

## Ecuador

**The Development Challenge:** Ecuador is recovering from the disastrous, twin effects of the interruption in the constitutional order and the collapse of the economy and the banking system that befell the country in 1999. Rampant inflation and capital flight in that same year caused Ecuador to dollarize the economy almost literally overnight, and the country experienced five changes in government in a little over a year. In short, the end of the century saw Ecuador in economic and political shambles, bordering on social chaos. However, Ecuador has made significant strides in recovering from the low points of 1999. The government completed the country's first International Monetary Fund (IMF) stand-by agreement since the 1980s and the 2002 presidential election was deemed by international observers as the fairest in Ecuador's history. A former army colonel, Lucio Gutierrez won the 2002 elections and took office in January 2003. This year also marks the 25th anniversary of Ecuador's return to democratic elections and civilian rule.

Nevertheless, much remains to be done before development, stability, and prosperity are assured. In 2003, Transparency International ranked Ecuador as the 20th most corrupt country out of 133, as perceived by business people, academics, and risk analysts. Lack of competitiveness fuels concerns about the stability and future of dollarization and further needed macroeconomic reforms. Although a real gross domestic product (GDP) growth of 3% was originally estimated for 2003, this figure has been adjusted to 2.2%, based on the poor second-quarter results, which showed a quarter-on-quarter contraction of 0.8%. The total external debt estimated for 2003 represents 59% of GDP and debt service estimated as a percentage of earnings from exports reaches 20.8%. Unemployment rates remain close to 10%, while underemployment is approaching 50%. Over 60% of the population lives in poverty and only 40% has access to safe water.

Furthermore, Ecuador continues to suffer from the destabilizing effects of the drug trafficking activities in neighboring countries and the collateral effects in security. Communities along Ecuador's northern border are especially vulnerable to drug related criminal activity and incursions by guerillas across the Colombian border. Finally, the destruction of natural ecosystems is threatening Ecuador's impressive biodiversity. The country that is one of the world's richest biodiversity centers and holds 10% of the earth's plant species and 18% of bird species, now also has the second highest deforestation rate in South America.

The United States and Ecuador maintain close ties based on mutual interests in upholding democratic institutions; combating drug-trafficking; combating terrorism; fostering Ecuador's economic development; building trade, investment, and financial ties; combating poverty; and cooperating and participating in inter-American organizations. Ecuador's position in the heart of South America's most conflicted region also underscores the country's importance to U.S. interests. A democratic and prosperous Ecuador can help restrain the spread of illegal drugs and violence across the Northern Andes.

**The USAID Program:** The Data Sheets provided below cover the five strategic areas for which USAID is requesting 2004 and 2005 funds: biodiversity conservation; democracy and governance; economic opportunities; and development of Ecuador's northern and southern borders. USAID supports the conservation of biologically important regions within Ecuador's protected area systems. USAID also seeks to increase support for the democratic system by strengthening the transparency and accountability of democratic institutions, fostering greater inclusiveness of disadvantaged groups in democratic processes, and increasing consensus on policies critical to democratic consolidation. USAID aims at reducing rural and urban poverty by helping to develop a strong and sustainable microfinance sector in Ecuador and by improving the macroeconomic environment for more equitable growth. USAID continues working with the Government of Ecuador to contain the spread of a coca/cocaine economy into Ecuador by supporting the construction of social and productive infrastructure projects and providing alternative income opportunities for small and medium-sized farmers. Finally, USAID assists in the improvement of social and economic conditions of inhabitants along the Peru-Ecuador border, encourages equitable development on both sides of the border, and fosters border integration.

USAID does not currently have a health program in Ecuador. However, available health data suggests deterioration in major health indicators since the closing of the health objective in September 2000. Ecuador could benefit from targeted technical assistance in the health sector. Staff from the Latin America and the Caribbean (LAC) Bureau and the Global Health Bureau are working with the USAID mission in Ecuador to define the type of activities that might be feasible for assistance in following years.

**Other Program Elements:** In addition to activities described in the program data sheets, USAID's office of Private and Voluntary Cooperation within the Democracy, Conflict, and Humanitarian Assistance Bureau manages Ecuador by increasing their capacity to produce, utilize, and market agricultural commodities through cost-effective and environmentally sustainable methods.

USAID manages three South America regional programs that involve Ecuador: 1) the Andean Region Trade Capacity Building program, which enhances capacity of the Andean Community (CAN) as a partner in the negotiations leading to the creation of the Free Trade Area of the Americas (FTAA) and strengthens regional capacity to implement the rules of trade emerging from FTAA negotiations; 2) the Centers of Excellence for Teachers Training (CETT) in the Andean region, training teachers who work in disadvantaged communities to improve the quality of reading instruction; by the end of FY 2003, 527 teachers and 92 school directors participated in this training program; and 3) the Amazon Malaria initiative which is a malaria control program.

In order to improve current health information, the LAC Bureau is contributing FY 2004 funds to support a national household health survey that will provide detailed data for program planning. Subsequent programming, funding levels, and management approaches will be determined based on availability of funds, LAC Bureau guidance, and results from the survey. The LAC Bureau provisionally included Child Survival and Health (CSH) funding in the LAC Regional Program's FY 2005 budget, as a basis for possible health programming which will be defined in FY 2004.

**Other Donors:** USAID has worked with the International Monetary Fund (IMF), the World Bank, the Inter-American Development Bank (IDB), and the Andean Development Corporation (CAF) to support GOE initiatives that have brought inflation under control, reduced GOE budget deficits, and stabilized a financial system that was spinning out of control. USAID's assistance has been instrumental in enabling the GOE to obtain balance of payments assistance under the stand-by agreement with the IMF. Overall development assistance to Ecuador in 2002 totaled approximately \$236 million; the United States accounted for 46% of the grant assistance and continues to be the largest donor, followed by the European Commission and Japan. The IDB's strategy for Ecuador is centered on economic stabilization and recovery of growth capacity, poverty reduction, and management of infrastructure with private sector participation. The World Bank is working to consolidate Ecuador's macroeconomic framework, broaden access to economic resources, and strengthen government institutions. The CAF provides funding mainly for infrastructure projects.

## Data Sheet

<b>USAID Mission:</b>	Ecuador
<b>Program Title:</b>	Biodiversity Conservation
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	518-001
<b>Proposed FY 2004 Obligation:</b>	\$5,000,000 DA; \$1,000,000 ESF
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2005 Obligation:</b>	\$5,100,000 DA; \$2,000,000 ESF
<b>Year of Initial Obligation:</b>	FY 1997
<b>Year of Final Obligation:</b>	FY 2008

**Summary:** USAID's environment strategy in Ecuador conserves biodiversity by strengthening natural resources management in three globally biological important areas: 1) over 1,000,000 hectares in indigenous territories in northern and eastern Ecuador (Awa, Cofan and Huaorani); 2) the 133,000 km<sup>2</sup> Galapagos Marine Reserve (GMR); and 3) conservation of tropical Andes in the Condor Bioserve, which provides 70% of Quito's water. USAID's environmental activities in the indigenous territories focus on territorial consolidation, capacity building for territorial conservation, and financial sustainability. Within the Galapagos Marine Reserve, USAID supports implementation of the marine zoning plan; strengthens governance of the Marine Reserve, reduces illegal fishing and over-fishing, increases tourism's contributions to conservation, and promotes public education and outreach. Activities in the Condor Bioserve include strengthening natural resource management through innovative financing arrangements (e.g. conservation easements) and protected area management. All the programs create direct incentives for conservation.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Conservation in indigenous lands (\$1,260,000 DA, \$1,000,000 ESF). In northern Ecuador, indigenous peoples and their territories are vulnerable to the growing spillover effect of drug-related violence in Colombia and to illicit crops due to local needs to generate income. USAID will continue strengthening the legal rights of indigenous peoples over their resources, providing training in conflict mitigation, assistance for demarcation and defense of vulnerable boundaries (Cofan and Awa lands), and in the elaboration of natural resource management plans in the Huaorani and Awa lands. In addition, the indigenous federations of Awa, Cofan, and Huaorani will receive USAID-funded training to strengthen their administrative and technical capacities and to develop mechanisms, such as tourism and micro-enterprise, to guarantee their financial sustainability. Prime implementer is Chemonics and sub-implementers are the indigenous federations and partner non-government organizations (Altropico Foundation, Foundation for the Survival of the Cofan People, Jatun Sacha, and Ecolex).

Biodiversity program in the Galapagos (\$1,640,000 DA). USAID efforts will focus on: 1) strengthening the governance of the Marine Reserve, 2) increasing the capacity to sustainably manage fisheries, 3) increasing tourism's contribution to conservation, 4) implementing the zoning plan, and 5) improving communication with target audiences. A central program hypothesis is that by USAID improving the governance of the Marine Reserve and reducing fishing pressure, a better balance can be achieved between conservation and socio-economic activities. USAID programs will also update the Galapagos Management Plan, produce a strategic plan for the Charles Darwin Foundation, and complete the community-based ecotourism activity in Puerto Villamil, Isabela Island. Prime implementer is World Wildlife Fund in an alliance with eight other local and international non-governmental organizations, Galapagos National Park, and the U.S. Department of the Interior.

Conservation of the tropical Andes (\$2,100,000 DA). To stem the loss of grasslands and forests that threatens protected areas and Quito's water supply, USAID will focus on consolidating the conservation of

protected areas and their buffer zones in the Condor BioReserve through the hiring and training of community park guards, partnerships with private landowners to improve the management of their forests and farms (including both individuals and indigenous groups), closer collaboration and planning with local government, and legal and financial reforms to strengthen the Ministry of Environment. USAID will fund a new communication component to build on these interventions to catalyze behavior change in target audiences. Prime implementers are The Nature Conservancy and OIKOS Corporation, and sub-implementers are the Antisana Foundation, the Rumicocha Foundation, and EcoCiencia.

**FY 2005 Program:**

Conservation in indigenous lands (\$2,000,000 ESF, \$500,000 DA). USAID will fund sustainable income generating activities that provide alternative income sources to reduce the vulnerability of indigenous groups to coca production, given their proximity to the Colombian border. USAID will continue to provide technical assistance to indigenous groups to consolidate and sustainably manage their territories, defend their rights, and improve negotiations with outside economic and political actors. USAID will also initiate similar activities along the northern border and Amazon Basin with additional indigenous groups such as the Secoya and Siona. Same implementers as above.

Biodiversity program in the Galapagos (\$2,100,000 DA) will continue to improve the governance of the Galapagos Marine Reserve and reduce fishing pressures.

Conservation of the tropical Andes (\$2,500,000 DA). USAID will increase the focus of the program on the conservation of private lands, including indigenous territories threatened by colonization in the northern border. Same implementers as above.

**Performance and Results:** In Fiscal Year 2003, USAID's environment program achieved important results. Non-USAID financing of key conservation activities increased by \$1.8 million, ten new key policy documents were developed on water and fishing matters, and management plans were developed for additional 23,700 hectares in the Awa territories and Condor BioReserve.

The Indigenous Lands Program contributed to the recognition and legalization of the ancestral rights of the indigenous Cofan's 110,000 hectares through an agreement with the Ministry of Environment; initiated patrols to defend Cofan territory from external pressures; and strengthened the institutional capacity of the three indigenous groups. By Fiscal Year 2008, at least three indigenous groups (Awa, Cofan, and Huaorani) will be culturally, economically, and institutionally strong enough to sustain the conservation of their rich territories in the face of inroads made by colonists, coca producers, and extractive industries.

In the Galapagos, socio economic and scientific data collected during and after fishing seasons were used in the decision-making process by the new forum for local governance supported by USAID. A quantitative study confirmed that our outreach program is bearing fruit: there is a growing public interest in the participatory management of the marine reserve and two-thirds of Galapagos residents now identify themselves as having a medium or high understanding of the Marine Reserve. By Fiscal Year 2008, the Galapagos governance system will be effectively functioning, law enforcement at sea and in the trade channels will be effective, the vast majority of fisherman and tourism operators will be implementing best practices, and populations of key harvested species will become measurably healthier.

A 2003 study revealed that the program in the Condor BioReserve is having a positive biophysical impact, the Antisana and Cayambe Reserves remain relatively well conserved, losing only 0.12% and 0.24% respectively of natural habitat per year, well below Ecuadorian averages for deforestation (which range from 1 to 4% per year). As a result of the community park guard activities, the number of fires damaging natural grasslands has been reduced by 35% (from 99 to 64) during the period from CY 2000 to 2002. By FY 2008, the Ministry of Environment, collaborating NGOs, and local governments will consolidate the conservation of the Antisana and Cayambe Coca Reserves, and Cotopaxi and Llanganates National Parks, conserving 776,203 hectares, with no further significant loss of habitat.

## Data Sheet

<b>USAID Mission:</b>	Ecuador
<b>Program Title:</b>	Southern Border Development
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	518-011
<b>Proposed FY 2004 Obligation:</b>	\$2,250,000 ESF
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2005 Obligation:</b>	\$3,000,000 ESF
<b>Year of Initial Obligation:</b>	FY 1999
<b>Year of Final Obligation:</b>	FY 2005

**Summary:** The goal of USAID's Southern Border Integration Program is to improve the social and economic conditions of people living along the Peru-Ecuador border. The border program comprises five components, three of which are USAID's responsibility, while the other two are the responsibility of the Government of Ecuador, other donors, and the private sector. USAID's activities include: 1) construction and/or improvement of social infrastructure (i.e., potable water systems, sanitation units, and garbage collection programs); 2) technical assistance and training of local communities to increase the area of land legally titled and the scope of natural resources management plans in the Kutuku mountain range; and 3) delivery of technical assistance and training to local governments in administration and financial management, participatory strategic planning, and elaboration of local development plans. The Ecuadorian government and other donors are responsible for 4) increasing popular access to major infrastructure projects and 5) promoting private investment in the border area.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Expand and improve social services (\$980,000 ESF). USAID will continue to expand access to social services. In FY 2004 USAID will fund the construction and improvements of 15 potable water systems, along with 609 new or improved sanitation units, and five new or improved garbage collection programs. These outputs will benefit over 50,000 people. To manage and maintain the water systems, USAID will ensure that benefited communities elect water boards, whose main goal will be to make the systems sustainable. Women constitute 25% of the water board's members. Based on the positive results in reaching self sustainability of the water systems, USAID will sponsor an international conference in Loja Province to share best practices with institutions from Central America, Peru, Bolivia, and Colombia. CARE is the prime implementer and sub-implementers are the Prefecture of Loja, and Municipal Councils of El Oro, Morona Santiago, and Loja.

Improve natural resources management (\$790,000 ESF). USAID will provide technical assistance and training in land titling to local technicians and encourage the participation of communities in this process. Together they will develop two new policy documents that will strengthen the legal basis for natural resources conservation and management in the biodiverse Kutuku mountain range. It is expected that an additional 40,000 hectares of communal land will be under natural resource management plans and an additional 40,000 hectares will have legal titles. The number of beneficiaries for this component will be approximately 10,000. The prime implementer is CARE and sub-implementers are the following local non-governmental organizations: Jatun Sacha, Ecolex, and Arcoiris.

Local government strengthening (\$480,000 ESF). USAID will help provide technical assistance and training to improve the capacity of six additional local government entities to plan and implement service delivery programs and to improve service delivery management of six new municipalities. USAID will support local governments to promote the participation of different ethnic groups, in meetings with associations and chambers of commerce, with the purpose of addressing local needs in their

development plans. The prime implementer is CARE and sub-implementers are the Dutch Service for Development Cooperation (SNV), Pan-American Health Organization (PAHO), and Plan International.

**FY 2005 Program:**

Expand and improve social services (\$1,300,000 ESF). USAID will support efforts to build or improve social infrastructure as an expansion of activities implemented in FY 2004. In addition to building infrastructure, activities will focus on assuring the long-term sustainability of USAID's efforts. To this end, USAID will provide operational guidance to the democratically formed water boards and the local government sanitation and garbage management units. This component will benefit approximately 41,000 new beneficiaries. Same implementer and sub-implementers as mentioned for FY 2004.

Improve natural resources management (\$1,000,000 ESF). USAID will continue to provide technical assistance and training in natural resource management and will increase the land area with legal titles in or near protected areas and their buffer zones. The number of hectares that are under natural resource management plans will also increase. This will contribute to the conservation of this region's rich biological diversity and complement USAID's biodiversity program. This component will benefit more than 11,000 new beneficiaries. Same implementer and sub-implementers as mentioned for FY 2004.

Local government strengthening (\$700,000 ESF). USAID plans to expand its efforts to other municipalities to improve their capacity in project planning and service implementation by means of a consultative process. This will complement USAID's work in the democracy sector. Same implementer and sub-implementers as mentioned for FY 2004.

**Performance and Results:** In Fiscal Year 2003, 20 potable water systems and 829 sanitation units were constructed or improved as a result of USAID assistance. USAID also succeeded in improving natural resources management in selected areas along the southern border. USAID contributed to the legal titling of an additional 38,000 new hectares of land. In FY 2003, USAID assisted four local governments in the south in improving service delivery management. The capacity of several municipalities to effectively deliver services, with greater citizen participation and oversight, is instilling in local communities an appreciation for the benefits of good governance. This is particularly important for long-term economic stability and continued economic growth along the southern border. As the region's citizenry works together to build sustainable community service systems, its sense of self-reliance and local empowerment is increasing. During the implementation of this program, strong partnerships were formed with NGOs and the Government of Ecuador, and USAID is successfully expanding the availability of social services. Indeed, best practices developed under this program were shared with other development programs in Ecuador. For example, procedures developed in the south for the implementation of the "Mecate" manual water pump are being implemented with great success in the Amazon area. Approaches to land titling, critical to natural resources management, are also being shared with other USAID programs. USAID's assistance benefited approximately 85,000 people out of the 90,000 originally planned for FY 2003. Migration is the principal reason why USAID did not reach 100% of the targeted number of beneficiaries. However, it is expected that the results achieved will help curb migration in coming years.

By the end of FY 2005 there will be over 400,000 people benefiting from water, sanitation, and other social services delivered effectively by their local governments. Furthermore, the appropriate management of natural resources and titling of land will provide an element of sustainability necessary for the long-term development of Ecuador's southern border communities.

## Data Sheet

<b>USAID Mission:</b>	Ecuador
<b>Program Title:</b>	Democracy and Conflict Prevention
<b>Pillar:</b>	Democracy, Conflict and Humanitarian Assistance
<b>Strategic Objective:</b>	518-012
<b>Proposed FY 2004 Obligation:</b>	\$100,000 DA; \$8,000,000 ESF
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2005 Obligation:</b>	\$8,000,000 ESF
<b>Year of Initial Obligation:</b>	FY 2001
<b>Year of Final Obligation:</b>	2006

**Summary:** Public support and confidence in Ecuador's democracy is alarmingly low as shown by the first Democratic Values Survey completed in November 2001 by the University of Pittsburgh. To help reverse this situation and prevent a return to non-democratic government, USAID seeks to increase support for the democratic system by strengthening the justice system, building democratic local governance, fighting corruption, and supporting free and fair elections.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Justice Reform (\$1,966,764 ESF). USAID will fund technical assistance, training, observational trips and grants to: 1) strengthen the National Justice Reform Commission; 2) support the accusatory criminal justice system and further reforms to the Criminal Procedures Code; 3) promote justice reform through public-private partnerships; 4) lobby for justice reforms and judicial independence and impartiality with support of the Civil Society Justice Coalition; 5) assist the new Presidency of the Supreme Court to implement the judicial evaluation system and strengthen the Internal Affairs Office in the National Judicial Council; and 6) promote judicial security, including elimination of antiquated legislation and judicial and legal monitoring. Fundacion Esquel is the prime implementer for justice activities. Hacia La Seguridad is the prime implementer for judicial security efforts.

Local Democratic Governance (\$2,274,765 ESF, \$100,000 DA). USAID will expand technical assistance and training for citizen participation and oversight, local government strengthening, and decentralization policy programs to 16 additional local governments in 2004 and consolidate previous work in 15 local governments. USAID will continue supporting the Shuar Federation, an indigenous organization, to strengthen local governance services. Associates in Rural Development (ARD) and CARE are the prime implementers.

Anti-corruption (\$3,283,707 ESF). USAID will fund technical assistance, training, and grants to local organizations to support the Government of Ecuador (GOE) and civil society to: 1) increase transparency and accountability of key democratic institutions and processes; 2) improve the investigative and sanction capacities of institutions legally empowered to carry out such functions; 3) strengthen the ethical conduct and democratic values of public officials and citizens; and 4) support the Government of Ecuador's Anti-Corruption System to define anti-corruption policies, coordinating mechanisms, and major anti-corruption actions by the Ecuadorian government and civil society. Management Systems International (MSI) is the prime implementer.

Elections Support (\$474,764 ESF). USAID will support domestic observation efforts of local elections scheduled for October 2004, including civic campaigns, quick vote counts, mobilization of volunteers to observe elections, monitoring of campaign spending, and promotion of future electoral reforms. USAID will provide technical assistance, training, and commodities to strengthen the Electoral Court through the Consortium for Elections and Political Party Support Cooperative Agreement and other mechanisms. Participacion Ciudadana is the prime implementer.

**FY 2005 Program:**

Justice reform (\$2,654,390 ESF). USAID will fund a second evaluation of the application of the Criminal Justice Reform program. Based on the results, USAID will adjust its support for: 1) application of the criminal accusatory system; 2) implementation of a public defense system; 3) expanding public-private partnerships to strengthen justice reform; and 4) civil society groups to promote justice reforms and judicial independence. Implementing agency: To be selected through a competitive bid process.

Local democratic governance (\$1,891,030 ESF). USAID plans to consolidate citizen participation and oversight, local governance strengthening, and decentralization policy programs in the 16 local governments selected in 2004 with additional technical assistance, training, and grant funds. Implementing agency: To be selected through a competitive bid process.

Anti-corruption (\$2,348,492 ESF). USAID will continue the implementation of anti-corruption activities to promote transparency and to reduce corruption through the provision of technical assistance, training, and grants to public and civil society organizations. USAID will also maintain support for the implementation of the GOE Anti-Corruption System. Implementing agency: To be selected through a competitive bid process.

Elections support (\$1,106,088 ESF). USAID will support election observation and monitoring of campaign spending and civic campaigns for the 2006 National Elections and the Elections Tribunal. USAID plans to fund the third series of the Democratic Values Survey to measure the pulse of democracy and bring about national and local democratic dialogues. Implementing agency: To be selected through a competitive bid process.

**Performance and Results:** USAID support is critical to improving criminal justice reform, building local governance, fighting corruption, and promoting the effective participation of citizens in oversight processes. USAID funded major efforts that have gradually enhanced the application of the new Criminal Procedures Code and promoted the participation of a civil society justice coalition in defending judicial independence and demanding transparency. USAID consolidated its Local Governments Strengthening Program in fifteen municipalities and facilitated the creation in January 2003 of a presidential Decentralization Commission that included key public sector agencies concerned with decentralization of public functions. USAID non-governmental organization (NGO) partners played a major role in the definition of GOE anti-corruption plans and mechanisms. USAID developed a comprehensive design and selection process to intensify its fight against corruption in 2004. With USAID support, the local NGO Participacion Ciudadana has become a major actor in the promotion of civic and democratic practices nationwide.

By the end of Fiscal Year 2006 USAID expects: significant improvements in Ecuador's accusatorial criminal justice system; a more independent judiciary; more advanced democratic local governance and decentralization; less corruption; and stronger democratic values among the citizenry. The Government of Ecuador's Interagency Commission will have improved Ecuador's capacity to execute more effectively a reformed Criminal Procedure Code. The Judiciary will be encouraged to act more independently following implementation of a judicial evaluation system of its judges. Successful practices in local governance, popular participation, and decentralization will be expanded to additional localities. The Ecuadorian government and civil society efforts to promote the implementation of the Ecuadorian Anti-Corruption System will be advanced. Furthermore, Participacion Ciudadana will again have played a major role during the 2004 sub-national elections and in subsequent election activities.



## Data Sheet

<b>USAID Mission:</b>	Ecuador
<b>Program Title:</b>	Northern Border Development
<b>Pillar:</b>	Democracy, Conflict and Humanitarian Assistance
<b>Strategic Objective:</b>	518-013
<b>Proposed FY 2004 Obligation:</b>	\$15,000,000 ACI
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2005 Obligation:</b>	\$15,000,000 ACI
<b>Year of Initial Obligation:</b>	FY 2001
<b>Year of Final Obligation:</b>	FY 2006

**Summary:** USAID's Northern Border Program is aimed at containing the spread of a coca/cocaine economy into Ecuador, by strengthening northern border communities through an integrated strategy of preventive development. Activities funded under this program include: 1) support for social infrastructure projects (mainly potable water and sanitation); 2) productive infrastructure (primarily farm-to-market roads, small bridges, and irrigation canals); 3) strengthening of local government capacity and citizen participation; 4) increasing employment and income through licit productive activities, including a new Global Development Alliance (GDA) project for cacao; 5) and a communications/public diplomacy strategy to create support for these activities.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Improve living conditions of the northern border citizens (\$9,000,000 ACI). USAID will support the construction of water and sanitation systems for approximately 37 communities, which will bring clean water to 70,000 beneficiaries in at least five provinces. USAID will provide technical assistance and training to build community and municipal government capacity for the sustainable management of these systems and for building more effective participation of communities in local government decision-making. This activity will help up to ten municipalities address a wider range of governance issues democratically, including: participatory planning; budgeting and financial management; transparent contracting in public services; and land titling. USAID will expand community organizations' strengthening activities by building the capacity of local indigenous, Afro-Ecuadorian groups, and other community-based organizations to participate effectively in local government planning, decision-making, and oversight. The prime implementer is the International Organization for Migration (IOM) and the sub-implementers for the Local Governance Improvement Programs will consist of private voluntary organizations.

Create Employment Opportunities (\$5,600,000 ACI). USAID will fund productive activities and infrastructure. The latter primarily consists of farm-to-market roads, small bridges, and community irrigation systems. USAID plans to continue this component with completion of ten new bridges and a major irrigation project unifying several traditional canals in Carchi Province, benefiting at least 20,000 people. USAID will fund efforts to increase competitiveness of existing rural enterprises by mitigating constraints to increasing licit jobs and incomes. USAID will develop competitive productive activities to help prevent activities related to the drug economy. In addition to increasing income and employment, USAID will help increase agricultural and non-agricultural products and productivity; strengthen the financial viability of enterprises; consolidate business linkages; increase economic investment in the region; and reduce or eliminate selected policy and regulatory bottlenecks. USAID will identify and select five to seven promising product clusters within the geographic region and will design the interventions in the most critical segments of the value chains included in the clusters. Cacao has already been selected as the first priority cluster, due to its high and growing demand in the international markets. To further support this cluster, USAID recently jointly funded a private sector counterpart to focus primarily on expansion of purchase of cacao from small northern border farmers and marketing a specialty chocolate product for export. Prime implementers are ARD and Yachana.

Expand public awareness about coca/cocaine threat (\$400,000 ACI). USAID will implement two related but distinct activities: 1) educating the Ecuadorian public about the potential coca/cocaine threat and build awareness about the efforts by the U.S. Government and UDENOR to address the multiple spillover effects from Colombia; and 2) a community-based communications program that enhances the effectiveness of interventions in water, sanitation, health, and community development through radio and other mass media as well as face-to-face education and community promotion efforts. The Embassy Public Affairs Section (PAS) is the prime implementer.

**FY 2005 Program:**

Improve Living Conditions of the Northern Border Citizens (\$9,000,000 ACI). USAID will continue to assist the construction and rehabilitation of water systems and other infrastructure in six provinces, aimed at demonstrating to the population that their government works and provides useful services. USAID will also expand local government development and improved governance activities to other municipalities. Same implementers as above.

Create Employment Opportunities (\$5,800,000 ACI). USAID will expand into three or four additional sub-sector clusters, such as vegetables or tropical fruits, with intensified technical assistance, training and grants to strengthen farm-to-market linkages in support of improved rural competitiveness and increased employment and incomes. Support for complementary productive infrastructure such as small bridges, farm-to-market roads, and irrigation systems will also be continued. Same implementers as above.

Expand Public Awareness About Coca/Cocaine threat (\$200,000 ACI). Funding of a public diplomacy program through PAS and communications activities in support of infrastructure and local government interventions will continue with emphasis on evaluation of the program's impact. Same implementers as above.

**Performance and Results:** In FY 2003 over 110,000 poor, marginalized beneficiaries were provided with potable water and improved roads, bridges, and irrigation channels, in addition to the less visible, but equally important institution-building activities implemented in communities and municipalities. Fourteen water systems were built or improved, while municipal sewage disposal systems in two of the largest border towns were completed. Sustainability of these systems was a priority focus, with 29 local water boards trained to manage and operate systems. USAID also provided technical and management training and resources to five larger municipalities. Other important results included training for community organizations aimed at strengthening leadership and organizational capacity building benefiting thousands of indigenous groups and Afro-Ecuadorians in the Esmeraldas and Carchi provinces. Meanwhile, youth were targeted for drug prevention activities that reached more than 11,000 high school students, parents, and teachers. USAID's licit economic activities and public diplomacy efforts were designed and contracted near the end of FY 2003, but significant efforts to obtain baseline data, establish partners in the field, and develop working groups for implementation were all successfully accomplished. By the end of FY 2006, USAID's northern border program will have reached over 500,000 beneficiaries, strengthened at least ten local governments and 70 community water boards, and constructed over 70 water and sanitation systems. Other expected results are: a substantial increase of income for poor families, paralleled by an increase of licit on-farm and off-farm employment; the efficient functioning of five to seven product clusters based on profitable and sustainable products; and strengthening of producer organizations.

## Data Sheet

<b>USAID Mission:</b>	Ecuador
<b>Program Title:</b>	Economic Opportunities
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	518-014
<b>Proposed FY 2004 Obligation:</b>	\$2,030,000 DA; \$5,000,000 ESF
<b>Prior Year Unobligated:</b>	\$0
<b>Proposed FY 2005 Obligation:</b>	\$2,700,000 DA; \$4,000,000 ESF
<b>Year of Initial Obligation:</b>	FY 2001
<b>Year of Final Obligation:</b>	FY 2006

**Summary:** USAID's economic opportunities program is targeted at reducing rural and urban poverty through a two-pronged approach. The first intervention aims to improve the macroeconomic environment for more equitable growth. Activities are designed to help improve tax policy and administration; strengthen the investment climate; facilitate trade and promote competitiveness; and develop a strong, liberalized, and more transparent financial sector. The second intervention aims to develop a strong and sustainable microfinance sector in Ecuador, increasing access to financial and non-financial services by rural and urban micro-entrepreneurs. Activities are focused on institutional strengthening of microfinance service providers and the creation of a facilitative regulatory and supervisory framework.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Macroeconomic policy reform (\$110,000 DA, \$5,000,000 ESF). USAID will continue to provide Institutional strengthening and capacity building to the Internal Revenue Service (SRI) to build stronger tax policy and administration capabilities within the institution. USAID plans to provide technical assistance to the the Ecuadorian Customs Corporation (CAE) to solidify a tamper-proof, automated customs processing and information system. USAID will also support the Superintendence of Banks (SBSE) to fortify regulatory norms, increase effectiveness, streamline supervision systems, and implement a major organizational restructuring effort to ensure that its personnel have the technical and managerial qualifications required by international standards for risk supervision. USAID will also provide technical assistance to the Ministry of Economy and Finance (MEF), the leading economic policy entity, to improve the efficiency and transparency of fiscal management. A trade capacity building program will begin to complement a \$4 million Inter-American Development Bank program. This effort will assist Ecuador in becoming an effective free trade partner with the United States and will facilitate a smooth and faster transition to free trade for some of the more highly-protected Ecuadorian sectors. Prime implementer is Development Alternatives, Inc.

Access to microfinance services (\$1,920,000 DA). USAID's high-priority activities for FY 2004 include: 1) start-up of new microfinance strengthening activities for two private banks; 2) completion of in-depth feasibility work for transforming a finance company to a commercial bank and a non-governmental organization (NGO) to a finance company; 3) completion of second-stage strategic planning for two credit unions; and 4) technical assistance to one of the largest private banks to initiate a microfinance program. USAID will support other important activities including assistance to strengthen the institutional capacity of four additional credit unions; the development of the Third Annual Ecuadorian Microfinance Forum, with special attention to furthering consensus-building on key policies affecting the microfinance industry; guiding and monitoring the SBSE's licensing decisions for establishing Ecuador's first private credit bureaus; and carrying out a nationwide micro-enterprise benchmark study. USAID will also provide funds for the institutional strengthening of two additional credit unions to qualify for formal supervision by the SBSE and will intensify this effort to the eight selected credit unions. Technical assistance will focus on: 1) creating and using business plans; 2) policy reform in the areas of savings, credit and collections, investment, asset-liability management, human resource and internal controls; 3) credit analysis,

administration, and collections; 4) savings mobilization; 5) risk management and 6) financial monitoring. Prime implementers are Development Alternatives, Inc. and the World Council of Credit Unions.

**FY 2005 Program:**

Macroeconomic policy reform (\$298,000 DA, \$4,000,000 ESF). Planned assistance to the SRI will focus on promoting equity in the taxation system, and on continued strengthening of the audit and administrative capacities of the institution. With the appropriate demonstrated political will, USAID will continue to fund CAE's reform strategy to reduce corrupt practices. Activities to strengthen the financial sector will continue through fortifying the regulatory norms and capabilities of the SBSE. USAID will also continue to support MEF's efforts to solidify its reorganization and enhance its operational functions with respect to the implementation of the fiscal reform. Activities to promote trade, competitiveness, and structural reforms in Ecuador will continue to be an important part of the macroeconomic component in FY 2005. Selected activities will depend on the progress of trade agreement preparations and opportunities for helping to enhance competitiveness. Same implementer as above.

Access to microfinance services (\$2,402,000 DA). Funds will be used to continue intensive technical assistance to microfinance service providers, including banks, finance companies, credit unions, and NGOs committed to becoming licensed financial intermediaries. Same implementer as above.

**Performance and Results:** Positive macroeconomic results obtained to date have depended upon the Government's willingness for change. The program's transition to the newly elected Gutierrez administration was successful and previous groundwork for major activities was endorsed. Technical assistance to improve tax collection and administration with the SRI is bearing fruit. Through September 2003, actual tax revenue collections represented 12% of the Gross Domestic Product (GDP), this result annualized would be one percentage point above the planned figure of 14%. Long-term benchmark agreements containing actionable plans conditioned by results were signed with the SBSE and the MEF. Successful initial discussions with the public sector will lead to a highly facilitative program, provided Ecuador meaningfully participates in free trade agreement talks, and presents complementary trade positions based on its partners' respective competitive advantages, thus creating a solid basis for realistically implementable treaties. USAID continues to collaborate with the major multilateral donors and leverages the successes of each throughout all aspects of its macroeconomic program. Although USAID's assistance will continue to support institutional and policy reforms, political will remains the significant factor affecting the success of macroeconomic activities.

The key to the success of the microfinance component is the enhanced performance of microfinance service providers. Through September 2003 the 16 assisted institutions have increased the number of credit clients by 37,150 to a total of 189,600, and reached an average financial sustainability of 109% based on key financial indicators, with less than 5% of portfolio at risk. In addition, remarkable strides have been achieved in microfinance supervision, paving the way for rigorous oversight, and have even spread into the supervision of other financial service areas as well. Given the severe impact of the 1999 financial crisis, this is an important advance and a prerequisite for a sound economic climate according to the IMF. USAID assisted the SBSE on the development of new manuals for supervision of microfinance institutions and the establishment of a new microfinance normative framework. For the first time, due to USAID's technical assistance and the Government of Ecuador's will, private credit bureaus are now authorized to operate in Ecuador. In FY 2003 three credit bureau companies obtained business licenses and a fourth is in process. A national network of 15 credit unions will be established.

By the end of FY 2006, USAID expects a sustainable microfinance sector in Ecuador through strengthened service providers and a facilitative regulatory and supervisory framework for the sector. Goals through 2006 include an increase of 350% in the number of microcredit clients that are served by institutions which are 100% financially sustainable.

## Ecuador PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2002 Actual	FY 2003 Actual	FY 2004 Current	FY 2005 Request
Andean Counterdrug Initiative	10,000	15,896	15,000	15,000
Child Survival and Health Programs Fund	0	0	0	351
Development Assistance	6,840	7,127	6,821	6,953
Development Credit Authority	198	0	0	0
Economic Support Fund	17,250	17,500	14,911	15,000
PL 480 Title II	1,530	0	0	0
<b>Total Program Funds</b>	<b>35,818</b>	<b>40,523</b>	<b>36,732</b>	<b>37,304</b>

### STRATEGIC OBJECTIVE SUMMARY

518-001 Biodiversity Conservation				
DA	5,375	5,097	4,691	4,645
ESF	2,000	1,000	1,000	1,000
518-011 Southern Border Development				
ESF	2,250	3,000	1,988	2,000
518-012 Democracy and Conflict Prevention				
DA	85	300	100	0
ESF	8,000	8,251	7,923	8,000
518-013 Northern Border Development				
ACI	10,000	15,896	15,000	15,000
518-014 Economic Opportunities				
DA	1,380	1,730	2,030	2,308
DCA	198	0	0	0
ESF	5,000	5,249	4,000	4,000
TRANSFER				
CSH	0	0	0	351

Mission Director,  
Lars Klassen