached Map. Tungurahua is relatively small. Its total area is only about 3,200 km² and its population is 270,000, two-thirds of whom live in rural areas. The province's only large town is Ambato, the provincial capital.

7. Tungurahua's topography is typical of that found in the Ecuadorian Andes. Its altitude ranges from 2,400 m to over 6,000 m and the province consists of rugged mountains, steep slopes and fertile but narrow valleys. The province's climate is temperate and has little seasonal variations. Precipitation is relatively even throughout the year but rainfall varies between about 500 mm and 1,000 mm per annum within the province, depending on altitude and air currents. Precipitation tends to be low at the valley floors.

8. The project area of about 300 km² is located just south of Ambato and is inhabited by about 83,000 people. Population density is high, 277 per km², and most of the 16,000 families living in the project area are poor "minifundistas" farming between less than one and three ha per family. They are engaged in subsistence agriculture and their principal crops at present are potatoes, vegetables and fruits.

9. Infrastructure and support services in the project area are generally deficient. Although the province has a fairly extensive main road network linking it to Quito and Guayaquil, rural roads -- particularly at higher altitudes -- are few and poorly maintained; they become practically impassable following heavy rains. Existing irrigation systems supply water to a total net area of 6,700 ha in the project area. Virtually all distribution canals are unlined, however, and supply water irregularly. INERHI has reported that water losses in the distribution system reach 60 percent. Of the 13 villages in the project area, only five have potable water supply systems and only three of these provide house connections. The remaining two systems offer only public standpipes. Other villagers and members of the widely dispersed population draw water from the irrigation canals or springs. Rural electrification is also deficient. Only eight of the 13 villages have electricity and only about 80 percent of the persons living in these eight villages have direct electrical connections.

10. As in the case of infrastructure, health and education services within the project area need improvement. Adult illiteracy is estimated at about 30 percent and many children living in the countryside do not attend schools because these are concentrated in or near villages. The health situation is worse. There are only 25 hospital beds in the area (one for every 3,320 inhabitants) and only one doctor per 7,800 persons, one dentist per 23,000 and one auxiliary nurse per 2,700 inhabitants. Health conditions are generally poor with most illnesses resulting from respiratory, skin and parasitic diseases.

11. Extension work has focused mainly on development of the paramo, cold and damp regions in the project area found above 3,000 m. Extension services for the project area as a whole are poor and none are offered to farmers in irrigated areas. Credit is provided principally by the National Development Bank (BNF). Only 10 percent of the farmers in the project area have access to institutional credit, however, and nearly two-thirds of the total credit volume goes to 15 percent of these borrowers. The small farmers in the project area have only limited marketable surpluses and practically no storage facilities. About two-thirds of the area's output is harvested and sold between April and July with 70 percent of this being sold in Ambato, the province's main marketing center.

Project Objectives and Description

12. The objective of the proposed project would be to improve living conditions for some 16,000 poor rural families (about 83,000 persons) in Tungurahua province by increasing their incomes through increased productivity and by providing them with an improved infrastructure base and social services. This project would be the first Bank-supported integrated rural development effort in Ecuador.

13. The proposed project would include:

- (a) rehabilitation and expansion of irrigation systems and on-farm works on 1,800 ha in the Quero-Ladrillos area. This would benefit about 2,300 farm families;
- (b) on-farm works on 7,800 ha of irrigated land in the Huachi-Pelileo area benefitting about 9,700 farm families;
- (c) support services, including provision of credit and storage facilities, to improve agricultural production on the above-mentioned irrigated area and on 18,000 ha of rainfed lands in the Quero and Chibuleo areas where an additional 4,000 farm families dwell;
- (d) construction and improvement of the rural roads and rural electrification networks;
- (e) provision of social services including potable water, latrines, health facilities and community centers; and

- (f) consultant services to assist the project unit and to carry out studies for follow-up projects.

The project would be carried out over a six year period (1979-85). It would be administered by MAG, through a project executing unit, in accordance with arrangements described in paragraphs 54 through 60.

14. About 20 percent of project expenditures would be for irrigation improvements. In the Quero-Ladrillos area, these works would consist of a water diversion structure, the rehabilitation (including lining) and construction of about 28 km of main and secondary canals, the installation of six siphons and the improvement of on-farm irrigation works. In the Huachi-Pelileo area, the emphasis would be on improving on-farm irrigation. In both cases, water would be delivered to blocks of approximately 100 ha each. Farmers within these blocks would establish water user directorates which would participate in carrying out on-farm works.

15. Agricultural support services would be the project's single largest component accounting for nearly half of costs. Most of this would be for credit to farmers and farm cooperatives. Medium- and long-term credit would be provided for incremental farm inputs such as seeds and fertilizers, and for on farm investments such as fencing, agricultural equipment, cattle development and tree planting. In addition to credit, extension services would be intensified in the project area and an existing fruit tree and forestry seedling nursery would be expanded. Three farm produce collection centers would also be constructed. Included in this component would be a first phase effort to provide infrastructure and services to the Chibuleos area, the poorest region in the province. This area of 3,000 ha is inhabited by an indigenous population of about 5,000 people who live in a subsistence economy.

16. Under the project, about 28 km of new feeder roads would be built and about 95 km of existing feeder roads would be improved. The electrical networks of the villages of Quero and Pelileo would also be improved and extended.

17. The social services component would include the installation of 16 potable water supply systems to serve 17,000 beneficiaries. Drinking water would be supplied through public standpipes located in villages and at strategically placed points that would serve the more widely scattered population. It would also provide for the construction of about 7,600 latrines which would benefit about 50,000 persons. Funds would also be earmarked to construct, furnish and equip two new health subcenters and eight new health posts; two existing health posts would be renovated and vehicles would be purchased for the use of health services personnel. Finally, 20 community centers would be provided under the project.

18. Financing would be provided for about 90 man-months of consultants' services. All consultants would be recruited internationally. Their terms of reference were agreed upon during negotiations. These consultants would be retained, inter alia, to help administer the project and to strengthen extension services. In addition, the project would provide funds to help prepare a possible follow-up project in Tungurahua province and the second

phase of the Chibuleo area development discussed above. The Government would prepare terms of reference for these studies and submit them to the Bank for approval not later than 12 months after the Loan Agreement's signing.

Project Implementation

19. The proposed project is a multifaceted one which would require the participation of several ministries and Government agencies as well as local farmers. MAG would have overall responsibility for carrying it out and would establish a Project Unit for this purpose. The Project Unit would be headed by an experienced Director, whose qualifications, terms and conditions of employment would be satisfactory to the Bank. MAG has already identified a qualified person for the Director position and this candidate attended negotiations. The Project Director would be assisted by consultants including specialists in administration and extension services as well as an agricultural engineer and a horticulturist. These consultants, and their terms and conditions of employment, would also be acceptable to the Bank. Because of their importance to the project's start-up, appointment of the Project Director and of the consultant for administration would be a condition of the loan's effectiveness. The other consultants would be recruited no later than six months after the signing of the Loan Agreement.

20. The Project Unit would be directly responsible for execution of this operation. It would manage and coordinate the sundry activities of the participating agencies and be directly responsible for construction of the project's road, storage facilities and community centers components. It would also hire consultants, organize farmer cooperatives, prepare and implement training programs, handle tree-plant production and the development of the Chibuleo area. The Project Unit would draw up an annual investment plan and budget as well as a summary of projected expenditures. This would be submitted to the Bank at least two months prior to the start of the year in question.

21. MAG would provide the Project Unit's extension staff. In order to ensure that the extension personnel necessary for project activities would be available without affecting MAG's ongoing extension services elsewhere, the project would include the training of extension agents as well as the incremental costs of extension personnel. In addition MAG, together with the Project Unit, would prepare a plan for the implementation of the Chibuleo area development component. This plan would be submitted to the Bank not later than six months after the signing of the Loan Agreement. INERHI would be responsible for the final design and construction of the project's major irrigation works. A condition of disbursement for the Quero-Ladrillos irrigation works would be that the Bank had approved the final design for these works. INERHI would also, together with the Project Unit, be responsible for the provision of technical assistance in connection with on-farm irrigation works. It would also organize the water user directorates and would operate and maintain the major irrigation network.

22. The Ecuadorian Institute for Sanitary Works (IEOS) would design and construct potable water improvements, latrines and health facilities. Once constructed, local communities, assisted by IEOS, would operate and maintain the potable water systems and latrines. The Ministry of Health would be responsible for staffing and operating the health facilities.

23. The Ambato Power Company would prepare a plan for the rural electrification component and would submit it to the Bank for approval not later than one year after the signing of the Loan Agreement. The company would then be responsible for this component's execution. After the Project Unit has completed the rural roads component, Tungurahua's Provincial Government would look after their maintenance.

Cost and Financing

24. The project's total cost, net of taxes and duties, is estimated at US\$30 million. Its foreign exchange component is about US\$10.9 million, equivalent to 36 percent of project costs. The proposed loan of US\$18.0 million would cover 60 percent of project costs, including the entire foreign exchange component and US\$7.1 million of local costs. The Government would contribute US\$11.0 million; this would cover about 38 percent of project costs. The balance -- about US\$1 million -- would be provided by the project beneficiaries themselves. To ensure that funds would be readily available in a timely manner for project start-up and execution, the Government would establish, by June 30, 1979, a revolving fund in the Central Bank for the use of the Project Unit. It would deposit therein the equivalent of US\$500,000 and replenish the fund, as needed, so as to maintain it at that level.

On-Lending Arrangements

25. Credit to the ultimate beneficiaries would be made available by both the BNF and private commercial banks. Participating financial intermediaries would be responsible for determining the creditworthiness of prospective sub-borrowers and would then be able to rediscount up to 90 percent of subloans made with the Central Bank. The eligibility of subloans for rediscounting through the Central Bank would be determined -- on the basis of the economic, technical and financial soundness of their supporting investment plans -- by the Project Director of the Agricultural Credit Unit within MAG, which was created under previous Bank credit projects (Credits 173-EC and 222-EC and Loans 501-EC and 1459-EC).

26. The subloans would have terms of up to twelve years with grace periods of up to five years. The Ecuadorian Monetary Board would establish the interest rates at which subloans are rediscounted at the Central Bank, and such interest rates would yield a minimum spread of three percent and a maximum spread of six percent to the financial intermediaries. Interest rates to the ultimate beneficiary would be a minimum of 11 percent for small farmers, or cooperatives composed of small farmers, and 14 percent for others. At least 90 percent of the total amount of all subloans would be for small farmers.

Recovery of Costs

27. Under Ecuador's 1972 Water Law, the beneficiaries of Government financed irrigation projects must pay for the operation and maintenance (O & M) of the irrigation systems and for the cost of these works. INERHI is entrusted with the responsibility of fixing water tariffs which would

permit this. During the course of negotiations, assurances were obtained that these water charges will be sufficiently high (i) to cover all O & M associated with the project's irrigation component; and (ii) to permit the full recovery of the investment cost of these works. This cost would be periodically adjusted to take account of inflation.

28. The cost of the tree seedlings would be fully recovered through adequate sales prices (Section 3.07 of the draft Loan Agreement). However, no direct recovery of capital costs is expected on investment incurred for roads, electrification, storage facilities or social infrastructure. Beneficiaries would, however, take care of the operation and maintenance of the potable water systems, latrines, community centers and storage facilities through community organizations including the traditional Ecuadorian system of self-help known as the minga.

Economic Justification

29. The proposed project would improve living conditions for an estimated 16,000 poor farm families (approximately 83,000 persons) living in the project area. Well over 90 percent of these persons presently have annual per capita incomes below US\$250 and are amongst Ecuador's relative poor. Moreover, 65 percent of them are subsistence farm families with per capita incomes from agriculture at or below US\$60 per annum, the "absolute poverty" level in Ecuador.

30. As the result of the credit, extension services and improved irrigation facilities which this loan would help finance, the project beneficiaries' agricultural output is expected to increase significantly. Farmers' incomes would rise correspondingly. At full development, an estimated 75 percent of participating farm families would have progressed beyond the present relative poverty level. Most of the remainder of the project's beneficiaries -- the very smallest of the "minifundistas" -- are expected to have augmented their agricultural incomes sufficiently to have crossed over into the present "relative poverty" range, i.e., between US\$60 and US\$250 per capita a year.

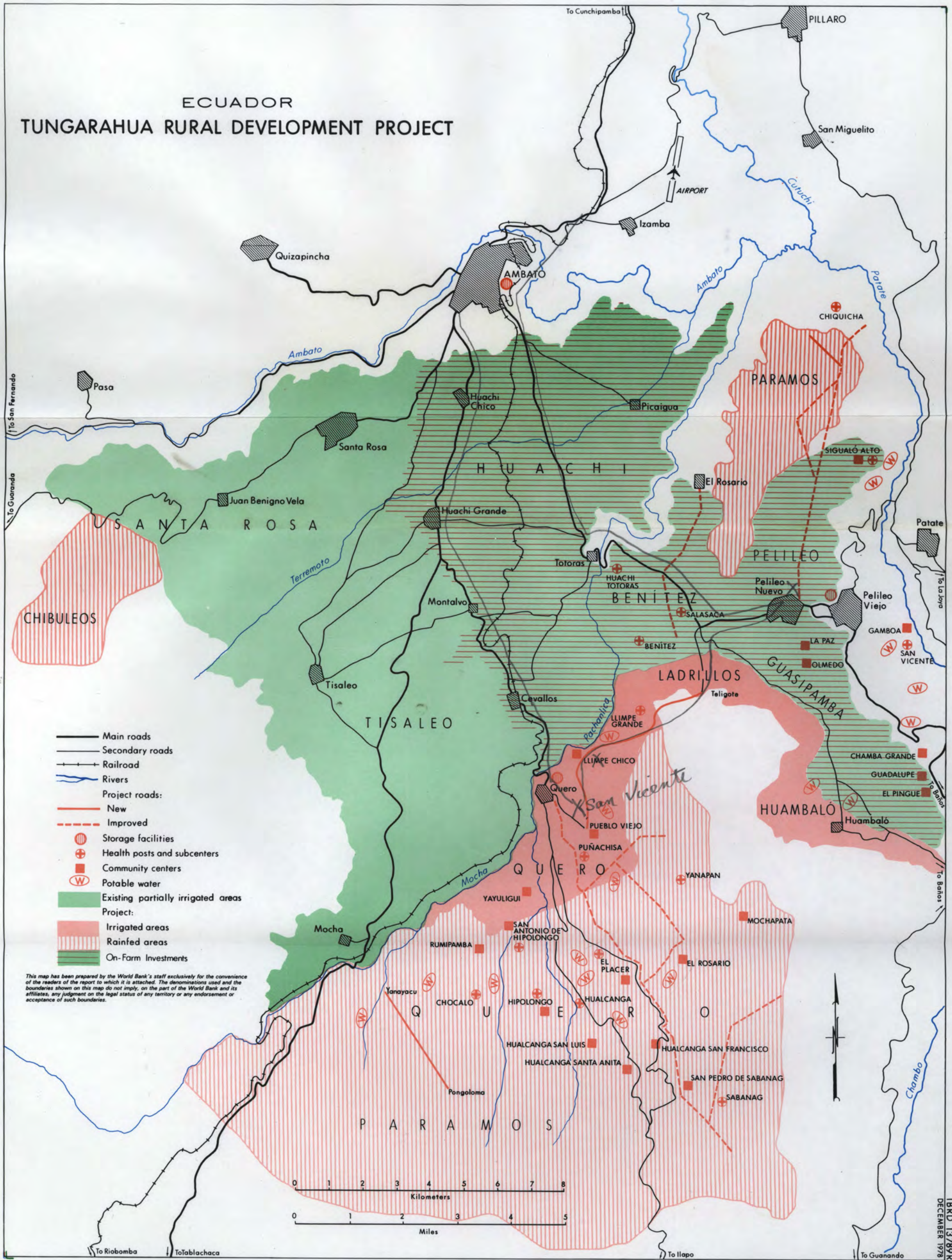
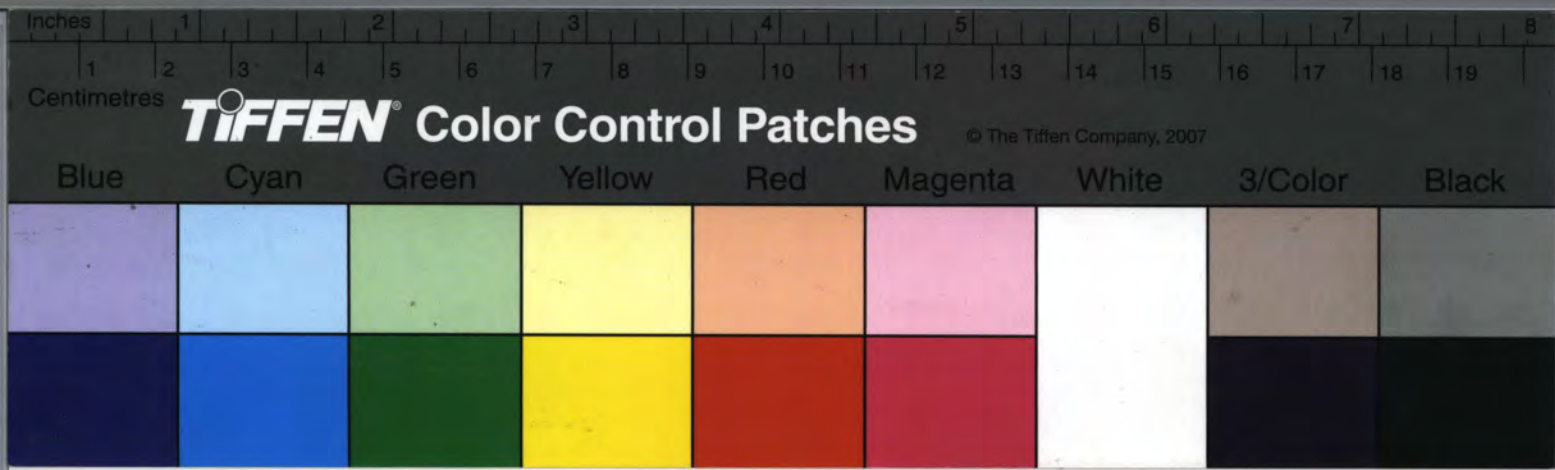
31. Based upon the expected yield increases, the economic rate of return is estimated at 21 percent for the components for which benefits can be quantified (accounting for 74 percent of total project costs). The economic return for investments in (i) the rainfed area would be about 36 percent, (ii) the Huachi-Pelileo irrigated area would be about 14 percent, and (iii) the Quero-Ladrillos irrigated area would be about 13 percent. In addition to the economic benefits referred to already, persons in the project area would also enjoy certain non-quantifiable benefits such as improved feeder roads, rural electrification, storage facilities and potable water facilities.

32. In a national context, the project would contribute to attaining self-sufficiency in fruits, vegetables and milk production. By helping to reduce income disparities between rural and urban areas, it would also tend to reduce migration to urban centers. In addition, given the relatively low investment costs -- US\$1,500 per ha and US\$1,600 per family in the Quero-Ladrillos irrigated area, and US\$500 per ha and US\$1,400 per family in the rainfed zone -- the project could be widely replicated. Finally, the

project -- the first of several rural development schemes which the Government plans to carry out in Ecuador -- would afford valuable experience to MAG and the other participating institutions, which would be useful in carrying out similar operations elsewhere.

PRESENT STATUS

Loan 1644-EC was signed on May 11, 1979 and became effective on September 28, 1979. In compliance with the special conditions for effectiveness, the Ministry of Agriculture (MAG) established a Project Unit in Tungurahua and Mr. Flavio Tamayo, a young Ecuadorian economist, was appointed to direct it. Other required technical and support staff are being incorporated in the Project Unit and foreign experts envisaged in the project are now being recruited. Finally, a project fund of US\$500,000 was established in the Central Bank, and project operations have just begun.



BANK-FINANCED SCHOOLS

1. During the November visit to Ecuador, Mr. McNamara will visit two schools --Quito's Central Técnico and the Simon Rodriguez School in Latacunga-- which have benefitted from a US\$5.1 million Credit (124-EC) signed in June 1968.
2. The Credit was originally intended to support educational reform in Ecuador by financing improved facilities for secondary, agricultural and technical schools. Under the project, a total of 28 schools were to have been constructed or expanded, and equipped with workshops and laboratories. Because of political instability and weaknesses in the Ministry of Education and in DECE, the Ministry's School Construction Department, the school construction/improvement program dragged out and today, more than 11 years after the Credit was originally made, extensive work is still required. Many of the schools, for example, lack electrical or water connections and cannot, therefore, make full use of their equipment or facilities.
3. Owing to the project's sorry execution record, it has been one of the LAC Region's perennial "problem" projects. The previous military Government was not really committed to completing the project although some progress was made during the past year in drawing up an inventory of remaining works. This showed that with an estimated US\$2.4 million in additional investment, the project could be completed by the end of CY1980. The Association would provide US\$400,000 of this amount from undisbursed Credit funds.
4. In early discussions with Bank staff, the new Government has shown a genuine interest in completing the project and Roldos Administration officials have assured the Bank that the necessary counterpart funds would be made available for this purpose. Consequently, the project has recently been taken off the problem project list although Bank staff will continue to monitor closely the carrying out of the remaining works.
5. The small (175 students) Simon Rodriguez School serves Latacunga, a provincial capital located in the Sierra between Quito and Ambato. Simon Rodriguez is typical of the less successful schools financed under the project. Its condition has deteriorated and facilities are not fully used. Classes are held only in the mornings and students from 12 to 20 years of age concentrate on agricultural courses and receive a secondary degree in agronomy.
6. Quito's Central Técnico, on the other hand, is one of the project's success stories. It is a well established technical school, with a tradition for excellence, which was expanded and equipped with funds from Credit 124-EC. The Central Técnico has over 2,000 students who are competitively selected. They range in age from 12 to 25 years and can specialize in the upper grades in automotive and general mechanics, electricity and electronics. The school runs morning, afternoon, and evening sessions.

ECUADOR

FIRST GUAYAQUIL URBAN DEVELOPMENT PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Republic of Ecuador

Beneficiaries: Municipality of Guayaquil, Banco Ecuatoriano de la Vivienda (BEV), Banco del Pacifico and other participating private banks

Amount: US\$31.0 million equivalent

Terms: Payable in 17 years, including four years of grace, at 7.95 percent interest per annum

Relending Terms: The Central Bank, acting as agent for the Borrower, would onlend the loan's proceeds to all beneficiaries at the same interest as the proposed Bank loan. It would also absorb the foreign exchange risk on the loan. Commercial banks participating in the small enterprise credit program would rediscount up to 70 percent of their subloans with the Central Bank. The maturities on Central Bank on-lending to commercial banks would vary depending on the terms of each bank's subloans. Eighty percent of these are expected to be repaid in 2-3 years although some subloans for construction will have 12 year amortization periods. For housing loans and services to low income areas, the terms of repayment for BEV and the Municipality to the Central Bank would be 17 years, including 4 years of grace. The Borrower would assume the commitment charge and interest on the Bank loan for the Municipality during the grace period.

Project Description: The project's dual objectives are (i) to provide improved shelter and/or employment to about 100,000 persons, 10 percent of Guayaquil's population and (ii) to develop institutional capacity to address urban needs on a larger scale both in Guayaquil and nationwide. About 17,700 households will directly benefit, with 90 percent of project investment targeted to serve people below the absolute poverty threshold. The project includes three major components: loans and technical assistance to small-scale enterprises, slum upgrading plus sites-and-services development, and loans for housing construction and improvement.

Special Risks: Since a multi-sector urban project of this nature has not been implemented before in Ecuador, there is a risk that management problems might occur due to inexperience. However, technical assistance and close supervision are planned to reduce such a risk.

Estimated Costs:

	(US\$ Million Equivalent)		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Credit to small-scale enterprise	7.0	3.8	10.8
Services to low-income areas	21.9	2.3	24.2
Housing loans	<u>15.9</u>	<u>0.7</u>	<u>16.6</u>
Total Costs	<u>44.8</u>	<u>6.8</u>	<u>51.6</u>

Financing Plan:

Bank	24.2	6.8	31.0
Government	1.2	-	1.2
Housing Bank	5.8	-	5.8
Municipality	7.4	-	7.4
Commercial banks	1.7	-	1.7
Reflows	3.2	-	3.2
Small-scale enterprises	1.3	-	1.3
Total	<u>44.8</u>	<u>6.8</u>	<u>51.6</u>

Estimated Disbursements:

	----- US\$ thousands by Bank FY -----					
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Annual	470	6,510	7,780	8,530	5,970	1,740
Cumulative	470	6,980	14,760	23,290	29,260	31,000

Rate of Return:

20 percent for all components which have quantifiable benefits, which represent 91 percent of project investment.

INTRODUCTION

1. The following description of the proposed Guayaquil urban development project is extracted from the President's Report prepared in connection with this operation. The loan was negotiated in Washington from October 17 through the 23 and is scheduled for Board action on December 11, 1979.

PART I - THE URBAN SECTOR

General Characteristics

2. Urbanization in Ecuador has been rapid in recent decades, spurred on by migration from rural areas. Forty-two percent of the total population, or 3.3 million persons, currently live in urban areas. The two largest cities are Guayaquil and Quito, with about 1,000,000 and 750,000 inhabitants, respectively. Urban job opportunities, however, have not kept up with the growth of the cities. The urban population increases by 4.4 percent each year, but urban employment has been growing only by 3.6 percent annually. The result is increasing unemployment and underemployment; the distribution of incomes in cities is also highly skewed. The poorest 20 percent of the urban population receive only 3 percent of total urban income.

3. Social infrastructure provided by the public sector during the 1970's has largely benefited the cities rather than the rural areas. Yet about a third of urban residents are still without access to piped water, even from standpipes. These people rely mainly on tanker trucks for water, although this system is inconvenient, unsanitary, and costs 25 times as much per liter as piped water. Nearly half of urban households are without adequate sewerage and drainage services, adding to sanitation problems.

4. The housing deficit in Ecuador was estimated by the National Planning Board (JUNAPLA) at 485,000 units in 1977. Despite the construction of 98,000 units by major public sector housing agencies and the private sector as part of a national program during the 1974-77 period, the deficit continues to grow. As elsewhere, most of new public housing in Ecuador is accessible only to middle income groups. Generally, houses built by the Ecuadorian Housing Bank (BEV) cost between US\$4,000 and US\$8,000 which, without subsidies, is unaffordable to nearly half of Ecuador's urban population. To date, houses contracted through the Ecuadorian Social Security Institute (IESS) have cost over US\$10,000 and the savings and loan associations finance even more expensive homes.

Urban Development Institutions

5. At the national level, the National Housing Board (JNV) is charged by Government with overall responsibility for housing sector policy, especially for low-income housing. BEV, which has the same president as JNV serves as both the financing and construction agency for public housing efforts. Both

institutions are technically and financially competent, have grown rapidly in the 1970's, and have developed some very low-cost housing on an experimental scale in rural areas. However, they have provided little financing for home improvement or self-help housing, and have not yet been able to respond to the demand for very low-cost urban housing on any significant scale. BEV's reliance on cement-block, fully serviced units, has kept costs prohibitively high for low income families.

6. At the local level, municipal institutions in Ecuador are generally inefficient and limited in their technical and revenue-collecting capabilities. Utilities services in the larger cities are managed by public companies, which also suffer from financial and management limitations. The Central Government has become excessively involved in the decisions of city administrations and also provides approximately 60 percent of the municipalities' funds. The National Participation Fund (FONAPAR) was established in 1973 when the Central Government took over collection of beer, coffee, cigarette and some income taxes previously collected by cities. FONAPAR has annual revenues of over US\$100 million, a major portion of which is redistributed to the municipalities to meet current expenditures. FONAPAR allocations for investment are made only after spending plans are approved by JUNAPLA and the Finance Ministry.

Urban Poverty in Guayaquil

7. Guayaquil shares many problems typical of coastal cities in Latin America. It became important as a river port and commercial center. In the 1960's with an 8 to 10 percent annual increase in population, it was one of the continent's fastest growing cities. The growth rate is now 4.6 percent, still high enough to imply a doubling of population by the year 2000. Its geographic expansion, however, has been constrained by the Guayas River, estuaries, hills, and seasonal flooding (see the attached Map). The city center became densely populated (over 60,000 people per square kilometer), with nearly 200,000 people crowded into slum apartments. Many of these tenement houses are now being torn down and replaced by commercial buildings, forcing the swampy or hilly areas surrounding the center to absorb larger numbers of poor families.

8. Guayaquil's climate is tropical; flooding and stagnant pools of water after heavy rains are common. However, this has not stopped a growing number--about half of the city's residents--from seeking housing in the Suburbio, the city's oldest and largest slum, where migrants began building cane houses on poles over marshland years ago. Residents of this area now number half a million. The Municipality has at times deposited its garbage around blocks in the Suburbio, as a form of landfill. Public water and electricity have been supplied to the more consolidated parts of this zone, but sewerage installation is only now beginning. Consequently, the death rate from sanitation-related diseases in Guayaquil is higher than in other urban areas of Ecuador. At the southwestern edge of the Suburbio, settlers continue to put up temporary houses on poles over water and live without public services. The process is coming to an end, however, as the Suburbio spreads out towards an estuary which is a natural boundary to its growth.

9. As a result, squatter invasions have begun to the north and south of central Guayaquil. The most rapidly growing invasion is in the south, in a municipally owned area called Guasmo. Guasmo's lowlands are subject to

seasonal flooding. Despite this fact, during the last year a succession of invasions has more than doubled the population of squatter settlements there, to over 3,500 families. In the north, invaders are settling on the steep hills near older low-income settlements such as Lotizacion Mapasingue.

10. Dealing with spontaneous settlement has become an urgent priority for the public authorities, in part because virtually all municipal land has been distributed. However, past municipal policy toward squatters has been inconsistent. At times, the Municipality has donated land to invaders or to their cooperatives, but the resulting expectation of free land encouraged more invasions. To counteract this, municipal land was then offered for sale, first at a token price, and more recently, at cadastral value.

11. The titling system in Guayaquil is confusing and antiquated and has caused serious delays in titling for current residents. Restrictions on tenure and title in Guayaquil have developed over the years as a result of municipal laws. Many residents of the Suburbio, for instance, hold conditional title to their plots donated to them by the city but they have been prohibited by law from mortgaging these properties. In other cases, unrealistically high urbanization standards imposed by the city have limited private urban development.

Bank Group Operations in the Urban Sector

12. The Bank Group has not previously lent to Ecuador for integrated urban development. However, in April 1978, agreement was reached among the Bank, IDB and the Municipality that the Bank would finance a consultants' study from its Second Technical Assistance Loan (S-006-EC) to prepare future urban development projects in Guayaquil for possible financing by the Bank and/or IDB beginning in 1981.

PART II - THE PROJECT

Objectives

13. The proposed project would initiate programs of employment generation and residential development of benefit to the low-income population of Guayaquil. The project would directly benefit about 17,700 households or about 100,000 persons, 10 percent of Guayaquil's population. It would also promote certain institutional and policy developments such as:

- (i) expansion of the support which commercial banks and the Government are now providing to very small scale enterprises;
- (ii) improvement of the Municipality's project execution and financial management capacity, as well as its urban development norms and land titling practices; and
- (iii) an increase of BEV's involvement in lending to low-income groups, using more appropriate technology and achieving better cost recovery.

Project Description

14. The proposed project would include three related components:
- (a) Credit to small enterprises: expansion of an existing line of artisan credit, through one or more commercial banks in the city;
 - (b) Services to low-income areas: upgrading (landfill and basic infrastructure) in two substandard settlements, Lotizacion Mapasingue and Guasmo North, and development of 3,700 sites with services in two new areas, Alegria and Floresta Pilot; and
 - (c) Housing loans: small loans for house improvement and/or construction to an estimated 9,700 residents of the project sites, including the Suburbio.

The proposed project would be carried out over a five year period beginning in mid-1980 and running into 1985. Its civil works components would be completed in about three years but the lending for housing and small enterprises would carry on through the final two years.

15. The small enterprise credit component would account for about US\$10.8 million (or 21 percent) of project costs. It would consist mainly of expanding a successful artisan credit program which Banco del Pacifico (BP) launched in March 1977. BP is Ecuador's fastest growing and second largest commercial bank with total assets of about US\$285 million. To date, BP has loaned US\$600,000 to 800 small industrial ventures--mostly woodworkers, shoemakers, tailors and dressmakers. The average firm served so far employs only three persons, including the owner, and has fixed assets of US\$1,100.

16. Under the proposed project, BP--and other commercial banks which develop satisfactory small enterprise credit programs--would make an estimated 6,400 subloans averaging about US\$1,100 in size. The subloans would be for working capital, acquisition of fixed assets and construction. Altogether, around 5,200 firms employing approximately 16,000 persons would receive subloans. The program would be open to small enterprises city-wide but would focus on the four areas in which this project's other components would be carried out. Eligible enterprises would be those having no more than six employees and fixed assets of under US\$5,000. In addition to the small industrialists which BP assisted in the past, small commercial and service enterprises (e.g., mechanics, barbers and carpenters) could also receive credit under the project.

17. CENAPIA, the National Small-Scale Enterprise and Artisan Center, would furnish technical assistance--primarily in the areas of management, accounting and financial administration--to approximately 85 percent of the subloan's recipients. CENAPIA was created in 1975 as an arm of the Ministry of Industry and Commerce specifically to promote small-scale enterprises. So far, it has been hampered in this task by institutional weaknesses. To overcome these, both UNIDO and IDB are providing CENAPIA with technical assistance. Under the proposed project, CENAPIA would be further strengthened. It would receive 40 man/months of consultants' services, at an average cost of US\$5,000 per man/month, to (i) improve the marketing support CENAPIA would offer sub-borrowers; (ii) study the feasibility of an artisan market in

Guayaquil; and (iii) evaluate the effectiveness of the credit component. The qualifications, experience and terms and conditions of employment of these and other consultants retained under the project would be satisfactory to the Bank.

18. Services for low-income areas would be the project's single largest component, accounting for US\$24.2 million (47 percent) of project costs. The Municipality would upgrade squatter settlements in two existing neighborhoods, Lotizacion Mapasingue and Guasmo Norte (see the attached map). Specifically, it would regularize land tenure, introduce orderly densification, provide basic infrastructure and engage in land filling in both neighborhoods. The Municipality and BEV would also develop 3,700 serviced plots for low income families at Alegria and Floresta Pilot (see attached map). Both areas are presently vacant but are natural sites for settlement as population pressures in Guayaquil continue to grow.

19. Under the project, the Municipality and Central Government agencies would provide some minimal off-site infrastructure--including a 16" water main to Guasmo Norte and an access road to Alegria--as well as needed community facilities. The latter would consist of five primary schools, three health centers and five markets. The Central Bank would also launch a community development program in project areas to further skills training, employment services, and the introduction of new, appropriate technologies for house construction.

20. To assist the Municipality in carrying out its pivotal functions under the "sites and services" component, funds would be provided to the municipal project unit established for this purpose (para 27). The funds would help cover the unit's operating expenses and finance the purchase of vehicles and equipment. Funds would also be provided for 122 man/months of technical assistance (i) for detailed design, engineering, tendering and supervision of construction under the project; (ii) to study ways of improving the Municipality's financial management; and (iii) to monitor and evaluate the project and prepare follow-up projects.

21. The study to improve the Municipality's finances would be completed by June 30, 1980. Based on its findings, the Municipality would prepare a program to improve its financial management. The Bank would be afforded a reasonable opportunity to comment on the study and proposed program and the Municipality would then carry out the program according to a timetable satisfactory to the Bank. The Municipality would also review its current urban development regulations and furnish the results of this review to the Bank for comment not later than March 31, 1981. By this date, the Municipality would also propose amendments to these regulations so as to facilitate and promote slum upgrading and further sites and services development in Guayaquil.

22. The housing loans component would account for US\$16.6 million or 32 percent of project costs. BEV would make an estimated 9,700 small loans for house improvement and/or construction of new houses in the four project areas and in the Suburbio. The loans are expected to average about US\$1,415 in constant 1979 terms. Most would range from about US\$200 to US\$2,600 making them affordable to families below the poverty line. Under the project, BEV would also receive modest technical assistance for long-term financial planning, project preparation and the provision of titling assistance.

23. Furthering the use of appropriate technology and mechanisms for meeting low-cost housing needs is an important aspect of this component. BEV's Floresta Pilot would offer shelter much below the current prices of BEV housing in Guayaquil. BEV also plans significant expansion under this project in its financing of home improvement and individually constructed houses for low-income families, a variation from its normal practice of building large tracts of housing units. To assure that the project reaches the target poverty group, eligibility criteria for subborrowers has been agreed between BEV and the Bank, including: family income under S/. 6,000 (US\$240) monthly and a minimum of two years residence in Guayaquil.

24. Another important institution-building feature of this project is that it would help regularize land tenure for Guayaquil's poor. Clear and mortgageable title to land is a prerequisite to borrowing from BEV. However, the inefficient titling system in Guayaquil has limited access to credit for many poverty-level families by depriving them of a form of collateral. In recognition of the need to streamline the tenure and titling system, and as a prelude to this project, the Municipality has recently made significant efforts to sort out various land-related problems. It has resolved to remove the prohibition on mortgaging donated properties in the Suburbio. The Municipality has also decided to sell, rather than donate, Municipal land in Guasmo North to squatters to avert further invasions as well as to provide a source of revenue. The Municipality is seeking to resolve tenure problems in Lotizacion Mapasingue, and has completed initial expropriation procedures for the Alegria site. Regularization of tenure under each of these differing situations will provide the Municipality's legal and urban planning staffs with considerable experience for continued resolution of land tenure problems in the rest of the city. To assure the legalization of title for beneficiaries of this project, the Borrower would take, or cause to be taken, all measures required to regularize the land tenure situation in project areas according to a timetable satisfactory to the Bank.

Project Execution

25. The Municipality of Guayaquil, BEV and BP, plus other commercial banks that might join the small enterprises program in the future, would be responsible for project execution in accordance with supplementary agreements with the Central Bank and has appointed a general coordinator to manage the various components. The Ministries of Education and Health would construct the schools and health posts under the project. They would also staff, operate and maintain these facilities.

26. The small enterprise credit component would be implemented mainly by BP, which would extend its ongoing artisan credit program. Other commercial banks would qualify for participation as they develop appropriate staff and policies. The technical assistance provided to small enterprises would be implemented by CENAPIA. Both CENAPIA and the Federation of Artisans of Guayas Province would refer enterprises in need of credit to participating banks.

27. Given the importance of continued attention to land tenure questions, design standards and to general coordination, a Project Unit in the Municipality was established and funded in May 1979. This Project Unit would be primarily

responsible for planning, designing, contracting and supervising the provision of services to low-income areas. It would coordinate activities of the national ministries involved in the construction of schools and clinics in the project, as well as activities of the Central Bank's community development staff in Guayaquil. The Project Unit would have a staff of 43 at full size, working in technical, community development, finance and legal sections. The Unit would be assisted by a Project Advisory Committee (formed in February, 1979) which consists of the Chairmen of the City Planning and Community Development Commissions (both Municipal Council members), the Director of Urban Planning of the Municipality, and representatives of JUNAPLA and the Central Bank.

28. BEV and JNV, which customarily work together on housing programs, would administer the project's housing loan program and the Floresta Pilot sites and services component through a single project unit with staff from both institutions.

Cost and Financing

29. The total estimated cost of the project is US\$51.6 million, of which the foreign exchange component is 13 percent or US\$6.8 million. The proposed loan of US\$31.0 million would cover 60 percent of project costs, including the entire foreign exchange component, and US\$24.2 million in local costs. The public sector (Municipality, Housing Bank and Central Government) would contribute US\$14.4 million, equivalent to 28 percent of the project's total costs. BP would provide US\$1.7 million, which, together with the reflows of US\$3.2 million from small credit lending in the earlier years of the project, would cover 9 percent of the cost of the project. Small entrepreneurs would contribute the remaining 3 percent.

Onlending Arrangements

30. The Central Bank, acting as the Borrower's financial agent, would--under supplementary agreements--channel loan funds to the main implementing agencies at the same interest rate as the proposed Bank loan. In each case the Borrower would assume the administrative costs and foreign exchange risk involved in handling Bank funds. Banks participating in the small enterprise credit program would be able to rediscount up to 70 percent of each subloan, on the same terms as the subloans themselves would bear. The Municipality and BEV would repay the Central Bank on the same terms as the proposed Bank loan, except that the Government would assume the commitment charges and cost of interest for the Municipality during the Bank loan's grace period.

31. BP and other banks that qualify would on-lend to small-scale enterprises at no less than 11 percent interest plus commissions of 2-4 percent for long-term lending (Schedule 5 of the draft Loan Agreement). Eighty percent of the loans would be repayable in two or three years but some would run up to twelve years where construction was involved. In the case of housing loans, BEV would charge at least 10 percent interest. BEV's amortization period would be 15 years, rather than its normal period of 25 years.

32. The Municipality would finance upgrading investments through monthly charges to the beneficiaries over 15 years at 12 percent interest. Since municipal collection performance has historically been poor, the Project Unit of the Municipality would monitor the collection of project-related charges. Technical assistance to be provided to the Municipality's Finance Department is expected to strengthen its collection capacity. In the case of municipal services for which investments are proposed in this project, most recurrent costs would be recovered through normal tariffs and taxes.

Recovery of Costs

33. An estimated US\$49.9 million, or 97 percent of the total costs of this proposed project, would be recovered at an average interest rate of 12 percent for all but the housing loans. This high rate of recovery should ensure the project's replicability on a significant scale. Loans for both small enterprise and housing would be completely recovered, and the capital costs of land and infrastructure allocable to residential sites would be more than fully recovered. The unrecovered costs of land and infrastructure for community facilities would be offset by charging cost plus 25 percent for land or services used by industry.

Economic Benefits and Poverty Impact

34. The overall rate of return for those components of the project which have quantifiable benefits (equivalent to 91 percent of total project investments) is 20 percent. Credit to small-scale enterprises has the highest estimated economic rate of return, 35 percent. The upgrading/sites and services component and the housing loans are estimated to have rates of return between 17 and 19 percent. If, for sensitivity purposes, benefits were over- or under-estimated by 15 percent for these two components, their rate of return would vary from 15 to 23 percent. The rate of return for development of industrial sites and markets is 17 percent.

35. Project sub-components for which rates of return have not been calculated--mainly the schools, health centers and the community development program--are relatively minor. Moreover, while their benefits are difficult to quantify, they are of critical importance to the well-being of the communities they serve.

36. Through its shelter improvement/construction, small enterprise credit, employment and community development components, the project would directly benefit an estimated 17,700 households. Living conditions for approximately 100,000 persons--10 percent of Guayaquil's total population--would, thus, be improved. Ninety percent of the proposed project's investments would benefit the nearly 40 percent of Guayaquil households whose incomes per year (US\$2,645) are too low to afford their members calorie-adequate diets. Most of the project's other beneficiaries would be barely above the absolute poverty line. As many as 5,000 new jobs could be created in the small, highly labor intensive enterprises receiving loans under the project. The estimated capital cost per job is about US\$1,500, about one-sixth the national average. Additional employment would also be generated by the construction and improvement of houses and residential services.

ECUADOR

SECOND PORT OF GUAYAQUIL PROJECT

LOAN AND PROJECT SUMMARY

Borrower: The Guayaquil Port Authority (GPA)

Guarantor: The Republic of Ecuador

Amount: US\$33.5 million

Terms: Repayable in 24 years, including 4 years of grace, at 8.5 percent interest per annum

Co-financing: US\$10 million provided by the Bank of Nova Scotia

Project Description:

- (a) the construction of (i) three alongside deep-water berths for containers and general cargo traffic, four transit sheds, open storage areas and associated facilities; and (ii) a bulk cargo terminal comprising one alongside deep-water berth and mechanized storage and loading facilities for sugar, wheat, molasses and edible oils;
- (b) the relocation of existing small boat moorings;
- (c) the acquisition of cargo handling and workshop equipment; and
- (d) the provision of technical assistance to (i) improve port operations; (ii) carry out a training program for shore labor, stevedores, and equipment operators; and (iii) manage the proposed bulk terminal for two years while training GPA staff to operate and maintain it thereafter. A project layout is attached.

Procurement: Contracts for civil works, for procurement and installation of bulk terminal equipment and for the supply of cargo handling and workshop equipment awarded on the basis of international competitive bidding procedures in accordance with Bank guidelines.

Economic Return: 14 percent.

Background

1. Traditionally, Guayaquil has been Ecuador's largest general cargo port handling about 60 percent of the country's total imports and exports, excluding oil. Traffic in the port has grown rapidly during the 70s in response to the country's accelerated rate of growth during this period. The port expansion financed under the loan is designed to accommodate GPA's rapid growth. At the time of project appraisal, GPA's traffic was expected to increase from 1.8 million tons in 1974 to 3.3 million tons in 1985. Traffic in 1978 reached a total of 2.3 million tons, reflecting a faster than anticipated increase.

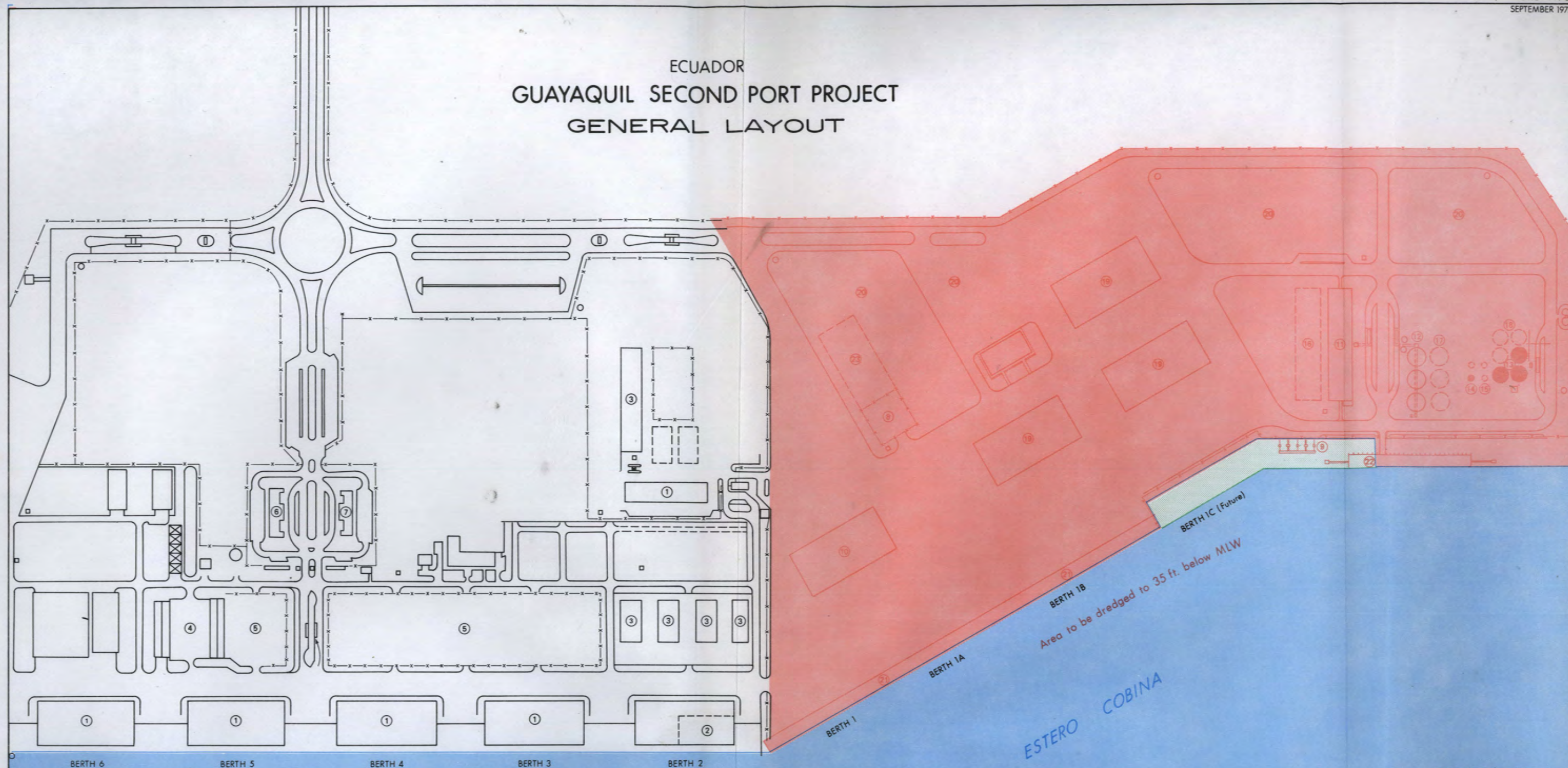
Present Status

2. This project has suffered a delay of nearly two years due mainly to (i) a major redesign of waterfront structures; and (ii) changes in the General Manager of GPA, the latest of which occurred following the recent change in Government.

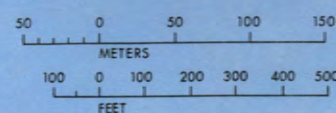
3. The major redesign of port structures resulted in a cost increase of US\$9 million equivalent. The cost increase is expected to be financed through the port's own revenues, supplemented by Government assistance, if required. Over 60 percent of the construction of the wharf and 40 percent of land works have been completed. At the current rate of progress, the project is expected to be completed by the end of 1980.

4. As of September 30, 1979, 38 percent of the loan amount (or US\$10.1 million) had been disbursed, instead of 92 percent as envisaged at time of appraisal. Although the lower disbursement figure is partly due to the two years delay, the main reason for it is that priority was given to disbursing the US\$10 million in cofinancing provided by the Bank of Nova Scotia (BNS). Now that the BNS' loan has been fully disbursed, World Bank disbursements should proceed at a faster pace.

ECUADOR GUAYAQUIL SECOND PORT PROJECT GENERAL LAYOUT



- EXISTING PORT FACILITIES
- PROPOSED PROJECT AREA
- PROPOSED PORT FACILITIES
- FUTURE EXTENSION (Not part of project)



EXISTING FACILITIES

- ① Transit shed
- ② Stiff leg derrick
- ③ Transit shed
- ④ Equipment maintenance
- ⑤ Storage area for vehicles
- ⑥ Port authority administration building
- ⑦ Customs house

PROJECTED FACILITIES

- ⑧ Storage of refrigerated containers
- ⑨ Small boat dock
- ⑩ Consolidation shed
- ⑪ 30,000 M.T. raw sugar storage warehouse
- ⑫ 20,000 M.T. storage, wheat
- ⑬ 3 (24,000 bbls. each) molasses storage tanks
- ⑭ 1,500 bbls. storage, vegetable oil
- ⑮ Future storage, oil
- ⑯ 15,000 M.T. future raw sugar storage
- ⑰ 20,000 M.T. future wheat storage
- ⑱ 3 (24,000 bbls. each) future molasses storage tanks
- ⑲ Transit shed
- ⑳ Open storage areas
- ㉑ Containers and bananas berths
- ㉒ Bulk berth
- ㉓ Future refrigerated container storage area

The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.

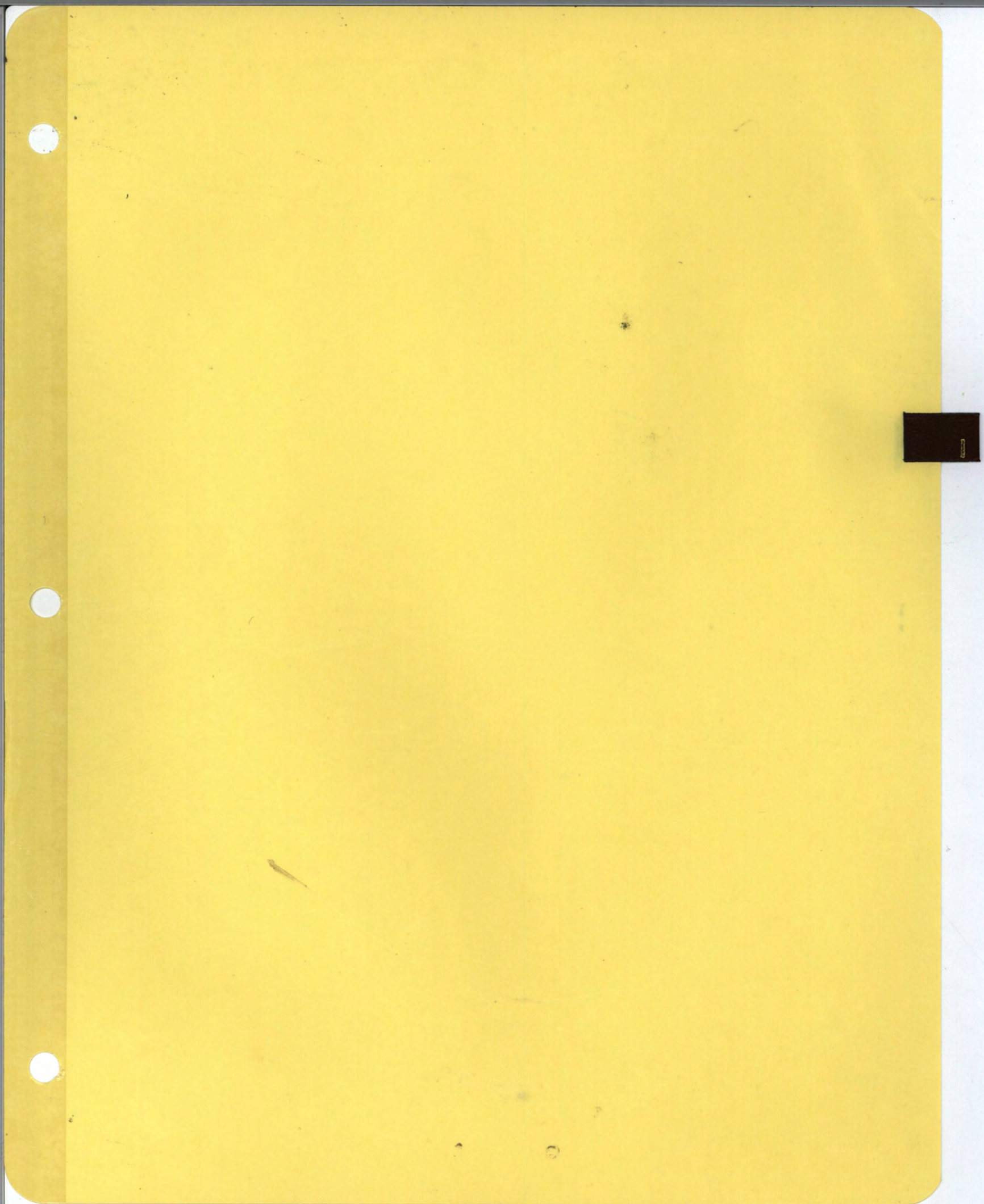


FODERUMA VISIT

1. FODERUMA, the Central Bank's Rural Development Fund, was established in June 1978 at the initiative of the Bank's former general manager, Rodrigo Espinosa, to support rural development. The FODERUMA approach was to stress community participation in the planning and execution process and to further the use of appropriate technology. Responding to community requests, FODERUMA sends promoters to assist in defining development projects and follows up with credit and grants; it also arranges for technical assistance from appropriate government agencies. Beneficiary groups include both legally constituted and traditional, de facto associations of "campesinos" whose per capita annual incomes are US \$ 300 or less. FODERUMA funded 16 projects during its first year.
2. An initial US\$4 million was contributed to FODERUMA from Central Bank resources, and an additional US\$ 4 million was added in the last days of the former Government. During its first year of operation, FODERUMA disbursed about one-quarter of its resources in grants. The remainder was lent for projects at nine percent interest over periods of one to five years. Fertilizer and other agricultural inputs qualify for shorter terms, while land and equipment credits are on longer terms.
3. Since the transition to democratic rule, FODERUMA has come under criticism, particularly in the Congress. Its detractors have charged that it was little more than a hand-out to gain political support for the military regime and for former Central Bank general manager, Rodrigo Espinosa. More thoughtful critics are concerned that FODERUMA projects are not rigorously appraised or supervised. There is also concern that its high grant components limit its replicability.
4. Bank staff understand that the Central Bank intends to continue the FODERUMA program despite the change of Government and a more traditional new management team in the Central Bank. FODERUMA's future growth, however, is uncertain. Its relatively modest financial endowment and personnel limits FODERUMA's ability to respond to the enormous problem of rural poverty in Ecuador.
5. Mr. McNamara would visit FODERUMA's project in Panecillo, a Sierra indian community located in Imbabura Province. About 125 families (506 persons) have received US\$ 17,000 in credit to finance agricultural inputs, a small forestry and livestock program and artisan production. The community has also received US\$ 29,000 in grants to finance rural road construction, a potable water system and technical assistance. Self-help activities through the "minga" (a cooperative system dating back to the days of the Inca empire) is an important feature of the Panecillo project and have helped FODERUMA's modest financial contributions have a greatly enhanced impact.

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4. Weather permitting, Mr. McNamara would visit FODERUMA's project in Guamote, a Sierra community located in Chimborazo Province. About 7,500 indians have received a US\$200,000 loan to finance agricultural inputs, land preparation and marketing. The indian community has also received US\$60,000 in grant funds to introduce primary health care services.



AS OF 30 JUNE 1979

Project number and title	Code	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent)	
					UNDP	Government counterpart contribution
					4,663,649	4,034,621
AGRICULTURE, FORESTRY AND FISHERIES (10500)						
ECU-71-522 STRENGTHENING THE NATIONAL EXTENSION SERVICES AND INCREASING AGRICULTURAL PRODUCTION IN THE IRRIGATION DISTRICT	50	FAO	01/71	01/79	1,141,386	1,443,321
ECU-71-527 STRENGTHENING OF THE FORESTRY SERVICE	40	FAO	09/73	07/77	973,767	1,182,862
ECU-72-002 AGRICULTURAL STATISTICS	80	FAO	04/72	09/78	192,742	27,140
ECU-72-018 AGRO-INDUSTRIES	10	FAO	04/74	02/80	416,047	428,497
ECU-73-005 DEVELOPMENT OF THE VETERINARY LABORATORIES IN THE NATIONAL INST. FOR HYGIENE	20	WHO	02/74	01/78	733,892	567,119
ECU-74-025 FACULTY OF AGRONOMY & VETERINARY MEDICINE, UNIVERSITY OF GUAYAQUIL	60	FAO	12/74	02/77	65,983	
ECU-77-005 DESARROLLO FORESTAL	40	FAO	09/78	09/80	40,000	
ECU-77-011 PROYECTO INTEGRADO DE DESARROLLO AGROPECUARIO (PIDA/SIERRA)	10	FAO	12/77	01/79	37,181	
ECU-78-007 RACIONALIZACION Y MODERNIZACION DEL MERCADEO AGROPECUARIO	60	FAO	03/78	01/82	690,241	269,436
ECU-78-008 APOYO A LA CAPACITACION DEL PERSONAL PROFESIONAL Y TECNICO DEL MINISTERIO DE AGRICULTURA Y GANADERIA	60	FAO	03/78	01/81	372,410	116,238
					484,517	754,873
CULTURE AND SOCIAL AND HUMAN SCIENCES (1000)						
ECU-78-014 APOYO A ACTIVIDADES EN CIENCIAS SOCIALES PARA EL DESARROLLO FLACSO	40	UNESCO	06/78	01/81	484,517	754,873
					2,355,681	8,095,662
EDUCATION (1500)						
ECU-72-012 IMPROVEMENT OF ACADEMIC TRAINING	23	UNESCO	07/74	01/80	481,204	
ECU-72-021 STRENGTHENING OF THE EDUCATION SECTOR	10	UNESCO	02/74	01/80	1,080,905	
ECU-78-012 FORTALECIMIENTO DE LA NUCLEARIZACION EDUCATIVA PARA EL DESARROLLO RURAL	20	UNESCO	02/79	02/82	650,000	8,086,642
ECU-78-023 ESTRUCTURA SOCIAL Y PROBLEMAS EDUCACIONALES RURALES	10	UNESCO	08/78	08/79	74,272	9,025
ECU-78-024 STRENGTHENING OF THE NATIONAL PLAN FOR EQUIPMENT OF MID-LEVEL TECHNICAL EDUCATION	10	UNESCO	02/79	01/81	69,300	
					6,838,337	2,212,195
GENERAL ECONOMIC AND SOCIAL POLICY AND PLANNING (2000)						
ECU-72-017 AGRICULTURAL PLANNING, PROGRAMMING AND MARKETING	12	FAO	09/73	01/79	703,855	
ECU-74-001 IN-SERVICE TRAINING FOR PERSONNEL OF REG. DEVELOP. ORGANIZATIONS	20	UN	08/74	10/78	8,474	14,440
ECU-74-003 PUBLIC SERVICE TRAINING, QUITO	20	UN	04/74	01/79	405,902	103,646
ECU-74-004 OPERATIONAL PLANNING	11	UN	05/74	01/82	760,160	90,938
ECU-74-005 NATIONAL REGIONAL PLANNING	11	UN	05/74	01/79	731,303	160,288
ECU-74-008 IMPROVEMENT OF THE MANAGEMENT OF PUBLIC FUNDS	20	UN	11/74	09/78	89,366	20,436
ECU-76-003 ASISTENCIA AL PROGRAMA DE DESARROLLO ESTADISTICO	11	UN	11/76	01/78	59,449	74,249
ECU-76-004 PROGRAMACION QUINQUENAL	11	UNDP	09/77	01/80	9,800	7,220
ECU-77-002 PROGRAMACION QUINQUENAL SECTOR AGROPECUARIO FORESTAL	12	FAO	08/77	06/79	11,125	
ECU-77-007 PLAN REGIONAL DE SUR	11	UN	08/77	01/80	108,797	8,772
ECU-77-009 ASISTENCIA PARA ACTIVIDADES NACIONALES DE PREINVERSION	20	IBRD	09/77	01/82	451,555	244,945
ECU-77-016 FORTALECIMIENTO DE LA CAPACIDAD DEL SECTOR PUBLICO CON ENFASIS EN SECTORES PRIORITARIOS DE DESARROLLO	11	UN	08/78	01/82	450,000	424,548
ECU-77-018 ASISTENCIA EN PLANIFICACION Y FORMULACION DE POLITICAS PARA DESARROLLO RURAL INTEGRADO	11	UN	04/78	03/79	79,122	34,487
ECU-78-006 FORTALECIMIENTO DEL SISTEMA DE PLANIFICACION AGROPECUARIA	12	FAO	03/78	01/81	587,525	
ECU-78-015 FORTALECIMIENTO DEL SISTEMA DE COOPERACION TECNICA	11	UN	03/78	01/80	200,995	

II. COUNTRY PROJECTS
AS OF 30 JUNE 1979

Project number and title	Code	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent)	
					UNDP	Government counterpart contribution
ECU-78-017 ASISTENCIA A LA PUCE - INSTITUTO DE INVESTIGACIONES ECONOMICAS	11	UNESCO	02/78	01/81	97,530	71,574
ECU-78-018 ASISTENCIA AL DESARROLLO ESTADISTICO	11	UN	07/78	02/83	675,578	933,187
ECU-78-020 PROCESAMIENTO DE DATOS DEL BANCO CENTRAL	20	UN	02/78	01/82	249,761	
ECU-78-021 ESTABLECIMIENTO DE LINEAMIENTOS ESTRATEGICOS PARA EL DESARROLLO REGIONAL A ESCALA NACIONAL	11	UN	04/78	12/82	1,158,070	23,465
HEALTH (2500)					1,176,777	5,738,461
ECU-72-022 STRENGTHENING OF THE HEALTH SECTOR	10	WHO	04/73	01/80	675,631	
ECU-74-006 LABOUR MEDICINE, SECURITY AND HYGIENE	70	ILO	10/74	01/80	89,100	245,285
ECU-74-014 MOTHER AND CHILD ALIMENTARY ASSISTANCE	20	WHO	02/75	01/78	412,046	5,493,176
INDUSTRY (3500)					6,272,245	1,981,594
ECU-71-533 TECHNICAL ADVISORY SERVICES TO INDUSTRY	30	UNIDO	01/72	07/78	1,138,906	1,255,415
ECU-72-011 STRENGTHENING THE PETROLEUM SECTOR	22	UN	01/73	01/79	696,132	
ECU-73-003 ASS. TO THE ECUADOREAN VOCATIONAL TRAINING CENTRE - PHASE II (SECAP)	40	ILO	12/73	03/77	628,054	304,664
ECU-73-011 PROSPECTING FOR MINERALS IN THE SOUTHERN PROVINCES	22	UN	11/74	02/77	86,995	
ECU-74-007 ESTABLISHMENT OF PROFESSIONAL REHABILITATION CENTRES FOR INVALIDS	40	ILO	03/75	01/80	233,051	65,490
ECU-75-003 TRAINING ADVISORY SERVICES TO THE INSTITUTO NACIONAL DE ESTANDARIZACION Y NORMALIZACION (INEN)	30	UNIDO	09/75	10/76	4,976	
ECU-77-022 SERVICIOS DE ASESORIA A LA CORPORACION ESTATAL PETROLERA ECUATORIANA (CEPE)	22	UNDP	03/78	01/79	5,866	
ECU-77-801 PLASTICS INDUSTRY	21	UNIDO	02/77	02/77	4,400	
ECU-78-001 ASISTENCIA AL SECTOR INDUSTRIAS Y ARTESANIAS	10	UNIDO	08/78	01/83	2,100,000	61,371
ECU-78-004 ASISTENCIA TECNICA A LA ACCION INTEGRADA DE LA DIRECCION ZONAL NO 5 (MAG)	00	FAO	08/78	01/82	1,290,518	150,250
ECU-78-801 INDUSTRIALIZATION OF SILICA SANDS	22	UNIDO	06/78	02/80	64,474	
ECU-78-802 NATIONAL MEETING ON TRANSFER OF TECHNOLOGY	10	UNDP	07/78	08/79	4,893	
ECU-79-001 PROGRAMA PILOTO DE VIVIENDAS DE BAJO COSTO	24	UNIDO	04/79	02/80	14,000	144,404
INTERNATIONAL TRADE (4000)					4,000	
ECU-79-004 ASESORIA EN FINANCIAMIENTO DE EXPORTACIONES	10	UNCTAD	03/79	04/79	4,000	
LABOUR, MANAGEMENT AND EMPLOYMENT (4500)					73,845	20,732
ECU-77-001 RECURSOS HUMANOS	20	ILO	03/77	04/77	13,349	
ECU-78-025 DISEÑO PEDAGOGICO Y FORMACION DE INSTRUCTORES	10	ILO	04/79	05/80	60,500	20,732
NATURAL RESOURCES (5000)					342,785	230,036
ECU-68-013 CONSERVATION OF NATURAL RESOURCES	10	UNESCO	11/68	10/76	128,750	
ECU-77-006 SEMINARIO SOBRE EL USO RACIONAL DE ENERGIA EN LA INDUSTRIA	20	UN	11/77	12/77	1,062	
ECU-78-003 ENERGY INSTITUTE	20	UN	05/79	04/79	1,200	
ECU-78-013 ESTABLECIMIENTO DEL SISTEMA DE CONTROL DE GESTION EN EL SECTOR PETROLERO	20	UN	03/78	01/81	211,773	230,036

— PROGRAMME RESERVE PROJECT
— SPECIAL INDUSTRIAL SERVICES (SIS) PROJECT

II. COUNTRY PROJECTS

AS OF 30 JUNE 1979

Project number and title	Code	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent)	
					UNDP	Government counterpart contribution
SCIENCE AND TECHNOLOGY (6500)					1,175,663	583,000
ECU-73-006 EXTENSION OF METEOROLOGICAL NETWORKS	50	WMO	01/74	01/80	365,763	166,322
ECU-78-010 APOYO A LA FORMULACION Y DESARROLLO DE UNA POLITICA Y DE UN PROGRAMA CIENTIFICO Y TECNOLOGICO EN EL ECUADOR	10	UNESCO	06/78	01/82	259,900	10,541
ECU-78-016 DEVELOPMENT OF APPROPRIATE TECHNOLOGIES FOR MARGINAL RURAL POPULATION	10	ILO	06/79	05/82	550,000	406,137
SOCIAL SECURITY AND OTHER SOCIAL SERVICES (7000)					768,942	
ECU-72-019 PLAN DE DESARROLLO URBANO DE GUAYAQUIL	40	UN	10/73	01/78	686,858	
S*ECU-76-802 PILOT PROGRAMME FOR LOW COST HOUSING	30	UNIDO	11/76	01/80	82,084	
TRANSPORT AND COMMUNICATIONS (7500)					1,623,346	643,750
ECU-72-006 CENTER FOR TRAINING OF TELECOMMUNICATION TECHNICIANS	50	ITU	08/72	01/79	930,247	
ECU-78-019 CENTRO NACIONAL DE CAPACITACION EN TELECOMUNICACIONES	50	ITU	04/78	01/81	543,099	643,750
ECU-78-027 CIVIL AVIATION	40	ICAO	04/79	12/80	150,000	
TOTAL					25,779,811	24,294,933
OF WHICH						
IPF PROJECTS					25,618,984	24,294,933
PROGRAMME RESERVE PROJECTS					4,976	
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS					155,851	

— SPECIAL INDUSTRIAL SERVICES (SIS) PROJECT

J

ECUADOR--Information Media

Ecuador's major urban and cultural centers, Guayaquil and Quito, have increasingly sophisticated media organizations after two decades of rapid development of the communications systems in their regions.

In contrast, there are still some isolated areas in the country in which radio broadcasts are the only source of information for the population.

Although traditionally the printed media have exercised a significant influence on literate and politically conscious Ecuadorians, their impact on the masses has been limited, mainly because of the lack of an adequate transport system and because of illiteracy. One fourth of Ecuador's population, estimated at 7.8 million, is still illiterate.

The expansion of the radio system, and more recently of television, has therefore been particularly significant. There are no recent accurate statistics but the radio stations are now estimated to reach more than half of the population, while television probably has an audience close to 20%.

Press

The readership of the press, which is almost entirely privately owned, is believed to embrace about 10% of the population. The press has been traditionally in Spanish, the official language; yet in rural areas about half of the population speaks the native language, Quechua.

However, the Ecuadorian press is still the most influential medium in the public debate on social problems. New publications constantly appear, and the broadcasting networks have been created in association with the printed media. The largest and more influential national papers fully participate in these networks. A large proportion of the radio news is taken directly from the press, thereby expanding the printed media's influence beyond their estimated joint circulation of over 600,000 copies per issue.

The influence of the press is also perceived clearly in political life, and has been particularly noted in the latest election campaign.

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All leading dailies are considered independent because none of them is the organ of a political party. However, the traditional press in Ecuador is, in general, conservative and there are no daily newspapers of liberal or leftist orientation.

Traditionally, the country's constitutions contain guarantees of freedom of expression. As a result, the press has usually served as a forum for remarkably free expression of ideas, although from time to time governments have exerted pressure and some of the most critical media commentators have suffered brief periods of imprisonment. President Roldós has publicly stated the intention of his government to support the complete freedom of the press.

Newspapers

About 22 dailies and 18 non-dailies with a total circulation of over 350,000 copies are published in the main centers of Ecuador.

Quito, the capital, and Guayaquil, the largest city, with three and five daily newspapers respectively, account for the bulk of the country's newspaper circulation and readership. Some of them have large Sundays editions and are circulated throughout the country.

There are five major newspapers: El Comercio and El Tiempo in Quito; and El Universo, Expreso and El Telégrafo in Guayaquil. Of them, El Universo, with about 150,000 copies, and El Comercio, with 100,000 copies, are the leading papers and have national reputations.

El Comercio is an independent, moderately conservative and nationalistic morning paper. It belongs to the Mantilla family, who established it at the beginning of the century. After the recent deaths of the two main owners, Jorge and Carlos Mantilla, El Comercio is directed by a senior journalist, Humberto Vacas Gómez, under the supervision of other members of the Mantilla family.

El Comercio is considered the most influential daily in the country and is, in general, very supportive of the Government policies. It has a very solid economic position and recently has inaugurated a modern plant outside Quito. Some of its employees have received the option of acquiring shares of the enterprise, which also owns another paper and a radio station in Quito.

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Ultimas Noticias is a popular afternoon paper published in Quito by the El Comercio enterprise. It has a local circulation of 35,000 copies on weekdays and 46,000 on Saturdays. It is being revitalized after having lost some ground in past years.

The third newspaper in Quito is El Tiempo, a strongly conservative morning paper. Its main owner is Antonio Granda Centeno, a self-made millionaire, with interests in the industry and other communications companies. El Tiempo defends the private enterprise and has some influence in Government circles although its circulation is very small, about 15,000 copies. The editor is Carlos de la Torre Reyes.

The country's largest circulation daily is Guayaquil's El Universo. It claims an average daily circulation of 150,000 copies. It is owned by the Pérez family; a large, wealthy, and influential group with links to the United States through education and business.

The President of the Board of Directors is Francisco Pérez and the editor is Carlos Pérez Perasso, a U.S. educated journalist.

El Universo is a moderately conservative newspaper, which generally supports the Conservative Party. So far has been supportive of the Roldós Administration but it is critical of the Confederación de Fuerzas Populares (CFP)'s leader Assad Bucaram.

The second newspaper in Guayaquil is now Expreso, a relatively new and competitive morning daily. It is controled by Galo Martínez Merchan, a former minister in the Velasco Ibarra government. The editor is Abelardo García Arrieta.

It is now a moderate newspaper, a swing from the leftist stance that characterized its first two years. Its circulation is estimated at 25,000 copies a day.

El Telégrafo is the traditional paper of Guayaquil's old families. Founded in 1884 by the Castillo family, it is now owned by La Previsora Bank. Its managing-editor is Eduardo Arosemena Gómez, who also writes a daily column. After being an important newspaper, El Telégrafo has lost ground and now has only a daily circulation of about 15,000 copies.

In Guayaquil there are also two afternoon dailies. Extra is a new, spirited paper under the direction of Nicolás Ulloa Figueroa, a well-known journalist. Extra has a circulation of over 30,000 copies in Guayaquil and is now also being sold in Quito. The Ulloa family also owns Radio La Prensa in Guayaquil.

The other afternoon paper in Guayaquil is La Razón, founded in 1964 by Ramón Yulee Taysing. It is a tabloid with about 28,000 copies daily.

Other important papers are El Mercurio in Cuenca (10,000 copies), El Heraldito in Ambato (3,000 copies), El Globo in Bahía de Caraquez (6,000 copies), and El Mundo in Loja (10,000 copies).

The only non-Spanish newspaper, The Ecuadorian Times, is an English-German language weekly newspaper that was first published in Quito about three months ago by a German, Alexander Kerstein. The Ecuadorian Times is aimed at the business and international community of American and German origin.

There is no national news agency, although the Government's Secretaría Nacional de Información Pública (SENDIP) provides information to all newspapers and media organizations in Ecuador. A private local news agency, Agencia Ecuatoriana de Prensa (AEP), has its headquarters in Guayaquil, and also offices in Quito and other cities.

Magazines

About 39 magazines and periodicals are being published in Ecuador, with an estimated total circulation of 280,000 copies per issue. Among them were a dozen of popular magazines, the largest and most influential being Vistazo, a weekly publication of Editores Nacionales S.A. (ENSA) in Guayaquil.

ENSA's owner and main executive is Xavier Alvarado Roca, a U.S. educated businessman who also owns a television station.

With about 80,000 copies a week, Vistazo is the largest-circulation magazine in Ecuador. Politically a moderate publication, Vistazo was being critical of the former military government and has shown strong support of the Roldos administration. Vistazo covers local and international news, with a sensational bias.

The 23-year old Vistazo has become the leading magazine in Ecuador, and its publishers have started an international edition that is being sold in Colombia, Venezuela, Panama, Central America, and Miami.

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The publishers of Vistazo put out other consumer magazines, among them Estadio, a fortnightly sports publication (35,000 copies); and Hogar, a monthly women's magazine (78,000 copies).

Another important magazine, although of much smaller circulation than Vistazo, is Nueva, published in Quito. It is controlled by Mrs. Magdalena Jaramillo Adoum, the wife of a prominent leftist Ecuadorean poet and has become the most influential magazine among leftist intellectuals. It has about 10,000 copies a month.

There are five publications devoted to religious affairs, the largest being Cristiandad Hoy (Today's Christianity) with 30,000 copies.

Radio

Ecuador has approximately 336 originating stations, including some on frequency modulation (FM). The number of radio receivers is estimated in 2 million, serving over 4 million people. As a result of the widespread use of transistor sets, radio broadcast reached people in the most isolated regions of the country and constituted the most important means of mass communication.

Most of the radio stations are privately owned, and, apart from a few cultural and religious stations, are commercially operated. Five major networks included in 1972 over 100 affiliated stations, individually owned and operated. Radio broadcasting requires government authorization in Ecuador.

The government operates one radio station in Quito, Radiodifusora Nacional del Ecuador (National Broadcasting Station). Radio de la Casa de la Cultura (Culture's House Radio) also broadcast cultural programmes from Quito.

The noncommercial station HCJB La Voz de los Andes (The Voice of the Andes) is the most powerful radio station in Ecuador. It is owned and operated by the World Radio Missionary Fellowship, a group supported by several Evangelical Protestant sects in the United States.

The Voice of the Andes broadcast a domestic service of religious and cultural programs in Spanish. It also broadcast to North and South America, the Caribbean, Europe, Australia and New Zealand, Japan, the South Pacific and Southeast Asia in thirteen different languages.

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The largest commercial radio network is Cadena Nacional Ecuatoriana, with 29 stations. Its key station, HCMJ1 Emisora Gran Colombia in Quito, owned by Eduardo Cevallos Castañeda, featured news and sports. Cadena Amarillo, Azul y Roja broadcast from key stations in Quito and Guayaquil to a total of 27 stations in the country.

The Circuito HCMQ network operates its key station, Radio Atahualpa, in Quito. Its broadcasts are received by 17 members of the network. Cadena Radio Ecuatoriana, known as CRE network, is transmitted from Guayaquil to its affiliates in other parts of Ecuador.

The fifth major network is Cadena Católica, a Catholic church radio organization with 12 stations. Its key station is Radio Xavier, in Quito.

Two other important radio stations are Radio Quito, owned by El Comercio newspaper in Quito, and 16-year old Radio La Prensa in Guayaquil, which belongs to Miguel Ulloa Figueroa. Both have good news programs.

Television

Television broadcasting in Ecuador has grown rapidly in 20 years. Since the first public broadcast in 1959, the television system has become sophisticated, including installation of color capability in major outlets. In 1972 there were 280,000 television sets, reaching about one million viewers in an around ten major towns, but it is estimated now that there are about half a million receivers.

The largest television network in Ecuador is Cadena Ecuatoriana de Television, whose main station is Channel 10 in Guayaquil. It has installed a nationwide system of boosters that makes it the country's only national network.

The largest of its shareholders is Banco La Filantrópica. Shares are also held by the Pérez family, owners of El Universo of Guayaquil, Ecuador's largest newspaper. It is an independent, nationalist tv network and has national penetration. Its main newscast is El Espectador, broadcast at 1 p.m. and 11 p.m. Editorial direction is under Xavier Benedetti, who also does a daily commentary.

Another network, Ecuavisa, comprises the leading television stations in Guayaquil, Channel 2, and Quito, Channel 8. It belongs to Xavier Alvarado Roca, Vistazo's publisher. It has the best journalistic team, including Alfonso Espinoza, Channel 2 news editor, and Carlos Vera, in Channel 8. Vera, a young journalist, is also editor of Ecuavisa's news magazine "Informe Especial" (Special Report).

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Both channels have regional penetration, and Quito's Channel 8 has an estimated audience of 400,000 viewers. El Comercio's Mantilla family had initially participation in the share holdings of Channel 8 in Quito, but apparently Alvarado Roca has now assumed complete control of it.

A third network is Teleamazonas, with its key station in Quito's Channel 4. Teleamazonas has eight affiliate stations in other different areas of Ecuador. Its news editor is Diego Oquendo, considered also one of the leading journalists in Ecuadorian television.

Altogether, Quito and Guayaquil have each four commercial stations. The television network includes a total of 17 stations in the country.

Fresh Politics Provide Chance

Ecuador Hopes for Real Change

United Press International
QUITO, Ecuador — Fresh breezes are sweeping through Ecuadorean politics, giving voters hope for long-awaited changes in this underdeveloped Andean nation.

Jaime Roldos, a 33-year-old moderate leftist, takes office Aug. 10 as Ecuador's 44th constitutional president and the youngest popularly elected chief executive in Latin American history.

Mr. Roldos and his 39-year-old vice president, Osvaldo Hurtado, will replace a three-man military junta led by Adm. Alfredo Poveda and end nine years of civilian and military dictatorship.

The Carter administration is clearly pleased to see Ecuador join Colombia and Venezuela as working democracies on a continent dominated by military regimes. U.S. approval of the new government is expected to be expressed in the form of economic aid.

The transition also is of interest to other South American countries, particularly Argentina, Bolivia, Brazil and Peru where military governments contemplate allowing the return of civilian government.

Landslide Victory

The young team won a landslide victory April 29, piling up a vote margin of more than 2-to-1 over center-rightist Sixto Duran, former mayor of Quito, and his running mate Jose Icaza, both 37.

A small-businessman appeared to sum up the voters' thinking this way: "Most of the people in this country have nothing, and with Duran they figured things would stay about the same. With Roldos, they at least have hopes for a change."

Ecuador, one of South America's smallest countries, has 7 million people living in the Andean highlands and the coastal lowlands plus a few thousand in the dense eastern jungles. Oil from the jungles has brought a half-billion dollars annually in foreign earnings in recent years, but most

of the population is still lives in grinding poverty.

"The Force of Change" was Roldos' campaign slogan and he hit hard at "the oligarchy" — wealthy landowners and merchants who have dominated the country's economy and politics for generations.

Mr. Roldos never spelled out his programs for change. In fact, he spent the latter part of the campaign trying to soothe the armed forces and economic interests by denying he contemplated radical measures.

The tactic apparently worked. In the face of Roldos' record total of more than 1 million votes, there was a notable lack of rumors about military plots following the election.

Bright, Inexperienced

Adm. Poveda and the other junta members have repeatedly promised to honor the voters' decision and hand over the government on schedule.

Political and diplomatic observers consider Mr. Roldos and the slightly more leftist Mr. Hurtado a bright but inexperienced team.

Mr. Roldos, chubby with a round face and dark-rimmed glasses, looks like a slightly older version of the top law school student he once was. His political experience is limited to leadership of student federations, a 1968-70 term in the national legislature and participation in the assembly that drew up the new constitution approved last year — which dropped the age requirement for president from 40 to 35.

He is the first president elected by the Concentration of Popular Forces, a populist party of vague ideology founded 30 years ago. It currently is led by his wife's uncle, Assad Bucaram, 63.

Bucaram a Power

Mr. Roldos became a presidential candidate as a virtual stand-in for Mr. Bucaram, a roaring populist whose candidacy was barred by the military junta with a special decree that ruled out anyone

whose parents were not born in Ecuador. Mr. Bucaram is the son of Lebanese immigrants.

Mr. Bucaram built a large popular following and made powerful enemies during a turbulent political career. At campaign rallies there were chants of "Roldos as president, Bucaram in power."

Mr. Roldos eclipsed his political mentor, however, winning the election with his own effective campaign. Unlike the crowd-rousing "Buca," Mr. Roldos is a smooth, modern politician whose bland manner and quick command of facts and figures went over well on television.

Mr. Bucaram was elected to the national legislature and his position will be important in the new 69-member chamber that also takes office Aug. 10. His party has the biggest single voting bloc and Mr. Roldos needs the older man's good will. But he shows no signs of accepting Mr. Bucaram's domination.

World Bank
News Service of the Department of Information and Public Affairs

This news item appeared on page 14 of the 26 June 1977 issue of:

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Ecuador wonders how long it will reap oil income

Five to 20 years estimated;
output levels; search wanes

By Paul Goodsell
Special to The Christian Science Monitor

Quito, Ecuador

Eight years ago, this country heralded its first oil exports as an "oil bonanza." Now, however, one industry source describes his nation's oil future as "black." But this apparent play on words has a negative meaning, because Ecuador is in danger of suffering a sharp curtailment of oil revenues within a few years.

Production here has leveled off in the past few years, a result of government-imposed export controls designed to preserve Ecuador's dwindling reserves. The output now stands at 220,000 barrels a day. Recently-published newspaper reports claim the country will be able to export for only five more years, and standard industry estimates are for no more than 20 years at the current rate of production.

At the same time, only nominal exploration is taking place. By the end of 1977, when Texaco reached an agreement with the Ecuadorean Government to allow a reasonable profit on oil exports, most other foreign companies had been driven out of the country by government policies.

They have not returned, and that leaves Texaco doing the only exploration in Ecuador. Three "wildcats" were drilled in 1978, and at best one well is expected to become commercially viable. Meanwhile, according to an oil spokesman, nine-tenths of the eastern jungle and the entire coastal area remain unexplored.

Government officials claim foreign companies have sent personnel to Ecuador, yet these have generally been geologists and no actual investment has materialized. Political uncertainty and the more nationalistic Ecuadorean Congress elected in April have caused most oilmen to adopt a "wait and see" attitude.

This is not what Ecuador needs, for its oil problems are considerable. Domestic consumption of gasoline has risen, yet the government maintains a 20 cent-a-gallon price. The problem is further compounded by an obsolete refinery combination, producing an inadequate amount of refined gasoline, meaning that Ecuador actually imports gasoline.

Moreover, as one observer notes, "Ecuador is on the wrong side of the Panama Canal." Until recently, this caused major marketing difficulties, with most Pacific coast markets either self-sufficient or importing only small quantities. This has forced Ecuador to sell to Gulf coast markets, adding increased transportation costs and Panama Canal tolls.

The current worldwide oil shortage has been a blessing to Ecuador, now able to sell all its oil even while prices have been increasing every month.

But this has only bought time for the country to work on a new solution. A number of proposals are under way to encourage greater foreign investment, and the new government of President-Elect Jaime Roldós Aguilera will clearly have to win the confidence of investors. Many in the country, however, feel Ecuador should follow the Venezuelan example and nationalize its oil.

According to a number of Ecuadorean oilmen questioned, this would be a disaster. One district engineer said, "I am an Ecuadorean. But this is no way to take over a business." And he added that, with nationalization, "Ecuador will kill what we have now in six months."

Venezuela's experiment with nationalization has been fairly successful, but it was backed with 50 years of experience and a daily production 10 times that of Ecuador. Critics of nationalization cite the need for a good main office with international contacts, quick access to repair parts, and an availability of capital for exploration and investment — assets that many feel Ecuador cannot provide. Ecuador, unlike Venezuela, lacks both technology and qualified personnel.

As one industry source notes, "You can't buy experience with money."

Despite its problems, the oil industry in Ecuador has still brought development to the nation. Revenues from oil exports finance education, public utilities, and industrial development.

World Bank
News Service of the Department of Information and Public Affairs

This news item appeared on page *A2* of the *8 Aug. 1977* issue of:

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| <input type="checkbox"/> THE WASHINGTON POST | <input type="checkbox"/> THE JOURNAL OF COMMERCE | <input checked="" type="checkbox"/> <i>The Washington Star</i> |

Focus

Civilian Rule Returns to Ecuador With Swearing In of New President

By Timothy Ross
Time-Life News Service

QUITO, Ecuador — Dr. Jaime Roldos Aguilera is to be sworn in Friday as Ecuador's first democratically elected president of this decade, and the military junta that has ruled since January 1976 will transfer authority to a civilian administration.

Roldos, a 39-year-old law professor, took a sweeping two-thirds majority in elections in April on a platform of moderate reforms to achieve social justice.

He and his vice president, Christian Democrat Osvaldo Hurtado, one of the country's leading intellectuals, brought a new style to Ecuadorean politics, with coolly presented, sober analysis of problems and possible solutions, avoiding the exaggerated promises and rabble-rousing that has contributed to repeated upheaval and military coups in the nation's turbulent past.

A sign of the international sympathy and support for Roldos is in the number of high-level delegations arriving in the capital to attend the inauguration ceremonies, including Rosalynn Carter, Secretary of State Cyrus R. Vance, the presidents of Colombia, Costa Rica and Venezuela, Premier Adolfo Suarez of Spain and Violetta de Chamorro of the Nicaraguan junta.

Vance and Assistant Secretary for Inter-American Affairs Viron Vaky will meet with Chamorro and leaders of other Latin American nations in Quito for a mini-summit on the Central American political situation.

Split in President's Party

The new Ecuadorean government will start with multiple problems, including the growing division within the president's own party, the Concentration of Popular Forces.

Roldos received the presidential nomination when his uncle by marriage, party leader Assad Bucaram, was prevented by the military from running with a hastily written law. The army had originally seized power in 1972 to stop Bucaram from winning elections called by dictator Jose Maria Velasco Ibarra. As mayor of Guayaquil, Bucaram had shown an incoherent populist style seen as a threat to any attempt at stable government.

But instead of acting as a puppet for Bucaram as expected, Roldos swiftly established his own strong political personality, overshadowing his fiery uncle-in-law and bringing in close advisers from the technocrats of the Christian Democrat Party.

With members of his own party prepared to vote

against him for presidency of the 69-seat House of Representatives, which also begins its five-year term Friday, Bucaram was forced to sign a pact with the Conservatives, political opponents of Roldos.

"I see this causing him great difficulties," says Quito housewife and businesswoman Gladys de Medina. "If the president's party divides and he cannot govern, it might mean a new military takeover."

"But I am not really worried," she says. "Though he has promised to do much for the poor and the peasants, he has the support of most of us in the middle classes as well. If the army tried to take over again it could even mean war."

A Promise of Austerity

Roldos has promised a government of austerity because of the difficult economic situation and heavy foreign debt, but the high hopes he has raised could cause him difficulties.

In an interview last month he admitted that he may not be able to carry out all the reforms planned, and that his main task must be to provide the political and economic stability that will allow him to hand over the government at the end of his tenure with democracy accepted as the rule and not the exception in Ecuador.

Even political enemies recognize Roldos' integrity: Rene Mauge, Communist leader and left-wing candidate in the first round of elections, emphasizes that "ideologically and personally, he is totally honest."

The surging foreign earnings provided by oil exports since 1972 — from under \$1 million a year to more than \$500 million — are now threatened by declining reserves, and a national planning board study shows that before the end of Roldos' term, in 1984, Ecuador will become a net importer of petroleum products. The president also faces the urgent task of boosting agricultural and industrial production to prevent a fall in standards of living and resulting unrest.

He also faces the immediate problem of handling demands for investigation of alleged corruption by the military and participation of army officers, including the general who was then interior minister, in the murder of one of the six presidential candidates last year. Roldos has repeatedly promised that "the assassins of Abdon Calderon will not be forgotten and forgiven."

But if the judiciary named by the new government convicts Gen. Bolivar Jarrin Cahuenas, accused by Calderon's family of ordering the shooting, confrontation with the military would be a serious risk.

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For Ecuador, Populist Chief

Jaime Roldós Aguilera

By **WARREN HOGE**
Special to The New York Times

QUITO, Ecuador, April 30 — After such an overwhelming victory, a more flamboyant politician would have gone straight to the most prominent balcony in the most crowded city square. But Jaime Roldós Aguilera, the populist candidate elected President of Ecuador by nearly 69 percent of those who voted yesterday, had another destination in the early hours of today; he went to television studios. Looking as young as his 38 years, bespectacled, dressed in a subdued tan suit and unsmiling, Mr. Roldós calmly thanked his supporters and outlined his goals for this Andean nation.

As a balcony performance, it would have emptied the plaza. On television, it was masterful, and it demonstrated how the young Guayaquil lawyer who was barely known a year ago had crushed his conservative and far more widely recognized opponent, Sixto Durán Ballén Cordovez, the former Mayor of Quito.

Unofficial returns were almost complete this afternoon, and they showed Mr. Roldós and his running mate, Oswaldo Hurtado Larrea, 39, with 995,845 of the 1,444,649 valid votes cast. The official number will be tabulated next month, but Mr. Roldós's margin of victory eliminated the possibility, feared by many here, that the governing military would try to rob him of his victory in the recount.

Nine Years of Dictatorships

Yesterday's election was the first in 11 years in Ecuador, which has been ruled by civilian and military dictatorships for the past nine years. The balloting had regional significance since it marks the first time that one of the many ruling military governments in Latin American had delivered on its promise to return a country to civilian rule.

Mr. Roldós was also credited with the overwhelming showing of his own party, the populist Concentration of Popular Forces, and an allied party, the Democratic Left, which together appeared to have won 45 of the 69 seats in the new one-house national legislature.

"We want a government of change and economic development, a government which balances that development with social justice, and we are going to have it," Mr. Roldós said in one of the series of early-morning television interviews. "It will be a democratic change, a change made freely, an authentically Ecuadorean change."

"I am not going to overlook a single citizen," he continued, "but I am going to put the principal emphasis on those who need the most."

Style Elicits Praise

He spoke with the deliberation and pacing that have made his liquid oratorical style such a matter of comment here. As he talks his hands stay at his side. The sentences pour forth spontaneously with the kind of balanced phrasing speech writers strive for. The language is free of bombast, the thoughts never overstated. South American populism may never be the same again.

Mr. Roldós came to his liberalism by an academic route and until this past year he had pursued his politics for the most part in a theoretical way as the tactical "political director" of his party.

Born in Guayaquil on Nov. 5, 1940, Mr. Roldós was the leading student and class valedictorian at the city's best school, the Colegio Nacional Vicente Rocafuerte. Through seven years of undergraduate and law school study at the University of Guayaquil, he maintained his number one standing while at the same time serving as the head of national student organizations.

He married in 1962, and he is the father of three children, Martha, 15, Diana, 14, and Santiago, 8. His wife is the niece of Assad Bucaram, the leader of the Concentration of Popular Forces, who was the leading candidate for the presidency until the three-man military junta barred him from running by decreeing that only sons of Ecuadoreans were eligible. Mr. Bucaram's parents came from Lebanon.

An Independent Base

Mr. Roldós, who once was a Congressman, was offered in his stead. At first he ran on a slogan that in effect promised that should he win Mr. Bucaram would direct operations. Through a first-round election between six candidates in July and the nine-month campaign leading up to yesterday's runoff, Mr. Roldós developed an entirely independent base of popularity. A large political question in the aftermath of the vote is how much influence Mr. Bucaram, a controversial figure in Ecuadorean life, will have on his one-time protégé once Mr. Roldós takes office Aug. 10.

Not much is known about Mr. Roldós's private life. He is relatively humorless and chilly in person, but he seems to supply the measure of conviction and serenity that Ecuadoreans feel their nation needs as it returns to representative government.

Commentators yesterday, for instance, remarked on the tranquillity of the vote as much as they did on its outcome. The national mood today was generally optimistic over the possibilities presented by a Roldós administration and its theme "the force of change."

Among businessmen, however, there was some unease, and a trade association leader said in an interview, "We're still afraid that Roldós is going to have a red telephone connected to Bucaram."

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Ecuador's New Oil Wealth Has Only Made Its Poor Seem Poorer

By DAVID VIDAL

QUITO, Ecuador — In August 1972, oil for export began flowing over a 313-mile pipeline across the Andes Mountains from the Lago Agrio wells in the Amazon basin, to the port of Esmeraldas. It was a landmark event in the economic and political history of this small nation, one of South America's poorest and politically most unstable countries.

Ecuador, roughly the size of Colorado, has seven million inhabitants, most of them on the coastal plains or in the highland sierra. It was and remains a predominantly agricultural nation; half the labor force is employed in the fields and groves, harvesting bananas, coffee, sugar and cacao, the crops that provide the country with much of its foreign exchange earnings. But, thanks to oil, a major transformation of the Ecuadorian economy has been taking place over the last six years. It is true that its hopes of becoming perhaps a second Venezuela have so far been frustrated, for the flow of oil has been a bare trickle in terms of the world market. Yet this trickle, with an allowed production limit of 210,000 barrels a day that has not been consistently met — compared to a daily 2.2 million-barrel limit in Venezuela — has had the impact of a flood on the domestic economy and on the traditional distribution of power in the society.

It was not by coincidence that the armed forces deposed President José María Velasco Ibarra, a populist who had been the dominant political figure here since 1933, in a bloodless coup six months before the oil flow began. In the expectation of a massive infusion of foreign exchange, the armed forces, under the nationalist leadership of General Guillermo Rodríguez Lara, sought to assert control over a vital national resource that was administered by American oil companies. Early on, the generals expressed a commitment to social reform, in the same manner as the military rulers of neighboring Peru had done a few years earlier.

Yet it is also no coincidence that the second stage of the armed forces administration — initiated in early 1976 with the removal of General Rodríguez and his replacement by a more conservative military triumvirate led by Vice Admiral Alfredo Poveda Burbano — is about to come to a close. It is doing so with a return to civilian rule at the end of the golden phase of a petroleum era.

On July 16, Ecuadorians went to the polls in the opening round of a presidential election, the first in a decade. They did so with a new petroleum awareness. Oil has accentuated the poverty of the poor due to inflation that has accompanied economic expansion. The middle class has grown as has trade and commerce, and the armed forces and a newly influential class of manufacturers have profited. The military's commitment to change has turned out to be more rhetorical than real.

"The military had an historic opportunity to use the money from oil to finance not only economic development but also social change, and they wasted it," says Rodrigo Borja, an unsuccessful presidential candidate of the Democratic Left Party, a Quito-based middle class group that placed fourth in last week's voting. There has been an enormous expansion in the economy, with the gross national product, \$1.7 billion in 1970, reaching \$5.9 billion last year. But growth has occurred in spite of, not because of, Government policies.

The junta's lackluster, some would say clumsy, oil policy has eroded the broad base of support that initially included leading economic groups and was reflected in public opinion. The top urban minimum wage of about \$60 a month has not increased since 1976 even though inflation this year is running at 14 percent. At the same time, there has been insufficient exploration mainly because of disruptions due to conflict between the interests of the Government, which in June 1972 had founded the Ecuadorian State Petroleum Corporation and had progressively increased the state's take from oil profits, and the interests of the Texaco-Gulf consortium. Gulf eventually withdrew.

As a consequence of these difficulties, the proven level of reserves has not expanded beyond 1.5 billion barrels; Venezuela has more than 18 billion barrels. Unchecked and heavily subsidized — premium gasoline sells for 19 cents a gallon — domestic fuel consumption has zoomed with increased demand and today it accounts for about one-quarter of daily production. Unless aggressive exploration produces rich new wells, domestic growth, among the highest in Latin America in recent years, threatens to reduce the export surplus of the smallest exporter in the Organization of Petroleum Exporting Countries. Ecuador joined OPEC in 1974. There is some speculation that Ecuador may even have to import fuel after 1984 if current trends persist.

Meanwhile, a number of foreign banks have extended loans that slackened oil revenues can no longer finance. The public debt is approaching \$2 billion. And the trade and fiscal surpluses of the good oil days is giving way to deficits this year. The balance of payments could go into the red and measures such as curtailment of imports, hurting the industrial sector that has grown most in the boom, could prove essential. Oil contributes half the foreign exchange but is just 14 percent of the gross national product. It is official spending, however, that is the motor of the economy. The Government's oil revenues climbed from \$282 million in 1974 to \$565 million in 1976. Some of those revenues went for the purchase of arms, including Mirage jets, and some for expanded opportunities in education and agriculture. But the inflow of funds must evidently slow down. As democracy prepares a comeback with the active encouragement of the Carter Administration, it is a gloomy legacy that the military is bequeathing to a novice civilian regime.

David Vidal covers Latin America for The New York Times.

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Ecuador's Oil Search

By WARREN HOGE

Special to The New York Times

LAGO AGRIO, Ecuador — The Pacific port city of Guayaquil now has more than a million residents, and the booming mountain capital of Quito soon will. But the economic future of Ecuador lies here in the midst of the muddy rivers and tropical growth of the Amazon.

Unless it can make this forbidding locale attractive to major petroleum companies over the next five years, this tiny republic is likely to find itself once again excessively dependent on its most abundant product — bananas.

"For anyone who is willing to spend the money, there are lots of possibilities here," said René Bucaram, district manager for Texaco, as he negotiated a catwalk on the side of one of the company's gun-metal storage tanks near the jungle.

But Mr. Bucaram, a native Ecuadorian, studied at Texas A & M University, and in addition to degrees in petroleum engineering, he may have also acquired some of the blue sky optimism often attributed to the Lone Star State.

Texaco is the only oil company doing major business here. It struck oil in 1967 and is now drilling in two major reservoirs in the Amazon province of Oriente and in small offshore locations, with overall reserves estimated at 1.4 billion barrels.

At least 35 other companies have taken a look at the possibilities and walked away from them.

The issue is becoming critical for Ecuador, the smallest producer in the Organization of Petroleum Exporting Countries, because rapidly increasing domestic consumption in the absence of any new discoveries will dry up exports by 1984 at the latest. Petroleum accounts for 45 percent of Ecuador's export earnings, and production that stays in the country is sold at the subsidized price of only \$1.34 a barrel, which in turn keeps the price of gasoline at the filling stations at 18 cents a gallon.

The recently elected administration of Jaime Roldós Aguilera, who is scheduled to begin his five-year term as President on Aug. 10, must move fast to build investor confidence in the wake of numerous contract reviews and renegotiations that have tested Texaco and

driven the Gulf Oil Corporation, for one, out of the country altogether.

Texaco, for example, thought it had a firm agreement with the Government going back to December 1977. But, two months ago, a report from a heretofore uninvolved ministry said the company had cheated the Government of \$16 million, faulted Government officials for letting Texaco do so and held the officials personally liable for the missing amount.

The author of the document, Comptroller General Luis Hidalgo, left office shortly after releasing it, and evidence suggests that everyone on both sides wishes the matter had never come up. The personal judgments have since been dropped, and the rest of the dispute is scheduled to go to court.

Compensation Payment to Gulf

Recently, Gulf got a final installment of \$115.5 million in payments from the Government as compensation for the production and pipeline holdings that the Government oil company, CEPE, took over when Gulf left two years ago.

Feelings are bitter on both sides. Gulf contends that the Government put too many production, pricing and tax restrictions on it. The Government maintains that Gulf withheld payments

due CEPE and otherwise flouted local law.

Nevertheless, the progress Texaco has made is a source of pride to company management.

"When we first came here, we had to be lowered by rope from a helicopter, and sometimes all we had to eat was monkey meat," said Mr. Bucaram, sitting in a crowded mess hall and sporting suede Gucci loafers. "Now the men complain that the air-conditioning doesn't always work right."

Texaco operates a consortium, originally a joint venture with Gulf, in which it now holds a 37.5 percent interest and CEPE holds 62.5 percent.

218 Wells in 7 Sites

The CEPE/Texaco operation in the Oriente just east of the snow-capped Andes includes 218 wells in seven different sites over a million-acre jungle area scored by 270 miles of dirt roads. Drilling at a level of 9,000 to 10,000 feet, the consortium feeds its oil into a 314-

mile pipeline that rises to more than 14,000 feet crossing the Andes before navigating the coastal plains to waiting tankers at the Pacific port of Balao next to Esmeraldas.

men a year and a half with machetes just to clear the path," Mr. Bucaram said. "By the time we

finished each kilometer, a family had moved in by the side of the road." From the air, one can see squatters' houses on stilts every 100 yards or so. Some families had draped their wash over the pipeline in the front yard to dry.

Texaco is believed to have had a return on investment of 10 to 15 percent in 1978, a figure that will become increasingly difficult to maintain as domestic use, at very low prices, continues to cut into exports. (The United States is a major customer and, very unofficially, some of the oil goes to Israel, which sells and maintains Government airplanes here and helps in agricultural expansion.)

Shipments abroad accounted for 80 percent of production in 1977, but fell to 57 percent last year and, for the first quarter of this year, had dropped to 52 percent. Currently, soaring international prices are cushioning the blow. CEPE raised its price on May 4 to \$20.36 a barrel. The price has jumped monthly, having started at \$13.20 a barrel in January.

Oil Extracting Costs Rising

Texaco sets its own price for its 37.5 percent share of exports, but there is incentive to stay close to the CEPE price since the company pays taxes and royalties based on the Government-established export price.

The cost of extracting the oil is at the same time rising as reservoir pressure diminishes, forcing the consortium to make increasing use of "artificial lift" methods to recover the oil.

The consortium has a refinery at Esmeraldas with a current 55,600-barrel-a-day capacity that will soon be upgraded to 75,000 barrels a day. It also operates a small refinery here at the Lago Agrio camp to produce jet fuel, gasoline and diesel fuel for its own use.

A chain link fence surrounds the dormitories, offices, warehouses, drill-

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ing equipment, guest houses and club that make up the camp here. On the other side of the fence is downtown Lago Agrio, a muddy main street with several two-story hotels, storefronts open to the muggy air and side streets lined with jerry-built bars and houses of prostitution.

Building by Texaco

"As an Ecuadorean, it hurts me to see this because I know we're the one subsidizing the whole thing," said Mr. Bucaram as he drove a pickup truck through the steamy town where some 8,000 people live. "But we can't help it if people come here."

Mr. Bucaram pointed out a school, an airport and a clinic that the consortium had built for the town. "We try to be a good citizen," he said. "A lot of people say that American companies act irresponsibly abroad, but this camp proves that that's a lie."

Nevertheless, the fence remains, and so do Texaco's problems with the Government.

Recently, the consortium raised its daily production to 220,000 barrels, and Mr. Bucaram gave his district superintendent a congratulatory pat on the back here in Lago Agrio. Upon returning to his Quito office, Mr. Bucaram found a letter on his desk from the Minister of Natural Resources, Eduardo Semblantes, saying that in the name of protecting Ecuador's reserves, daily production may not exceed 204,000 barrels a day.

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New Ecuador Regime Crippled by Feud Between Leaders

By WARREN HOGE

Special to The New York Times

QUITO, Ecuador, Oct. 29 — Personal antagonism between the President of Ecuador and his former mentor, the head of Congress, has paralyzed the new Government that rousing returned this country to democracy two months ago after nine years of dictatorship.

The new head of state, Jaime Roldós Aguilera, has vetoed most of the legislation passed by the one-house Congress, and the congressional leader, Assad Bucaram, has either shelved or returned to the executive branch the bills submitted by Mr. Roldós.

"It's a personal misunderstanding in which the two principal parties in the dispute are also unfortunately the two principal parties in the state," said a member of Congress, Rodrigo Suárez Morales.

While the impasse continues, the country's economy has come to a standstill and all governmental actions are stalled. Many people have concluded that Mr. Roldós must soon take drastic action such as dissolving Congress or calling for a national plebiscite in a direct challenge to Mr. Bucaram's power.

Problem Is Played Down

Interviewed in his office in the 17th-century presidential palace, the chief executive discounted the problem. "Nine years of dictatorships cannot be overcome without economic and social crises from one day to the next," he said. He termed his difference with Mr. Bucaram one of "political styles."

Asked if the military was showing any signs of wanting to seize upon the situation to return to power, Mr. Roldós said: "Not in the slightest. They are professional and dedicated and have a great sense of respect and support for the Government."

Mr. Bucaram, interviewed in his office in the modern legislative palace on a hill overlooking the old colonial city, struck an avuncular note in commenting on the crisis. "When Dr. Roldós makes mistakes, it is our duty to correct them," he said. "It is the greatest service we can perform."

Mr. Roldós's election was particularly championed by President Carter, who sent both his wife, Rosalynn, and Secretary of State Cyrus R. Vance to the inauguration ceremonies Aug. 10. In July, Mr. Carter entertained Mr. Roldós in the Oval Office in Washington, a protocol-breaking expression of confidence in a President-elect.

Wins Favor in Washington

In taking office, Mr. Roldós had bid for a larger role in hemispheric affairs than his nation of 7.3 million people or his relative inexperience and 38 years would appear to merit. He made a seven-nation trip this summer, declaring his support for human rights and democracy, positions that brought him favorable notice in Washington.

Asked in the interview how relations with the Carter Administration stood,

Mr. Roldós beamed and said, "They continue in the same magnificent state that they have been in."

Mr. Roldós had originally been a stand-in candidate for Mr. Bucaram, a crusty populist leader who has been jailed 17 times and exiled five times in the course of a long activist career as head of the Concentration of Popular Forces party. Mr. Roldós is married to Mr. Bucaram's niece.

The ruling military junta had barred Mr. Bucaram from running for President, a race that political observers say he surely would have run. In his place the party put up Mr. Roldós, then the party theoretician, under the theme, "Roldós in the Presidency, Bucaram in power."

A Sense of Independence

During the campaign for office, however, Mr. Roldós developed his own popularity, upset favored candidates in preliminary heats and emerged on April 29 with nearly 70 percent of the vote and a sense of independence. Mr. Bucaram proved unforgiving and set out to make good the discarded campaign slogan.

Mr. Bucaram wields total power over his party, deciding even what hotel rooms its members of Congress will stay in. "He manipulates his members with his fist," commented Rodrigo Borge Cevallos, an opposition legislator.

In his new role of president of Congress, he was taking charge of a group of men who had been silenced for the past nine years and were eager to speak up. Television cameras and radio microphones are allowed in the glass empaneled congressional chamber during session, and this proved to be an additional incentive to lofty speech-making.

"There was an emotional flood," said

Representative Gil Barragán Romero, "and the waters haven't yet found their level."

Mr. Bucaram entered into a coalition with the Conservatives, the party whose political views are most distant from his own, to attain an absolute parliamentary majority. Though he won congressional power, he lost the support of many long-time backers, disillusioned by an alliance with what they termed the "oligarchy."

He then put through Congress a package of social legislation but refused to consider tax measures proposed by Mr. Roldós to pay for them.

Instead Mr. Bucaram sent to the executive branch several measures Mr. Roldós was obliged to veto, among them a bill that could have effectively removed Mr. Roldós from office for disagreeing with party decisions. Mr. Bucaram began labeling Mr. Roldós a "traitor."

"Tolerant for Democracy"

Mr. Roldós, in reaction, never mentioned Mr. Bucaram by name and limited his criticism to complaints about Congress in general. "I am tolerant for democracy," he said. "I will be so in the five years of my government, but I am not going to stay put in face of so many offenses, which are offenses against the people; I am the result of over one million votes."

In another speech, he announced, "We are not going to accept dictatorship of any sort."

Mr. Roldós traveled around the country on campaign-like trips while he waited for the adjournment of Congress Oct. 8. Mr. Bucaram, however, had another surprise. He invoked constitutional provisions to extend the term of Congress past its normal 60-day period, summoning the legislators back to Quito for a 35-day special session that is now in its third week.

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Nation's Prosperity Imperiled

Critics faulted Mr. Roldós for taking no action to defy Mr. Bucaram and for not moving on issues such as Ecuador's gasoline price that required no congressional approval. Ecuador began pumping oil

from its Amazon jungles seven years ago and maintains a subsidized gasoline price of only 18 cents a gallon. Domestic consumption has risen so drastically, however, than five years from now, barring new discoveries, Ecuador will have no more petroleum to export and its prosperity will be doomed.

Mr. Roldós continues to enjoy enormous popularity throughout the country while Mr. Bucaram is increasingly being pictured as vengeful and reckless. Among politicians, however, there is grudging respect for his knowledge of the political craft.

"He is my personal and political enemy," said Representative León Febres Cordero, a member of the rightist Social Christian Party. "But he knows how to use power a lot better than the young man who is now the President of Ecuador."