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REPORT TO THE CONGRESS

What Should U.S. Policy Be For Development Assistance To Ecuador? B-146998

Agency For International Development
Department Of State
Department Of Defense
United States Information Agency
ACTION

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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FEB. 27, 1973



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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U- To the President of the Senate and the
Speaker of the House of Representatives

This report presents our findings, conclusions, and recommendations concerning the administration and effectiveness of U.S. economic and military aid to Ecuador. We have also issued a classified supplement containing certain U.S. policy decisions and assessments which are necessary, in our opinion, to fully understand United States and Ecuadorean relations.

The review was made as part of our continuing examination of foreign assistance programs, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of State; the Secretary of Defense; the Administrator, Agency for International Development; the Director, United States Information Agency; and the Director, ACTION.

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office
GNP	Gross National Product
USIA	United States Information Agency

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

WHAT SHOULD U.S. POLICY BE
FOR DEVELOPMENT ASSISTANCE
TO ECUADOR? B-146998

D I G E S T

WHY THE REVIEW WAS MADE

The United States contributed modest assistance to Ecuador, one of the lesser developed countries of the Western Hemisphere, in the 1940s and 1950s and introduced relatively significant amounts of capital and technology in the 1960s and 1970s. This assistance is administered mainly by Department of State, Agency for International Development (AID), Department of Defense, United States Information Agency, and Peace Corps.

Because administration and effectiveness of the foreign aid program recently has come under increasing scrutiny by the Congress and the administration and because Ecuador has been beset with political instability during the past decade, the General Accounting Office (GAO) believes that assessing the administration of U.S. assistance programs to Ecuador under these circumstances might provide information useful in the future.

FINDINGS AND CONCLUSIONS

Political instability in Ecuador has affected U.S. policy decisions and continuity of operations. In a classified supplement to this report, GAO describes the situation and U.S. policy decisions through late 1972. This classified information is necessary to fully understand the nature of United States-Ecuadorian relations.

GAO observations should be considered within the context that basic management considerations by AID, in some cases, may have been sacrificed to larger political goals.

From 1962 through 1972 U.S. direct and indirect assistance commitments to Ecuador amounted to about \$360 million. This assistance accounted for about 78 percent of the outside assistance to Ecuador and amounted to about 13 percent of Ecuador's Central Government revenues.

The United States had programmed \$20.6 million of additional U.S. assistance for Ecuador for fiscal year 1973. However, as of early 1973 AID was operating under a continuing funding resolution. (See pp. 11 to 13.)

GAO observations on
program management

- Short-term U.S. program objectives, goals, and priorities in Ecuador shifted frequently; the long-term U.S. objective is uncertain. (See p. 14.)
- Peace Corps management was responsive to the problem of ineffective programs. (See p. 22.)
- Authority had not been specifically assigned for monitoring the self-help requirements of the Food for Peace program. (See p. 27.)

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- Improvements were being made to correct diversions of commodities and other problems in the Food for Peace program. (See p. 28.)
- The United States Information Agency does not have, but is attempting to develop, a system for measuring the effectiveness of its programs to Ecuador. (See p. 31.)

Observations on program effectiveness

Did the increased levels of U.S. assistance during the past decade promote accelerated Ecuadorean development? GAO concluded that such assistance:

- Had served to construct or modernize transportation and power production facilities, health accommodations, and schools; feed people, transfer skills, change attitudes, cement United States-Ecuadorean relations; and protect certain U.S. economic interests. Some of the accomplishments were small when measured against the aggregate need.
- Had not served as a catalyst causing or permitting Ecuador to attain a significantly more ample and equitable distribution of income and level of living for all Ecuadoreans, the basic and ultimate purpose of U.S. developmental assistance. Such assistance had not caused the country to achieve increased political stability or accelerated progress in economic productivity, social reform, educational opportunity, housing, health, or employment availabilities.

Troublesome circumstances during the decade included:

- A declining availability of food.* Ecuador's per capita food produc-

tion declined during the decade. At the beginning of the 1960s Ecuador was the eighth most poorly fed nation in the Western Hemisphere. At the beginning of the 1970s only one country was more poorly fed. (See p. 43.)

- Inability to deal with the problem of low-cost housing.* More than 88 percent of Ecuador's housing units do not meet minimum standards of habitability. Low-income families could afford little of the limited housing constructed in Ecuador during the past decade. (See p. 63.)

- Sharp resurgence of malaria.* Malaria had been practically eliminated from Ecuador by the mid-1960s as a result of a U.S.-sponsored malaria eradication program. However, the United States terminated grant funding before acceptable alternative financing was agreed to and the program was largely suspended for more than 2 years. As a result Ecuador experienced a resurgence of malaria. (See p. 65.)

- Use by Ecuador of patrol boats.* Ecuador seized U.S. commercial fishing vessels with boats supplied and supported under the U.S. military assistance program. As of November 1972 the United States had spent about \$4 million for reimbursement to vessel owners for fines and other seizure costs. As of late 1972 Ecuador was still seizing and fining U.S. fishing vessels. (See p. 19.)

- Nullification of training efforts.* From 1960-71 about 4,000 Ecuadoreans received training in various skills and professions under U.S. assistance programs. During this same period about 2,350 skilled and professional

Ecuadoreans emigrated to the United States. (See p. 20.)

RECOMMENDATIONS OR SUGGESTIONS

- ✓ The Secretary of State and the Administrator of AID should reassess the purpose and value of U.S. assistance to Ecuador, giving particular consideration to certain policy questions identified in chapter 4. (See p. 73.) Other recommendations aimed at alleviating problems relating to program management are outlined on page 77.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The State Department and AID did not agree to reassess the value and purpose of the developmental program to Ecuador but said actions were being taken on certain GAO recommendations relating to formulation of program aims, strategy, and mix. The agencies took the position that weakness in the Ecuadorean commitment to its own development during the past decade was not a sufficient reason for the United States to abandon its assistance unless by so doing it would cause the Ecuadoreans to respond more effectively in the future.

If nondevelopmental considerations warrant continuing substantial assistance, GAO suggests that the Supporting Assistance Appropriation might be more appropriate for use than developmental assistance resources. (See p. 79.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider:

- Whether it may be in the U.S. interest to limit the development resources which can be made available to Ecuador until such time as the country can demonstrate a reasonable commitment to its own development.
- The appropriateness of creating statutory standards limiting the aggregate amount of public resources that can be provided to recipients who have not demonstrated a reasonable commitment to development over sustained periods of time.
- Whether legislative emphasis to insure more effective implementation and monitoring of self-help provisions of the Food for Peace legislation might be desirable. (See p. 79.)

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CHAPTER 1

INTRODUCTION

The General Accounting Office has examined the results of U.S. development resources furnished Ecuador since 1961 and the administration of programs by U.S. agencies. The agencies with primary responsibility for those programs include the Departments of State and Defense, the Agency for International Development (AID), the United States Information Agency (USIA), and the Peace Corps.¹

Our examination was primarily directed toward evaluating (1) the long term effectiveness of U.S. assistance in promoting Ecuador's development and (2) the adequacy of U.S. management controls.

Essentially all the matters presented in this report were discussed with the Mission during our review. Additionally, a draft of this report was submitted to the above-mentioned agencies for comment, and comments were received on or before September 28, 1971. Because of the apparent inconsistencies between our draft report and the Department of State and AID response, and to recheck the conditions reported, we returned to Ecuador in November and December 1971. Portions of the agencies' comments are included as appendix I. Agency comments were evaluated and incorporated into the report as we considered appropriate.

The Department of State and AID noted at the outset of the 1960s that Ecuador was beset with political instability--typical of Ecuadorean history. In addition, Ecuador faced obstacles common to most other Latin American countries, an entrenched oligarchy and social and cultural traditions not conducive to rapid progress. The Department of State and AID concluded that Ecuador possessed a sufficient base for a significantly increased rate of development.

The hypothesis underlying U.S. foreign assistance policy is that only a developing country itself can create

¹The Peace Corps was incorporated into a newly established agency, ACTION, on July 1, 1971.

the internal conditions which are necessary to achieve a sustained rate of growth and development and to eventually make that growth and development self-generating and self-sustaining. All the United States can do is supply missing components, principally capital and technology, in an otherwise favorable situation. U.S. doctrine traditionally has provided that assistance programs must be designed to serve as a catalyst, causing or permitting a recipient country to mobilize a larger and an intensified development effort, accelerating development progress, assisting in more equitable distribution of income, and improving the level of living in the recipient country.

In evaluating the degree to which Ecuador's development¹ had accelerated, we compared the growth and development achieved in the past decade to that achieved during the 1950s when more limited U.S. assistance programs were designed to aid in establishing necessary preconditions for growth and development within Ecuador. To ascertain the relative significance of external assistance to Ecuador, we compared such assistance with Government of Ecuador revenues, in accordance with Department of State and AID guidelines. We also examined the relationship between promised assistance to Ecuador, the influence potential, and the extent of assistance actually furnished, the actual resource transfer.

U.S. INTEREST IN ECUADOR

During the early 1960s the Department of State and AID reasoned that Ecuador was important to the United States as a means of strengthening and preserving the inter-American system, in that alienating even a small country like Ecuador, with a population of about 6 million, would tend to weaken the system. During the late 1960s and early 1970s, due to problems created by conflicting positions held by Ecuador and the United States on the breadth of territorial sea

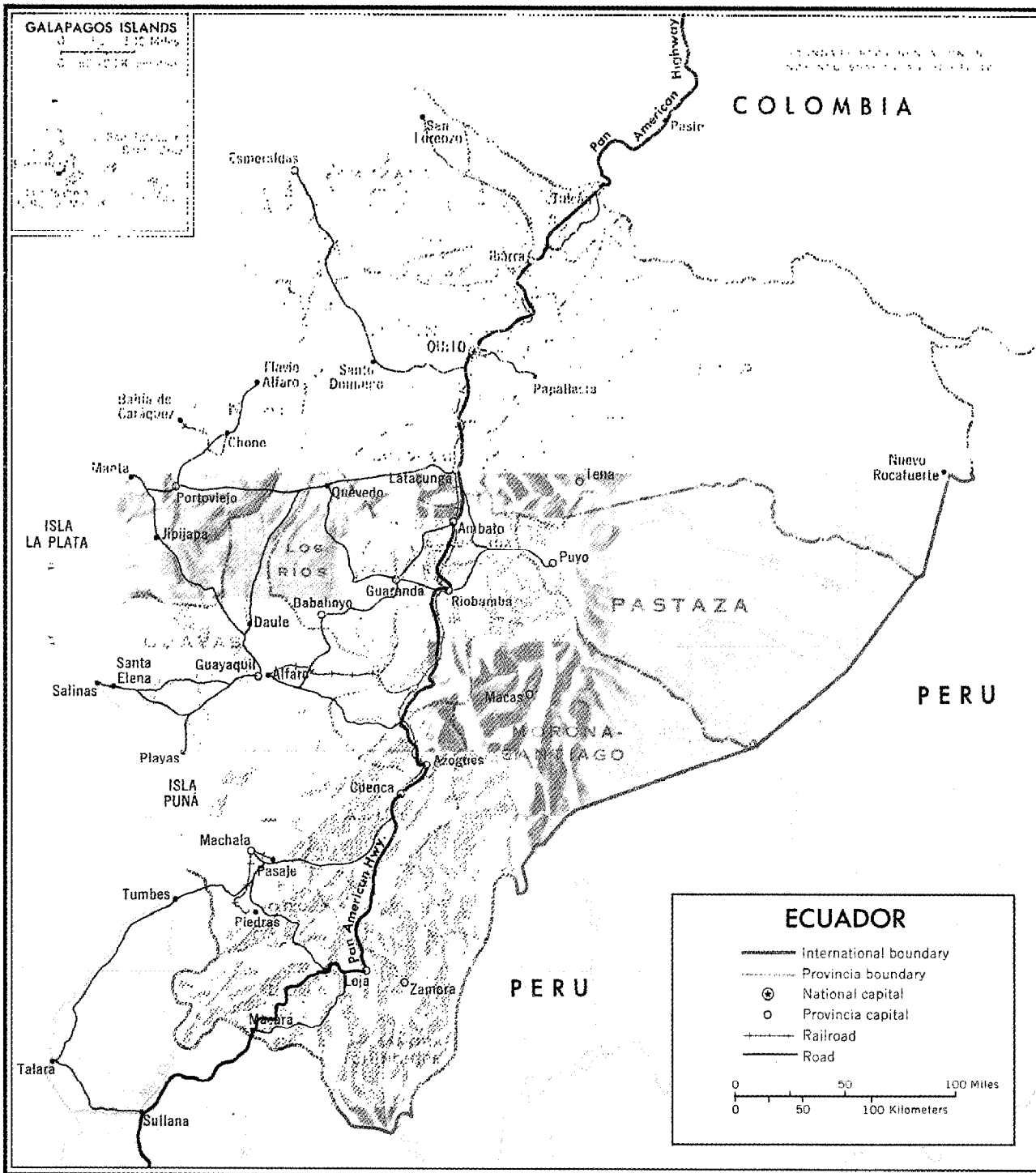
¹Data on developing countries is subject to numerous qualifications and, in many cases, represents only rough estimates or approximate orders of magnitude rather than precise statistics. Within this context, we believe the statistical data provided in this report is reasonably reliable.

and due to U.S. petroleum companies' investments and planned investments in Ecuador, U.S. economic interests became a more critical factor in policy calculations.

The following map shows Ecuador's significant topographical features and its geographical relationship in South America.

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SUMMARY OF EXTERNAL ASSISTANCE TO ECUADOR

External assistance to Ecuador from 1946 through mid-1972 amounted to about \$614.1 million, and the United States provided about 78 percent. Assistance was provided to Ecuador directly through bilateral programs and indirectly through international organizations.

<u>Fiscal year</u>	<u>Total external assistance</u>	<u>Direct and indirect U.S. assistance</u>	<u>U.S. assistance as a percent of total</u>
	————(millions)————		
1946-61	\$154.9	\$116.9	75.5
1962-72	<u>459.2</u>	<u>359.5</u>	78.3
Total	<u>\$614.1</u>	<u>\$476.4</u>	77.6

Net Assistance by Source

	Total assistance from 1946 through June 1972 (note a)		Percent furnished during	
	Amount (millions)	Percent	1962-72	1946-62
AID and predecessor agencies	\$174.8	28.5	77.6	22.4
Military assistance	54.0	8.8	52.4	47.6
Food for Peace	51.0	8.3	77.5	22.5
Export-Import Bank	47.8	7.8	53.3	46.7
Social Progress Trust Fund	27.5	4.5	100.0	-
Peace Corps	17.2	2.8	100.0	-
Other U.S. economic programs	<u>3.8</u>	<u>0.6</u>	<u>-</u>	<u>100.0</u>
U.S. Government direct assistance	<u>376.1</u>	<u>61.3</u>	<u>72.8^b</u>	<u>27.2</u>
Inter-American Development Bank (58 percent)	102.7	16.7	100.0	-
International Bank for Reconstruction and Development (26 percent)	71.3	11.6	36.9	63.1
United Nations (39 percent)	28.4	4.6	73.2	26.8
International Development Association (33 percent)	31.4	5.1	100.0	-
International Finance Corporation (27 percent)	<u>4.2</u>	<u>0.7</u>	<u>100.0</u>	<u>-</u>
International agency programs (percent of U.S. participation)	<u>238.0</u>	<u>38.7</u>	<u>77.9</u>	<u>12.1</u>
Total	<u>\$614.1</u>	<u>100.0</u>	74.8	25.2

^aDoes not include commodity trade assistance from U.S. preferential purchase of sugar and coffee of an uncertain but probably significant amount. (See GAO report B-167416, dated October 23, 1969, for an identification and discussion of certain problems involved in such assistance.)

^bFrom fiscal year 1962 through fiscal year 1972, direct U.S. assistance commitments totaled about \$273.8 million. Disbursements during this period totaled about \$250 million.

Direct assistance during the Alliance equaled about 10 percent of Ecuador's Central Government revenues and 16 percent of Ecuadorean imports. Direct and indirect U.S. assistance together equal about 13 percent of Central Government revenues and 22 percent of Ecuadorean imports.

General Area of Assistance
1946 to 1972

	<u>Amount</u> <u>(millions)</u>	<u>Percent</u>
Infrastructure	\$181.1	29.5
Agriculture	113.6	18.5
Military and police force	57.8	9.4
Industry	57.8	9.4
Health and sanitation	50.3	8.2
Education	38.1	6.2
Social welfare and housing	20.2	3.3
Other (note a)	<u>95.2</u>	<u>15.5</u>
Total	<u>\$614.1</u>	<u>100.0</u>

^aIncludes about \$32 million of budget support and program assistance which program managers could not attribute to any given assistance area.

Direct U.S. assistance to Ecuador has taken a variety of forms. Those forms of assistance and changes in levels from 1962 through 1972 are discussed in the classified supplement to this report. This classified information is necessary to fully understand the nature of United States-Ecuadorean relations.

Direct U.S. Assistance Commitments Since 1962

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u> (note a)	Total for fiscal years 1962-72	Annual average for fiscal years 1962-72
	(millions)												
Alliance for Progress loans	\$13.0	\$13.3	\$15.6	\$ 7.8	\$11.0	\$3.2 ^b	\$.1 ^b	\$ 3.2	\$19.4	\$10.6	-	\$ 90.6	\$ 8.2
Technical assistance and development grants	6.9	4.8	3.6	3.3	4.1	3.6	3.3	2.5	3.6	4.5	4.9	45.1	4.1
Food for Peace:													
Title I sales	-	3.8	-	1.4	-	1.2	-	3.2	-	4.8	.9	15.3	1.4
Title II donations	2.1	2.3	4.4	2.2	1.6	1.8	1.3	2.9	1.7	1.7	2.2	24.2	2.2
Military assistance program (note c)	2.3	3.7	3.1	2.3	3.9	3.1	2.8	2.6	2.0	2.5	-	28.3	2.6
Peace Corps	.8	1.6	2.7	2.1	2.6	1.5	1.5	1.3	1.0	.8	1.3	17.2	1.6
Export-Import Bank long-term loans	-	1.3	-	5.5	5.2	-	7.5	-	3.0	2.0	1.0	25.5	2.3
Other	<u>13.6</u>	<u>9.9</u>	<u>1.0</u>	<u>.3</u>	<u>3.0</u>	<u>-</u>	<u>-</u>	<u>.3^b</u>	<u>-</u>	<u>-</u>	<u>.1</u>	<u>27.6</u>	<u>2.5</u>
Total	<u>\$38.7</u>	<u>\$40.7</u>	<u>\$30.4</u>	<u>\$24.9</u>	<u>\$31.4</u>	<u>\$8.0</u>	<u>\$16.3</u>	<u>\$15.4</u>	<u>\$30.7</u>	<u>\$26.9</u>	<u>\$10.4</u>	<u>\$273.8</u>	<u>\$24.9</u>

^a Represents deliveries. Fiscal years 1963 and 1964 data include "other military assistance" (ship loans) of \$1.1 million and \$0.5 million, respectively.

^b Represents net deobligation.

^c Preliminary data.

CHAPTER 2

OBSERVATIONS ON OVERALL U.S. PROGRAM MANAGEMENT

This chapter contains our observations on overall U.S. assistance program management in Ecuador, with particular emphasis on opportunities for improvement. United States development programs in Ecuador during the 1960s and the early 1970s were operated (1) under increasing legislative and procedural restrictions, (2) in an Ecuadorean environment that was institutionally and technically weak, beset by political instability, and frequent economic disorganization, and (3) under circumstances where basic management considerations, in some cases, may have been sacrificed to larger political goals. Our observations should be considered within this framework.

In summary, we observed that:

- Statements of short term objectives, goals, and priorities shifted frequently and lacked continuity; and the basic long term objective was uncertain.
- There were certain basic program inconsistencies.
- Peace Corps management was responsive to the problem of ineffective programs.
- Authority had not been specifically assigned for monitoring the self-help requirements of the Food for Peace program.
- USIA did not have, but was developing, a system for measuring the effectiveness of its programs to improve the public image of U.S. assistance to Ecuador.

SHIFTING PROGRAM GOALS AND PRIORITIES

We found that U.S. economic assistance program goals and priorities for Ecuador shifted frequently and greatly from year to year, that most goals were not stated in terms susceptible to objective measurement over a period of time, and that the strategy and means employed to achieve many individual goals were not explicit.

One of the underlying problems is the lack of a definitive basic long term U.S. objective for its developmental assistance to Ecuador. The policy statements, being broadly stated along the lines of development to a degree sufficient that external assistance is no longer needed, have little practical meaning in relation to Ecuador.

Until 1966 development assistance programs for Ecuador covered periods of less than 2 years. Since that time policy formulation for Ecuador has covered periods of 2 to 5 years, but assistance program planning involves basically an annual focus.

Program guidance provides that foreign aid must be recognized as never being more than a part of the total resources available for development in a recipient country. In the absence of the will or the capability of the recipient country to accelerate development effort, assistance may merely replace the domestic resources that otherwise might be available; it may make easier the flight of domestic capital from the country; it may postpone the initiation of necessary but politically difficult internal measures; or it may end up in the pockets of the corrupt.

A number of improvements have been made in the short term U.S. assistance program planning--ranging from the development and annual review of an official statement of U.S. Government policy toward Ecuador to specific emphasis in 1970 by the U.S. Mission in Ecuador on developing a more detailed management system for individual project activities.

During 11 planning years, fiscal years 1961 through 1971, basic program planning documents for Ecuador included the following changes in goals and priorities.

Program purposes

--Short term objectives of a bilateral political nature, such as securing Ecuadorean agreement with positions taken by the United States in international organizations or securing Ecuadorean agreement on a conference to discuss the fisheries problem, were established in 8 of the 11 years, ranging in priority from first to fifth.

- Short term objectives relating to political stability in Ecuador were established in 6 of the 11 years and received a priority of first or second in those years.
- Short term objectives relating to economic and social development in Ecuador, although often subordinated to nondevelopmental aims, were included in 9 of the 11 years and were assigned priorities ranging from first to fourth.

Program emphasis

- Administrative, fiscal, and tax reforms--identified as the most serious development bottlenecks in Ecuador by both U.S. program managers and others at the beginning and throughout the 1960s--were given no priority in 3 years and were assigned priorities ranging from first to fifth in other years.
- Agricultural development was assigned a range of priorities from first to sixth. Specific goals relating to agricultural development established in one year were often not reiterated in subsequent years, nor was mention made of whether the goal was achieved or, if not, why it was dropped. As noted on page 44, available data indicates that Ecuador is the second most poorly fed nation in the Western Hemisphere.
- Educational development was assigned no priority in 3 years, and in other years the priority assigned ranged from first to third.

We noted that goals established in annual assistance program planning documents were not formulated in terms susceptible to objective measurement over a period of time.

Generally, the strategy and means to be employed in achieving individual program goals were not explicit. U.S. program managers in Ecuador took the position that strategy could not be clearly defined for achievement of program goals because of the variables involved. Variables cited included (1) changes in Government of Ecuador leadership,

(2) activities of U.S. interest groups--petroleum companies, fish-processing companies, mushroom growers, and others-- acting through the Congress, (3) statutory restrictions, and (4) ever-changing U.S. program managers.

Agency position

The Department of State and AID agreed that our report made a useful recommendation regarding the lack of continuity in program documents but disagreed with our statement that objectives, goals, and priorities shifted frequently and that there was a lack of long term U.S. objectives. The agencies stated that the order in which aims were listed did not imply a strict order of priorities.

The agencies agreed that objectives and goals should be formulated in measurable terms. They pointed out, however, that in some areas the qualitative nature of development objectives and goals made objective measurement over a period of time difficult and complex.

The agencies stressed that their assistance to Ecuador was administered in terms of carefully established priorities and were reviewed annually. Further they stated that program documents for all projects included explicit plans and time frames for achieving project targets.

GAO evaluation

We agree that the order in which aims are listed does not necessarily imply a strict order of priorities and recognize that changes are warranted from time to time. However, if the agencies' comments are accepted, then there is no apparent system of priorities. We also agree with the agencies' comment that there are areas where making objectives and goals measurable over a period of time is difficult. However, as a general rule a longer term plan and a demonstrated country commitment are necessary ingredients; and we believe both have been lacking in the U.S. assistance to Ecuador.

We do not believe that explicit plans and time frames for achieving project targets are effective substitutes for larger development program goals stated in terms susceptible

to objective measurement over a period of time. Both agency policy and legislative guidance provide for goal formulation in these terms.

PROGRAM INCONSISTENCIES

U.S. development assistance during the 1960s and early 1970s was an integral part and the principal instrument of U.S. foreign policy in Ecuador. Development assistance has helped in cementing United States-Ecuadorean relations, protecting U.S. economic interests, and promoting short-term U.S. political objectives. Some program inconsistencies are probably inevitable.

1. In early 1969, after period of deteriorating relations with Ecuador (from 1966 through the return of constitutional government in June 1968) in which Ecuador had displayed little commitment to development, the Department of State and AID developed plans to provide development loans and Food for Peace assistance to Ecuador, as a response to the desire of the new Ecuadorean Government to have a harmonious relationship with the United States.
2. One of Ecuador's richest undeveloped resources, its fisheries, did not receive any U.S. assistance during the 1960s and early 1970s because of the unsolved political dispute with Ecuador regarding offshore fishing rights. At one time, the United States considered offering such assistance within the context of a negotiated solution to the fisheries dispute involving Ecuador, Chile, and Peru. As of November 1972, claims valued at about \$4 million had been paid by the U.S. Government to the owners of seized vessels under Public Law 90-482, the Fishermen's Protective Act of 1967. Additional claims estimated at about \$0.3 million were pending. Ecuador was continuing to seize and fine U.S. tuna boats through late 1972.
3. Patrol boats used by Ecuador to seize U.S. commercial fishing vessels were in some cases the very boats provided and supported under U.S. military assistance programs. In 1970 GAO was told by military advisors in Ecuador that the capability of Ecuador's Navy was demonstrated by its operations against foreign flag fishing craft in claimed territorial waters.

4. From 1960 to 1971 over 4,000 Ecuadoreans received training in various skills and professions under U.S. assistance programs in the United States or other areas outside Ecuador. During approximately the same period, about 2,350 skilled or professional Ecuadoreans emigrated to the United States. A recent study stated that Ecuador had the second largest "brain drain" in Latin America. The lack of skilled human resources is a basic constraint to Ecuadorean development, and the loss of such scarce resources is a serious retardant. Although AID stated that 80 percent of the Ecuadoreans trained under its programs were using their skills in Ecuador, training under U.S. assistance programs was not increasing Ecuador's supply of trained personnel substantially, but rather was serving to replace skilled Ecuadoreans emigrating to other countries. Consideration of ways to solve Ecuador's emigration problem is needed.

Agency comments and GAO evaluation

Generally the Department of State and AID did not agree that the examples cited constituted program inconsistencies. The examples, although based on individual U.S. programs, look to the broader context of overall programing goals and objectives. From this broader viewpoint, we believe it is inconsistent to meet the objectives of one program at the expense of another. Following is an item-by-item discussion.

1. The agencies stated that the assistance program was reinstated in fiscal year 1969 to demonstrate to the new Government of Ecuador that the U.S. Government was prepared to assist Ecuador to further the development of the country, a stated goal of the new government. GAO does not believe this statement addresses the issue of providing development assistance to further a political goal of harmonious relations.
2. The agencies stated that the U.S. Government was and had been ready to assist Ecuador to develop its rich fisheries as an important factor in economic development. According to the agencies, they had been prohibited from doing so by congressional attitudes

regarding the fisheries dispute. The agencies stated that such assistance must await resolution of the fisheries dispute between the two governments. GAO believes the statement that developmental assistance will be withheld pending solution of a political problem is indicative of a program inconsistency.

3. The agencies stated that the patrol boats were provided to assist Ecuador in achieving a capability to protect its sovereignty. They said the fact that this capability seemed to have been used in seizures of U.S. fishing vessels did not alter the validity of providing the patrol boats. GAO still believes this represents a program conflict. The United States has a residual right to the equipment supplied under the military assistance program. We believe that U.S. program managers have the responsibility for insuring that equipment already furnished is not being used for purposes not originally agreed upon.
4. The agencies stated that unfortunately the emigration of nationals possessing skills needed in the country was a problem faced by all less-developed countries. The agencies further stated that training was directed toward filling specific manpower shortages in the country, whereas emigration in Ecuador appeared to be motivated by the lack of effective demand for certain professions and skills.

PEACE CORPS MANAGEMENT RESPONSIVE
TO LACK OF PROGRAM EFFECTIVENESS

As of late 1972 the Peace Corps program had about 230 volunteers in Ecuador. The program was initially funded in fiscal year 1963. The Peace Corps Act established three basic purposes for its program:

- To help people in host countries in meeting their need for trained manpower.
- To promote a better understanding of the American people on the part of the people served.
- To promote a better understanding of other people on the part of Americans.

The Peace Corps rated about 75 percent of 2,147 Peace Corps volunteer man-years on projects in Ecuador, from its inception through June 1971, as minimally effective because the volunteers were unemployed or underemployed or because there was little or no host government support. However, we believe the Peace Corps management since 1967 has been reasonably responsive to the problem of ineffective programs.

At the end of the Peace Corps' first year, about 150 volunteers were in Ecuador. By late 1967 the number of volunteers had reached 300. Major program emphasis was on agriculture, community development, education, and electric power.

Evaluations of the program in Ecuador were made by the Peace Corps in late 1967 and again in 1968. Problems of both program administration and weak host government support were identified. These findings included:

- Volunteers were neither selected nor trained to match the need of a specific job.
- Volunteers were without jobs due to lack of necessary financial support or the failure to assign required counterpart personnel by the host government agency.

--Projects were discontinued before the arrival of volunteers.

--Early volunteer terminations were relatively high.

As a result of the evaluations, the Peace Corps program in Ecuador was reduced and restructured. A number of projects were terminated and the number of volunteers was reduced to about 134 in 1971. In 1970 and 1971 the percentage of all projects rated as minimally effective decreased to about 21 percent and 10 percent, respectively, while about 45 percent of all projects met standards for a rating of highly effective.

In 1971 the Peace Corps in Ecuador made a program review. The review concluded that (1) the Peace Corps must become an effective development agency, (2) programs must have specific objectives, (3) programs may be of long duration, but there must be recognizable change at least every 2 years, (4) programs should be regularly monitored and evaluated but not until program objectives have been defined more precisely, (5) program development and operations must be systematized, and (6) the principal staff responsibility should be to achieve program objectives.

Summary of Effectiveness of Major Peace Corps Projects (note a)
Fiscal Years 1963-71

Major projects	Started	Fiscal year		Total man-years	Approximate cost (000 omitted)	Evaluation of project effectiveness (note b)
			Terminated			
Rural community action	1963		1968	512	\$ 3,840	Minimal
General education	1963		1968	149	1,120	Minimal
Urban community action	1963		1968	70	520	Minimal
Agricultural extension	1963		1969	541	4,060	Minimal
Cooperatives	1964		1968	154	1,160	Partial
Physical education	1964		1969	172	1,290	Minimal
Artisan	1966		1969	72	540	Minimal
Electrification (note c)	1966		Ongoing	107	790	High
Regional rural development (note d):						
Campesino leadership/community development	1968		Ongoing	46	320	Partial
Artisan	1969		1971	31	220	High (note e)
Teacher training	1969		1970	20	150	Minimal
Agricultural extension	1969		Ongoing	90	640	High
Cooperatives	1969		Ongoing	64	470	Minimal (note f)
Colonization	1969		Ongoing	45	300	High
Other and miscellaneous	1969		Ongoing	74	480	Mixed
Total				<u>2,147</u>	<u>\$15,900</u>	

^aData, evaluations, and descriptions based on information supplied by the Peace Corps in Ecuador.

^bHigh--Peace Corps volunteers highly employed; adequate host government support; project goals accomplished; contribution to Ecuador's development.

Partial--Most Peace Corps volunteers employed; some host government support; project goals partially accomplished; some contribution to Ecuador's development.

Minimal--Peace Corps volunteers underemployed; little or no host government support; little or no accomplishment of program goals; little or no contribution to Ecuador's development.

M i N

Mixed--Included several types of projects, some considered effective, others considered to have had partial and minimal effectiveness.

^cIn 1967 Peace Corps concluded that all projects except electrification would be restructured or discontinued, and a new program primarily emphasizing agriculture and cooperatives would be initiated.

^dIn 1971 Peace Corps replaced the regional-rural-development structure of its projects with a structure of programs and activities.

^eProject phased out; project goals have been met; design and quality of handicraft products considered high; marketing in Ecuador considered well organized.

^fProject was reduced in 1971 and reduced further in 1972; generally, volunteers will not be replaced.

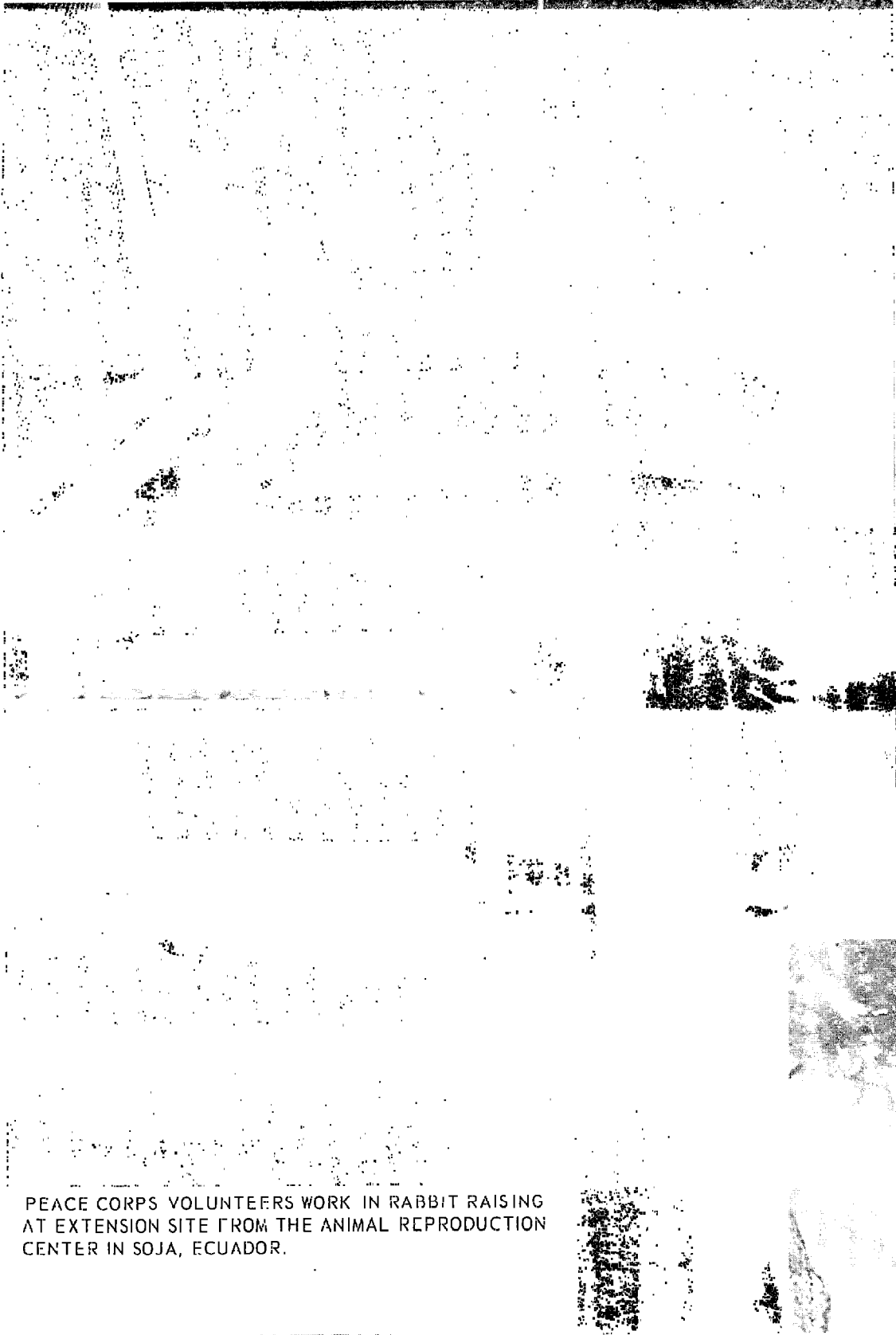
Peace Corps position

The Peace Corps generally agreed with the facts presented in our report and stated that it would continue to evaluate programs in Ecuador and to maintain quality program standards.

BEST DOCUMENT AVAILABLE

VOLUNTEER TEACHERS AT STATE OPERATED FORESTRY
EXTENSION SCHOOL NEAR QUITO, ECUADOR'S CAPITOL

PHOTO COURTESY OF PEACE CORPS



PEACE CORPS VOLUNTEERS WORK IN RABBIT RAISING
AT EXTENSION SITE FROM THE ANIMAL REPRODUCTION
CENTER IN SOJA, ECUADOR.

PHOTO COURTESY OF PEACE CORPS

FOOD FOR PEACE PROGRAM IMPROVEMENTS

From the inception of the Food for Peace program in 1954 through fiscal year 1972, Ecuador received \$51 million of food aid through donations and concessional sales. Since about 1961 donations have been emphasized. In our review of Food for Peace programs in Ecuador, we found that:

- The executive branch had not issued an executive order to designate authority and responsibility for the implementation of the self-help provisions of Food for Peace legislation.
- Food for Peace legislation had not identified the relative importance of objectives.
- AID had tried to alleviate the problem of diversion of commodities from their intended use.
- AID was making procedural changes which should improve supervision of the use of local currency proceeds derived from the sale of Food for Peace commodities.

Authority for monitoring self-help provisions not delegated

Food for Peace program legislation, as amended, linked the food aid programs to self-help efforts on the part of recipient countries. The amended legislation requires that effective January 1, 1967, (1) the President consider the extent of self-help measures in the recipient country before entering into an agreement, (2) sales agreements include a description of the self-help measures in the recipient country, and (3) sales agreements also provide for termination of the agreement whenever the President finds that the self-help program described in the agreement is not being adequately developed.

A June 30, 1969, food sale was the first agreement with Ecuador after self-help provisions were included in the law. On June 30, 1971, a second agreement was signed. We found no systematic evaluation of Ecuador's self-help performance, nor could we find meaningful guidelines, instructions,

policies, or procedures to insure efficient Food for Peace program operations in Ecuador. A lack of clearly defined responsibility and authority among the Department of State, AID, and the Department of Agriculture appears to be the basic reason for the lack of systematic evaluation. The executive branch has not designated authority and responsibility for implementing the self-help provisions. Apparently the executive agencies involved have not agreed which agency should be delegated the responsibility. In 1972 another Public Law 480 agreement was signed.

Priorities of program objectives
not identified

The Public Law 480 legislation links the sales program with country efforts toward a greater degree of self-reliance and specifically cites efforts to meet the problem of food production as a requirement for sales. The legislation also provides that agricultural self-help efforts be a condition of sales eligibility. However, the legislation does not indicate what priority each objective and requirement should have in programing Food for Peace commodities.

Programing of the June 1971 Ecuador sales agreement raises a question about the relative importance each objective should have. Ecuador's efforts to improve agricultural production, particularly in meeting the food needs of its people, have been limited (see ch. 3); therefore eligibility for a sales program appears questionable. In October 1970 Ecuador requested an agreement for 1971. The agreement was being processed until it was put "under review," along with the AID lending program, because of tuna boat seizures and the unsatisfactory Ecuador-United States postal debt situation. Processing of the agreement was resumed when U.S. commercial sales of wheat to Ecuador were threatened by another country's offer of a 3-year concessional wheat program.

AID efforts to alleviate
commodity diversions

From time to time during the 1960s, U.S.-donated commodities were found for sale on the open market in Ecuador. An AID survey in February 1970 found Food for Peace commodities, primarily powdered milk, on the black market in one

of nine cities visited. Although AID could not rule out the possibility of large-scale diversion, available evidence showed only minimal black-market activity. To alleviate the problem AID planned increased program surveillance through more frequent checks of inventories, distribution procedures, and local markets.

In May 1970 we made an unannounced visit to a "mother and child" feeding program and observed its operation. We were impressed by both the need for the program at this location and by the appreciation of the individual recipients. Also, in our opinion, at this location there was management control over assistance commodities and over the eligibility of the recipients. In certain schools we visited, we also noted that program commodities were on hand for school feeding and nutritional programs.

In December 1971 we visited two child feeding programs and a warehousing facility used for the programs. In our opinion, management control of the commodities was adequate.

Dispersal and use of local currency proceeds not monitored

We found that, before the June 30, 1969, food sale, AID had given little attention to monitoring the progress of projects financed with local currency generated under Food for Peace program activities. AID is responsible for supervising the dispersal and use of local currency proceeds derived from the sale of Food for Peace commodities and determining adherence to the terms of the project agreements. Through the end of fiscal year 1972, project agreements totaled about \$15 million.

We found that before the 1969 sale (1) project agreements did not always provide for the right to audit, (2) AID had not clearly assigned responsibility for monitoring the projects, (3) funds had been diverted from agreed uses, and (4) although agreements generally required Government of Ecuador reports, reports were rarely received by AID.

AID included provisions in the local currency project agreements on the use of the money generated from the June 30, 1969, sale, which should provide AID with the means

to effectively monitor the use of the funds. The agreements included

- the right to audit,
- the designation of an AID project manager to maintain a continual surveillance of the projects,
- the segregation of funds,
- the right to onsite inspections, and
- a requirement for semiannual progress reports and for a report upon completing the project.

LACK OF METHOD FOR MEASURING IMPACT
OF USIA ACTIVITIES

U.S. foreign assistance is to be an instrument of progress both in substance and in the recipient's public mind. USIA should develop programs to promote the U.S. image abroad. Programs directed toward influencing Ecuadorean attitudes use various techniques of communication--personal contact, radio broadcasts, libraries, publications, press, motion pictures, television, exhibits, and English-language instruction. USIA program costs increased from about \$410,000 in 1960 to about \$610,000 in 1972, a decrease from 1971.

A basic problem is that USIA is unable to measure its accomplishments. It has not developed a yardstick for ascertaining whether attitudes have actually been influenced as a result of its efforts. USIA can assess its accomplishments in terms of "activity" but not in terms of "impact." For example, it can measure the effectiveness of a radio program in terms of the probable number of people who listened by knowing the number of receivers in the area, the popularity of the station, the time of the broadcast, and other data; but it cannot objectively measure the impression made on the audience or the extent to which attitudes were changed. This is because USIA (1) has not quantified its objectives and (2) has not developed feedback for evaluating operations.

In 1969 USIA contracted with a consulting firm for assistance in designing a program for evaluating operations based on knowledge rather than hunches. The consulting firm concluded in June 1970 that there was no immediate hope for a single quantitative index of effectiveness of USIA's efforts to influence target audiences or to change attitudes. However, the consultants further concluded that the difficulties of quantifying USIA's impact did not constitute a reason for failing to focus objectives.

The consultants asserted that USIA was without a hope of evaluating its programs and its performance in the absence of objectives, goals, and criteria which establish measurable, actionable, and feasible ends. Moreover, the consultants stated that USIA evaluation at that time was

nothing more than subjective assertion, difficult to support by experience and intuition much less quantitative evidence. The consultants recommended that USIA institute a systematic procedure for establishing objectives and for revising them in response to changing currents in foreign affairs and realistic assessments of operating experience relative to costs.

Agency comments

USIA agreed that it was not able to directly measure the net effect on attitudes of exposure over a period of time to its programing and reiterated many of the difficulties. USIA stated that it had been concerned with developing methodology for measuring its programs' impact for some years and that it would continue to seek a practicable solution. USIA cited recent efforts it had taken to intensify its search for better ways of targeting its resources.

CHAPTER 3

ECUADOR'S DEVELOPMENT PROGRESS SINCE 1961

This chapter examines Ecuadorean development progress in key economic and social sectors. It also presents our analysis of the country's self-help performance during the 1960s and early 1970s. None of GAO's comments are intended as criticism of Ecuador but are made in the context of our analysis of U.S. development resources and the extent of consideration of Ecuadorean progress during administration of those resources. In summary,

- Ecuador had been unable to mobilize domestic resources to the extent necessary for sustained or accelerated development.
- Ecuador's average annual growth rate in agriculture declined during the last decade compared with the 1950s.
- Ecuador's industrial sector performed well during the 1960s.
- Ecuador's transportation facilities and power production had not kept pace with demand.
- Ecuadorean governments, for the most part, had not been committed to social development and reform.

PER CAPITA ECONOMIC GROWTH RATE

From the beginning of 1962 to the beginning of 1972, Ecuador averaged an annual per capita economic growth rate of 2.2 percent, an increase from the 1.5 percent rate achieved during the period 1950-61 but short of the 2.5 percent minimum rate established by the Alliance For Progress and the United States. The increase in per capita economic growth was small because of the dual problem of an increased rate of population growth and Ecuador's ability to only slightly accelerate its rate of economic growth. (See app. II for a comparison of annual per capita incomes for Latin American countries as of 1961 and 1971.)

The following schedule compares Ecuador's growth during the 1960s with its growth during the 1950s and compares the average annual levels of external assistance to Ecuador during each period.

	<u>Average 1950-61</u>	<u>Average 1962-71 (note a)</u>
Gross national product (GNP) growth rate	4.6%	5.6%
Population growth rate	<u>3.1</u>	<u>3.4</u>
Per capita economic growth rate	<u>1.5%</u>	<u>2.2%</u>
Average annual external assist- ance (millions)	\$7.5	\$26.4

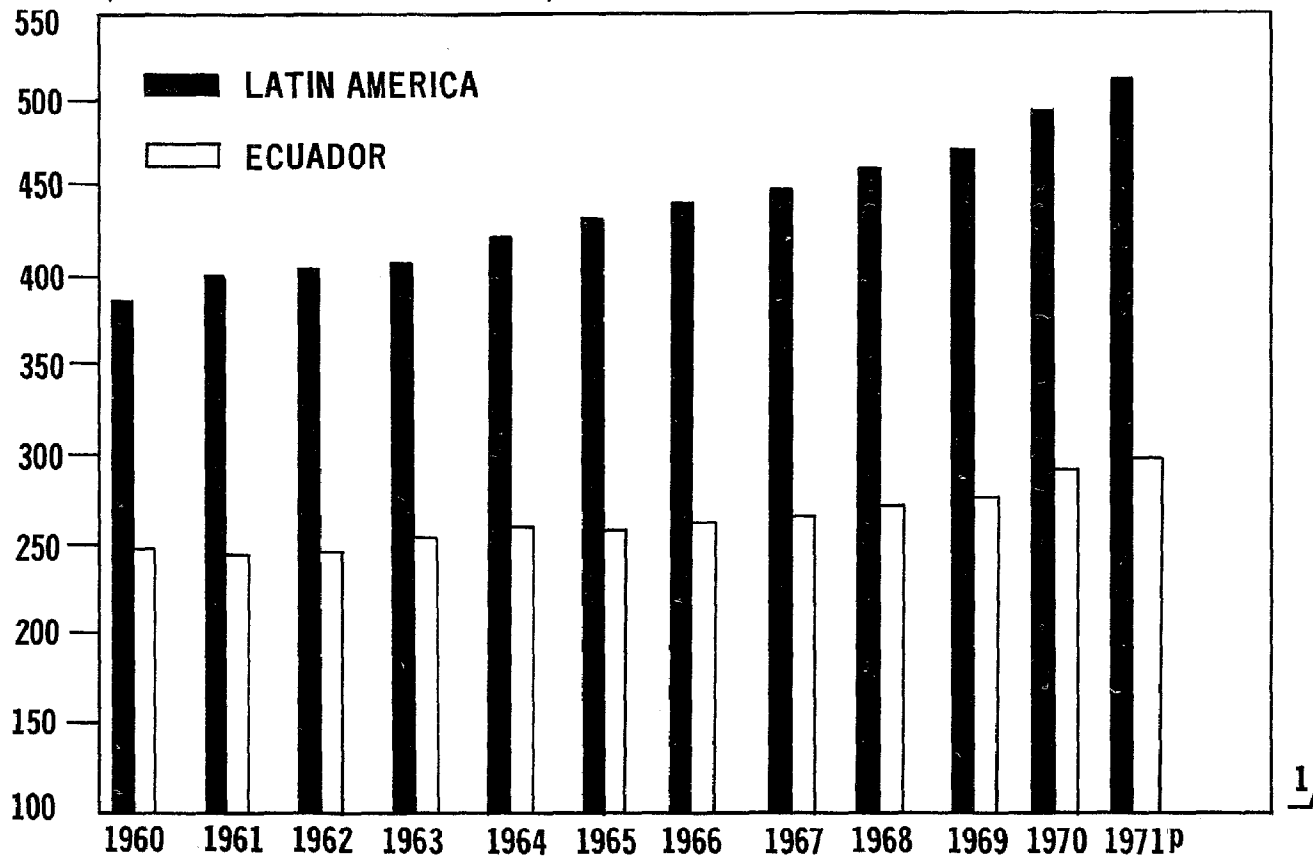
^aBased on constant 1970 prices and preliminary 1971 data.

During 1970 the Department of State and AID concluded that demand for resources to meet social needs was likely to increase in Ecuador but that such needs could not be met peacefully unless there was a substantial and simultaneous increase in the rate of economic growth. In their judgment, prospects for substantially increasing the rate of Ecuadorean growth before the mid-1970s, the estimated date that the Texaco-Gulf oil fields were scheduled to be in full production, were not good. Oil exports by Texaco-Gulf began in August 1972. All other American companies are still at the stage of exploratory drilling.

The following graph shows Ecuador's per capita GNP and the per capita GNP for the Latin American region.

During the 1960s there was a moderate change in the makeup of Ecuador's gross domestic product with agriculture decreasing and manufacturing increasing in importance. In 1970 real gross domestic product increased by an estimated 8.8 percent. Agricultural output rebounded strongly from drought-reduced levels of the previous 2 years. Exports reached record levels, rising 20 percent from 1969, on the basis of high world coffee prices and near-record banana

PER CAPITA GNP
(EXPRESSED IN U.S. DOLLARS, CONSTANT 1969 PRICES)



P=PRELIMINARY

1/ Latest available AID data.

sales because of favorable conditions in the Japanese market and unfavorable production conditions in Central America. Expenditures of \$57 million by foreign oil companies during the year had a significant impact on income and employment.

Ecuador can look forward to substantial and increasing earnings both from oil exports and from development expenditures of oil companies. An international lending agency projected that Ecuador's net foreign exchange earnings from oil were about \$43 million in 1971 and should increase to between \$108 million and \$156 million in 1976, depending on the exploratory activities of other oil companies and expansion plans of Texaco-Gulf. Although quantitative data on the extent of Ecuador's petroleum reserves is only tentative, available U.S. Government data indicates that such reserves are substantial and production may equal 2 percent of the world's crude oil.

Pipeline facilities in Ecuador are capable of transporting up to 250,000 barrels of oil daily. However, it is believed that Ecuador has the potential of producing 1,000,000 barrels daily by 1980-85 if internal conditions are favorable for further foreign investment. This compares favorably with Latin America's largest oil producer, Venezuela, which produces approximately 3,100,000 barrels of oil daily for export. Both the United States and Japan are very interested in Ecuador's petroleum resources.

Although availability of petroleum revenues should make development easier, long term growth will depend on the agricultural and industrial sectors. The oil sector has few direct linkages to the rest of the economy, according to an international lending agency, and its main contribution will be to increase government revenues.

ECUADOREAN PERFORMANCE IN MOBILIZATION AND USE OF RESOURCES

The success of a country's development effort depends both on the amount of capital and on noncapital resources it can mobilize for investment and on the efficiency with which such resources are used. A developing nation may obtain resources for development internally through increased mobilization or externally through loans and grants or private investment from other countries. When a developing nation is committed to mobilize and effectively use increased levels of domestic resources, foreign assistance serves as a catalyst and a supplement to such increased mobilization. When this is not the case, foreign assistance may be only a temporary palliative.

The inability of Ecuador to commit and mobilize its domestic resources for economic development has been the principal problem encountered by U.S. program managers in Ecuador. Department of State and AID policy provides that the level of U.S. developmental assistance be related to the effectiveness of the recipient in mobilizing domestic resources and applying them to priority investments.

Resource mobilization

During the 1950s Ecuador saved about 19 percent of the increases in its GNP. During the 1960s--despite the increase in U.S. assistance to Ecuador--the percentage of increase in GNP saved by Ecuador declined to about 11 percent. AID guidance provides that the share of an increase in GNP that is saved for development purposes is the best available measure of a country's achievement in mobilizing its domestic capital supply. Department of State and AID criteria provide that a minimum of 20 percent of annual increments be saved.

Taxes increased from 15.5 percent of GNP in 1961 to 16.4 percent at the beginning of 1972--the latest data available. This level of taxation is high compared with that of other Latin American countries. However, it is somewhat deceptive because the structure of the public sector in Ecuador is one of the most fragmented in all of Latin America. The Central Government shares fiscal powers not only with municipalities and the provinces but also with a large

number of autonomous and semiautonomous entities.¹ These entities, as a group, account for a higher proportion of total public sector revenues and expenditures than the Central Government proper. In fact, available data shows that the Central Government has had a deficit every year since 1950, while the autonomous and semiautonomous entities have experienced cash surpluses every year but one since 1950. Moreover, the Central Government has had little access to these cash surpluses.

Ecuador's single largest source of ordinary revenue is customs duties, which have supplied between one-third and one-half of total tax revenue. Thus, the Ecuadorean tax system depends, to a large extent, on foreign trade and fluctuations in it. Other sources of revenue include taxes on income and consumption.

A U.S. Internal Revenue Service advisory team sent to Ecuador, under AID auspices, found that Ecuadoreans with wealth and influence were paying little or no taxes. The team estimated that Ecuador loses about half the revenues which could be collected because of nonenforcement of tax laws.

The Central Government, which receives approximately 75 percent of its income from tax revenues, suffered increasingly large deficits during the late 1960s. The Central Government deficit rose from 22 percent of total expenditures in 1960 to an estimated 28 percent in 1970. If the budgets approved by the Ecuadorean Congress had been implemented, the deficit for 1970 would have amounted to 50 percent of total expenditures. Increasingly, the Central Government has obtained financing for deficits from the Central Bank with accompanying increases in the money supply and inflationary pressures.

Studies by the Aid Mission in Ecuador in 1968 and 1969 led to the conclusion that capital flight from Ecuador in

¹It has been estimated that there were approximately 1,400 of these entities before an effort in 1970 to reduce their number and bring them under Central Government control.

the 1960s increased over that of the 1950s but that nothing definitive could be said about the volume of such capital flight. Department of State and AID guidance provides that one way for a country to increase its supply of domestic capital is to take steps to limit private attempts to send capital outside the country. Such transfers are usually made to reduce the risk from economic or political instability at home or to seek more profitable investment opportunities than those available at home.

In addition to the flight of capital, Ecuador during the 1960s also experienced the problem of human flight--the outflow of human talent. (See p. 20.)

Ecuador's efforts to accelerate its development of human resources were not intensified during the 1960s over its efforts during the previous decade. (See p. 61.)

Resource utilization

The productivity of total investment in Ecuador during the 1960s increased over that of the 1950s. Department of State and AID criteria provide that an index of the effectiveness with which resources are used in a developing economy can be determined by a ratio of the increase in output to total investment in the economy. This productivity indicator, which takes account of better use of existing capital and labor as well as relative investment, increased from about 31.4 percent during the 1950s to about 36 percent during the 1960s.

The Government of Ecuador has been unable to budget its resources for development in accordance with a rational system of priorities. These fiscal problems directly result from the lack of coordination among the several hundred autonomous and semiautonomous agencies which receive over 50 percent of Government revenues through earmarked taxes. U.S. capital and technical assistance, totaling about \$6.6 million, was provided during the 1960s to assist Ecuador to develop more effective public administration.

Ecuador had permitted the number of public servants to grow to the extent that the Government was barely able to meet operating expenses and had little left over for development. The Central Government has frequently been forced to

reduce budgeted expenditures to keep its deficit to manageable levels. Because salaries account for almost half of current expenditures (and reducing the number of civil servants is difficult to accomplish), a large share of expenditure reductions have been made in proposed capital expenditures. Central Government capital expenditures as a percentage of total expenditures decreased from about 27 percent in 1961 to about 19 percent at the beginning of 1972.

The Department of State and AID made significant efforts, with limited success, to encourage Ecuador to adopt certain administrative and fiscal reforms recognized by the United States and other assistance donors as essential prerequisites to accelerated development. Some early progress was made under the military junta in the areas of tax administration, career civil service, and inservice training. However, after the fall of the junta, available evidence indicated that the Government of Ecuador made little effort until 1970 to effect the necessary reforms. No U.S. assistance was provided for such reform after 1967. Also \$3 million of a \$10 million 1966 AID loan, conditioned on the adoption by Ecuador of certain revenue measures, was withdrawn. After President Velasco's assumption of extraordinary powers in 1970, a number of reforms were instituted to relieve the crisis in the Ecuadorean economy, in terms of the anticipated level of the Central Government deficit and the country's exceedingly poor balance-of-payments situation. The actions were primarily aimed at restricting Government spending--primarily development and investment--and increasing revenues by imposing new taxes. In August 1970 a uniform exchange rate was adopted and the sucre was devalued by 39 percent.

U.S. oil investment is playing an increasingly important role in Ecuador's economy. Adequate planning to allocate these new resources could insure achievement of an economic and social transformation in Ecuador. (See p. 36.)

Agency position and GAO evaluation

The Department of State and AID expressed the view, in their response to a draft of this report, that Ecuador had performed reasonably well in the mobilization of its own and foreign resources. In support of this judgment, the agencies

cited Ecuador's creation of several development banks and other institutions, certain tax measures recently adopted, and attempts by the Government of Ecuador to reduce the large number of uncoordinated autonomous and semiautonomous governmental agencies. They also cited the elimination of the free convertibility of the sucre and the establishment of a stock market as Ecuadorean actions to reduce the flight of capital from Ecuador.

We believe that the Department of State and AID judgment that Ecuador has performed reasonably well in the overall mobilization of its resources should be considered in light of:

- The Department of State's and AID's lack of standards as for determining what would constitute performing reasonably well.
- Ecuador's not mobilizing its capital resources sufficiently to meet U.S. minimum assistance standards. During the 1960s, when the United States increased the level of its foreign aid, Ecuador saved less of the additions to its national income for development activities than it saved during the previous decade.
- Although no precise measures or objective standards have been established by U.S. program managers to gauge the degree of Ecuador's efforts to mobilize its human resources, there are indications that Ecuador's efforts in education and employment programs did not accelerate during the past decade.
- The Department of State's and AID's current judgment that Ecuador has performed reasonably well in the mobilization of its resources contrasts with the long-standing judgment reflected in their internal evaluation documents, which cite Ecuador's failure to mobilize its own resources for development as a major problem area.
- The latest data available shows that individual tax measures cited by the Department of State and AID have resulted in both gains and losses of revenue. However, no data was available to show the net tax

revenue increases, if any, of the several tax measures adopted.

--The Department of State and AID could not provide any specific data demonstrating either the extent or effects of the cited reductions in the large number of uncoordinated autonomous and semiautonomous Ecuadorean agencies.

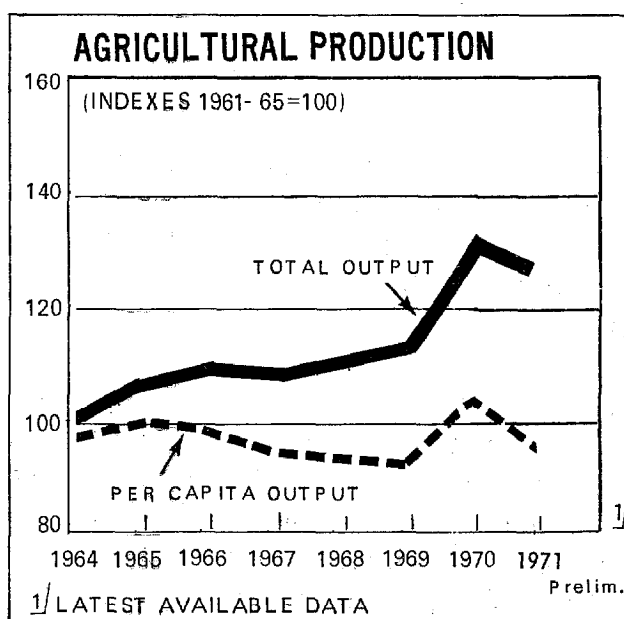
--Although we believe that eliminating the sucre's free convertibility and establishing a stock market should have a positive effect on Ecuador's capital flight problem, evidence demonstrating the effect, if any, these measures had on the capital flight problem was unavailable.

Intrinsically, the question of whether Ecuador's development performance was sufficient to justify the levels of U.S. development assistance provided demonstrates, we believe, the need for U.S. program managers to establish some standards for guidance to permit objective evaluation of a recipient's development performance. A basic principle underlying both past and proposed U.S. development assistance programs is that a recipient country, such as Ecuador, should receive assistance in relation to the level of development effort and sacrifice that it is making in its own behalf. Standards establishing a common basis for measuring and objectively evaluating a recipient country's performance, however, have not been developed.

ECONOMIC GROWTH AND DEVELOPMENT

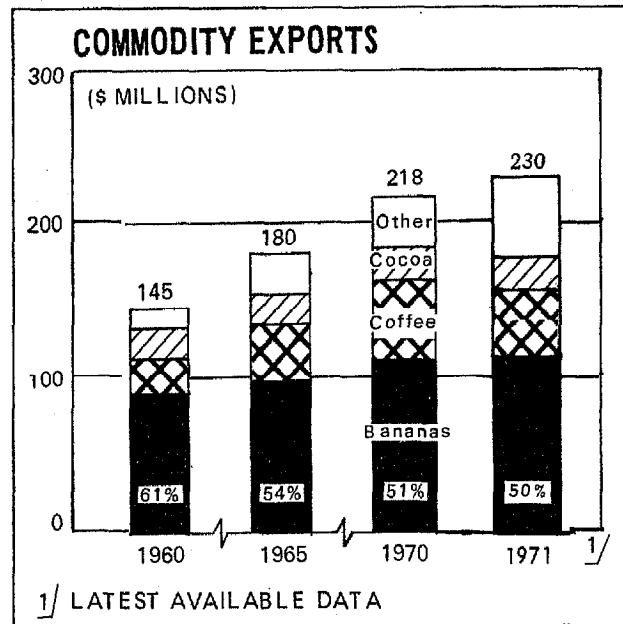
Agriculture

Ecuador's overall growth and development is dependent, to a significant degree, on the progress of its agricultural sector. In 1971 AID estimated that Ecuadorean agriculture employs about 55 percent of the labor force, provides at least 90 percent of the country's exports, and makes up about 32 percent of the country's gross domestic product. During the 1960s, Ecuador's annual growth rate in agricultural production was 2.7 percent, a decline from the annual growth rate of 4.4 percent achieved in the 1950s. As a result, per capita production actually decreased.



Although agricultural production increased in 1970, the expansion was largely the result of recovering from drought and of high world market prices for bananas, cacao, and coffee. The growth did not continue in 1971.

Ecuador's agricultural sector continues to supply a dominant portion of Ecuador's total exports. A basic U.S. development goal during the 1960s was export diversification as a means of making the economy less dependent on three primary products--bananas, cocoa, and coffee. Latest data available showed that these products continued to account for about 80 percent of Ecuador's exports.



Although efforts were made by Ecuador to increase the export of new commodities, such as abaca, mushrooms, and tea, the development which probably will have the major impact on Ecuador's exports will be exploration and development of its petroleum resources.

According to recent United Nations food consumption statistics, during the 1960s Ecuador became the second most poorly fed nation in the Western Hemisphere with more than one-third of its rural population suffering from malnutrition. Statistics in 1960 showed Ecuador in eighth place. During most of the 1960s, the United States provided agricultural commodities to Ecuador in support of voluntary agencies' nutritional programs under the Food for Peace program. Department of State and AID estimates show that up to 11 percent of the Ecuadorean population were recipients of such commodities in 1970.

Growth of the Ecuadorean agricultural sector has been inhibited by a number of factors, the most serious of which have been the shortage of agricultural credit and of technical resources. These factors have been further complicated by a poorly developed and inadequate institutional structure through which credit, technical, and marketing assistance are provided to the agricultural sector, as well as the land-tenure system.

Ecuador's efforts to improve agricultural production were relatively small. Key actions have included (1) elevating the Ministry of Agriculture to cabinet status in 1964, (2) passage of an Agrarian Reform and Colonization Law in 1964, and (3) establishment of a legal requirement in 1964 that commercial banks grant additional credit to the agricultural sector. In 1970 the Government of Ecuador created the Ministry of Production, composed of most of the former Ministry of Agriculture and the artisan and small-business programs of the former Ministry of Industries and Commerce. Also in 1970 a new agrarian reform law was decreed.

Although these actions were intended to improve agricultural productivity, they were not financed or implemented in a way that had significant impact on production. For example, during most of the 1960s the Ministry of Agriculture was provided only limited funds, most of which were used for salaries. As a consequence, a fairly well-equipped agricultural extension service, with a large number of people trained under the U.S. assistance program during the 1950s and 1960s, could not be effectively employed. Those who were employed were hindered by the lack of gas, oil, and spare parts for vehicles. According to AID and the Department of State, about the only use to which the trained personnel were put was providing assistance to large agricultural landlords who paid their expenses.

During the 1960s Ecuador did not develop a coordinated and workable plan to increase its agricultural production. A new agricultural development plan for 1972-76 is expected to follow the course of previous ones, according to AID's 1971 planning documents. The frequent changes in policy direction by the Ecuadorean Ministry of Agriculture--there were 19 changes in Ministers from 1963 through 1969, an

average of almost three a year--contributed to ineffectiveness. There were two more changes in Ministers in 1970, bringing to five the number of Ministers of Agriculture under the Velasco administration alone. Therefore external assistance was directed to individual problem areas.

External assistance to Ecuador for agricultural development through June 30, 1972, amounted to \$113.6 million and since 1961 has totaled \$100.6 million. Direct U.S. assistance included about \$14.1 million in capital assistance, \$11.8 million in technical assistance, \$27.2 million in donated food for Food for Peace, and \$9.6 million in local currency from Food for Peace sales.

U.S. capital assistance to the agricultural sector was primarily for credit while technical assistance focused on cooperative development, research and extension, crop diversification, and marketing improvements. The largest single loan to assist Ecuadorean agricultural development was signed in May 1972 and provided \$7.2 million to increase production of vegetable oilseeds, cacao, and castor beans and to improve marketing organizations. Assistance to Ecuador's agriculture from other donors was directed to development of fisheries, livestock, African palm, and wool.

Agency comments

The Department of State and AID did not directly address our observation that Ecuador's efforts to improve agricultural production were relatively small. The agencies stated that little of AID's capital assistance to agriculture since 1964 has been disbursed. According to AID, the limited disbursements means that these loans cannot have very much influence on the agricultural sector for at least 2, and probably 3 or 4, more years.

The agencies felt that the improved climate for obtaining international lending agency assistance reflected Ecuador's increased competence for using technical assistance. They based this judgment on total capital assistance by Ecuadorean agencies, such as the Ministry of Agriculture, National Development Bank, and National Institute for Agriculture Research, to the agricultural sector. This climate had only recently reached a maturity sufficient to attract

significant capital assistance from international lending agencies.

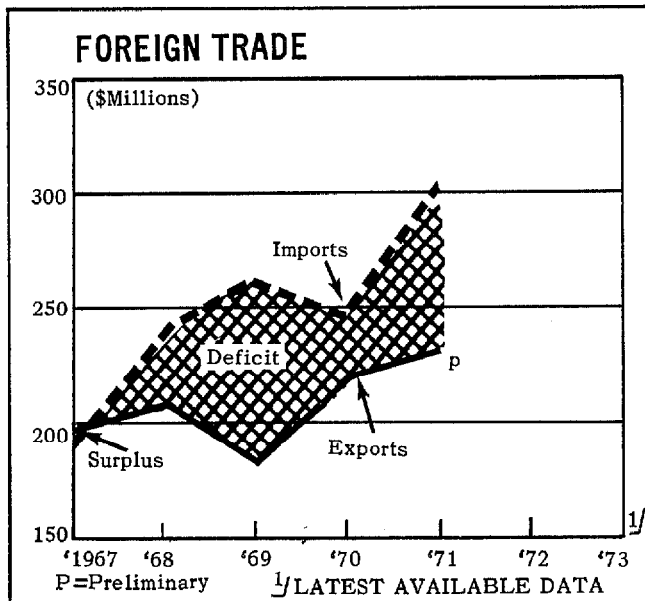
Industry

The improved performance of Ecuador's industrial sector during the 1960s offset, to a limited degree, the inability to accelerate development in the agricultural sector. The annual rate of Ecuador's industrial growth during the past decade averaged between 6 and 7 percent, up from the average annual growth of 4 to 5 percent during the 1950s. A large part of Ecuador's industrial growth occurred in medium- and large-scale industries.

Early in the 1960s the Department of State and AID identified a lack of industrial credit as the major constraint on Ecuador's industrial development. In 1970 both the Department of State and AID cited a continuing lack of support for small business during 1962-70. Small business normally provides increased employment and a training ground for future management talent needed to develop larger industrial operations.

Consumer goods production grew at a slower pace than the production of intermediate, capital, and durable goods. Industrial employment, however, did not increase as fast as the Ecuadorean labor force increased.

We observed significant increases in Ecuadorean imports of capital goods, transportation equipment, raw materials, and intermediate goods during the 1960s. This reversed a declining trend in imports of these commodities in the years immediately preceding 1960 and reflected Ecuadorean attempts to expand the productive capability of its industrial sector. Also notable was the limited growth of consumer goods imports in the 1960s, reflecting the general policy of the Ecuadorean Government to levy high duties and other restrictions on imports of nonessential commodities. As shown by the following graph, the growth in imports without a comparable increase in exports has led to a foreign trade deficit in recent years. In 1971 imports exceeded exports by about 30 percent.



Private industry efforts have been directed mainly to import substitutions during the past 8 years. Ecuador's small market and low per capita income greatly limit the amount of import-substituting industrialization that can be successfully undertaken. The Andean Pact--the regional pact of economic integration between Colombia, Bolivia, Peru, Chile, and Ecuador--will give the private sector access to a much larger market--a population nine times its own.

External assistance to Ecuador for industrial development from 1950 to June 1972 totaled \$57.8 million. Of the total, \$24.3 million has been provided through U.S. direct assistance programs. This assistance included seed capital funds for the creation of two Ecuadorean development banks to alleviate the lack of industrial credit and also assistance to Ecuadorean small business.

In addition, about \$2 million in local currency was provided for industry through Food for Peace sales. Also, the Overseas Private Investment Corporation has insured about 200 U.S. private investors representing over \$100 million in investment coverage. Pending, at the beginning of fiscal year 1973, were 30 applications for about \$340 million in investments (mostly in petroleum industry).

According to program managers, U.S. private investment outside the petroleum industry has stagnated since June 1970, due largely to political instability and due in part to fears of growing economic nationalism manifested by the adoption of the Andean Pact Foreign Investment Code. Texaco-Gulf and the Government of Ecuador have resolved most of the issues involving application of a new petroleum law. Negotiations between the Government and the other companies are continuing.

Infrastructure

Transportation and power production are essential to Ecuadorean development. Early in the 1960s, infrastructure limitations, principally in the transportation system and in the availability of energy, were considered a serious obstacle to greater economic growth in Ecuador. Key constraints to developing adequate Ecuadorean infrastructure included (1) limited financing capabilities, (2) the need to adopt and rigidly enforce weight and dimension limitations on road vehicles, and (3) the need to revise tariff rates on public electric power sales to the level necessary to cover operating costs.

In light of the chronic shortage of investment funds, a consortium of lending agencies involved in financing road projects insisted that Ecuadorean revenues be earmarked for a national highway fund. As a result, public investment was heavily concentrated in transportation, which accounted for 47 percent of total public investment and 40 percent of external loan disbursements from 1966 to 1970.

Power received only 7 percent of public funds from 1966 to 1970. In 1970 half of the petroleum royalties were earmarked for a national electrification fund. Although the earmarking is assisting in financing programmed improvement and expansion of the power sector, an international lending agency's evaluation in 1971 warned that such revenues should not substitute for proper setting of rates on power.

External assistance to Ecuador for infrastructure through fiscal year 1972 totaled \$181.1 million. Direct

U.S. assistance programs accounted for \$71.7 million, of which \$34.9 million was for highway programs and \$17.8 million for electric power programs. About \$6.1 million of local currency from Food for Peace sales was allocated to infrastructure. According to the latest available data, the following increases were made in transportation and power.

	<u>Miles of road</u>		<u>Electric power production</u> (millions of kilowatt hours)
	<u>Total</u>	<u>Paved</u>	
1961	9,163	533	410
1971 (preliminary)	14,535	1,897	999
Percent of average annual increase	4.7	13.5	9.3

According to a 1971 analysis, the inability of the Government of Ecuador to overcome political difficulties involved in enforcing legislation limiting vehicles' weights and measures is of growing concern. Substantial present and future investment in the highway network will be lost if this key step in effective highway maintenance is not taken. The consortium of lending agencies mentioned above has been ineffective in exerting leverage sufficient to overcome this problem.

According to an international lending agency evaluation in 1971, the most immediate and urgent infrastructure need of the industrial sector is increased electric power. Electric consumption throughout the country has been increasing at a rate of 10 percent per year, and installation of generating capacity has not been keeping pace. The evaluation stated that the situation was especially critical in Quito, the capital city, where there is now seasonal rationing and the gap between supply and demand is increasing rapidly. The evaluation also considered Quito's power distribution system very poor in that voltage losses average 30 percent.

Although the power situation in Guayaquil, Ecuador's largest city, is somewhat better, generating capacity has not increased recently. Except in Quito and Guayaquil, the distribution system is chaotic; networks are in poor conditions; and generating capacity is insufficient. Several coastal cities are forced to rely on power generated by the engines of war-surplus ships moored permanently in their harbors. In May 1972 an AID loan for rural electrification was signed, which provided \$3.6 million in assistance for Ecuador's rural power distribution and generating system.

Agency comments

The Department of State and AID commented that quantitative information alone could not give an entirely accurate picture of progress. Qualitative information should be included in any overall assessment--for example, construction of all-weather or paved roads and reduction in the frequency of electric power shutdowns.

GAO evaluation

As mentioned above, AID and international lending agency evaluations in 1971 indicated limited qualitative improvement. The agencies were unable to furnish evidence supporting the qualitative data referred to in their response.

SOCIAL DEVELOPMENT AND REFORM

No real acceleration of social development and reform occurred in Ecuador during the 1960s or in the early 1970s. As discussed in chapter 2, Department of State and AID evaluations point out that, except when the military junta was in power from July 1963 to March 1966, there was no real commitment on the part of the Government of Ecuador to social development and reform.

Current U.S. judgment recognizes large-scale economic and social disenfranchisement as one of Ecuador's most important basic problems. Oil revenues will ease budgetary pressures, but whether these funds will be used to ameliorate conditions in depressed areas and increase the pace of overall economic and social development remains to be seen. Little has been done on a national basis to formulate and give meaningful priority to a plan that systematically works toward correcting the basic structural weaknesses in the Ecuadorean economic and social structure.

Although the Department of State and AID have not defined nor established criteria for objectively measuring social progress in developing countries, there is general agreement that

- income distribution and landownership should become more equitable and
- recipient governments should be increasingly responsive to general welfare needs, such as education, housing, health, and sanitation.

Income distribution

Data showing, with reasonable accuracy, changes in income distribution or standards of living in Ecuador over a period of time has not been gathered by the Department of State or AID. A recent special study by the AID Mission's economist pointed out:

"*** we really do not know what has happened to income distribution since 1950. Scattered evidence from industrial wage data and studies of

the agricultural sector, when considered together with the wage share data, suggest that income distribution has probably remained about the same since 1950, although it is possible that there may have been some deterioration in income distribution within the agricultural sector."

Available evidence indicated that few programs or reforms were undertaken during the 1960s, which caused or will cause any real redistribution of wealth or which permitted or will permit the citizenry of Ecuador to share more equitably in the results of Ecuador's limited economic growth.¹ One program involved the Government of Ecuador's establishment in 1968 of a national wage policy with a minimum living wage for all workers in the country. Data was not available to show what effect, if any, this program had on the distribution of wage income in Ecuador.

Agency comments

The Department of State and AID commented that a substantial portion of its technical assistance program in Ecuador had been directed to developing cooperatives, credit unions, and free labor unions, all of which assist low-income farmers, urban dwellers, and laborers to obtain increased incomes. AID also cited a new program to assist cooperative development among the Indians of the northern Sierra and two major loans of Land Sale Guaranty and Small Enterprise as contributing to more equitable income distribution.

GAO evaluation

AID Washington and Mission files do not appear to support AID's position. During fiscal years 1967-71 approximately 14 percent of total technical assistance was directed to the three fields cited by AID. Of the technical assistance so directed, approximately 44 percent was directed to labor unions. AID estimated that the unions it supported represented approximately 12 percent of organized workers.

¹See discussion on p. 33.

A 1971 AID evaluation of the effectiveness of its agricultural cooperative project cited the same lack of information which GAO noted. The evaluation stated that insufficient data was available to determine the extent to which AID-financed projects had contributed to the goal of more equitable income distribution. The evaluation also stated that the direct impact of the agricultural cooperatives on low-income rural families in Ecuador would be limited.

We have considered the agencies' comments and believe that few programs or reforms undertaken during the past decade have caused or will cause any real redistribution of wealth or have permitted or will permit a more equitable sharing in Ecuador's economic growth. We are unable to determine the contribution to more equitable income distribution of the Land Sale Guaranty signed in 1970 and the Small Enterprise loan. The agency agreed that the Land Sale Guaranty loan can have no real measurable impact for 3 to 4 years. The Small Enterprise loan was not signed until May 1972.

Land reform

The United States has long recognized that the attainment of basic assistance goals in human welfare is dependent, in large part, upon immediate and positive steps to reform unjust land-tenure systems. In Ecuador, during the 1960s and early 1970s, there was less than significant progress toward this difficult goal due, in large part, to the lack of Government of Ecuador support since 1966, either in principle or financially. Government interest in agrarian reform programs reappeared in 1970; but, according to an AID Mission evaluation in 1971, it is too early to tell if the new efforts will be effective.

Ecuador has a total of 104,000 square miles of land. Evidence available to the Department of State and AID shows that about 61 percent of the land is owned by approximately 4 percent of the farmers. At the other extreme, 85 percent of Ecuador's landowners own 17 percent of the land. Sub-family farms--farms not large enough to provide full and productive employment for two people--make up 90 percent of all farms in Ecuador.

During the 1960s land reform in Ecuador enjoyed only one brief period of Government support--the period of rule by the military junta from July 1963 through March 1966. In the 1960 Ecuadorean presidential campaign, all candidates supported land reform although with great differences in approach. The winner, Velasco Ibarra, submitted an agrarian reform law to the Ecuadorean Congress but was unable to secure its passage before being forced out of office in November 1961. In turn, President Velasco's successor, Carlos Julio Arosemena, was forced out of office by the military junta in July 1963 before he had formulated his program of agrarian reform.

The military junta sponsored the passage of Ecuador's Agrarian Reform Law of 1964. From late 1964 through the overthrow of the military junta in March 1966, Ecuador's national land reform agency was provided the necessary financing and support to operate effectively. After March 1966 the agency was deprived of political backing and financial support by the Government of Ecuador and many of the agency's qualified technicians departed.

In 1970 the land reform agency lost some of its autonomy and was placed more directly under the control of the Ministry of Agriculture (now the Ministry of Production) and a new agrarian reform law was decreed. According to an AID evaluation in 1971, short-term results from these efforts seem doubtful. The land reform agency's administrative and financial resources are limited and are likely to remain so in light of the Government's fiscal problems.

During the past decade land reform activities undertaken by Ecuador included programs to colonize new lands, to legalize titles for squatters, and to resettle families. Land-tenure changes, reported by the land reform agency since the agrarian reform law in 1964, related to less than 2 percent of Ecuador's land area and involved mostly the settling and colonization of new lands.

According to AID's evaluation in 1971, it is much too early to determine whether the new agrarian reform law will have a significant impact; the results of its application thus far have been mixed. There appeared to be little reason to doubt the commitment of the Velasco government to

the principle of agrarian reform. The doubt, rather, was in Ecuador's ability to administer a program of this nature. Since the overthrow of President Velasco, the future of his agrarian reform program is uncertain. How this program will be implemented, if at all, under the new military regime must await clarification of the regime's priorities and goals.

External assistance in support of Ecuador's land reform program through fiscal year 1972 totaled almost \$5 million. International organization funds accounted for \$0.2 million and U.S. direct assistance amounted to \$4.8 million. Most assistance has been used for colonization projects.

In 1969 an international agency loan of \$3 million was withdrawn because Ecuador failed to provide counterpart funds. About the time of this withdrawal, AID authorized its \$3.6 million land sale guarantee loan to Ecuador.

AID recognized that Ecuador had no land reform program with solid political backing and that it was unlikely that Ecuador would have such a program in the near future. The \$3.6 million loan was an outgrowth of U.S. program managers' concern over the lack of past accomplishments and poor near-term prospects for Ecuador's land reform program. AID authorized this loan on the basis of (1) a belief that the United States could promote changes in land ownership and (2) a determination that there were many large landholders in Ecuador who would be willing to sell their landholdings if the risk of nonpayment by buyers was removed. The loan agreement was signed by Ecuador in November 1970.

Agency comments

Department of State and AID disagreed with our view that during the past decade there was less than significant progress toward land reform. According to AID, what is significant to one person may not necessarily be significant to another. A fair appraisal of agrarian reform has to be made in light of the 1960s political climate, the agencies stated. Accomplishments cited by AID were the Agrarian Reform Law of 1964, an institution responsible for carrying it out, and a recent marked effort by the Velasco government.

GAO evaluation

We agree that a fair appraisal of agrarian reform must take into consideration the political climate. However, the agencies' broad observation that Ecuador has made significant progress contradicts the assessments in their official internal evaluations in 1968, 1970, and 1971. The latter evaluation stated that Government interest in agrarian reform programs reappeared in 1970, but it is too early to tell if the new efforts will be effective. AID Mission personnel informed us in December 1971 that no additional data was available since the evaluation earlier in the year.

Development of human resources

Since the beginning of the 1960s, an accelerated rate of Ecuadorean educational progress has been viewed by U.S. officials concerned with Ecuadorean development as essential for Ecuador's long term growth.

The percentage of Ecuador's primary age population (5 to 14 years) enrolled in school increased from 52 percent (654,000) in 1962 to 57 percent (1,070,000) in 1971, the latest available data. This rate of increase was about equal to the rate of increase achieved by Ecuador from 1954 to 1961. Despite the increase in enrollment at the beginning of 1970, there were more primary age children not enrolled in school (736,000) than in 1962 (603,000) or about a 20-percent increase in the number of school-age children not enrolled. Also a high dropout rate continued. Over 70 percent of Ecuador's primary students drop out before completion of the fourth grade; i.e., before functional literacy is attained.

Enrollment in general secondary schools increased from 49,000 in 1962 to 195,000 in 1970. In higher level schools; i.e., universities, enrollment increased from 11,035 in 1962 to 33,562 in 1970. The percentage of Ecuador's population 15 to 24 years of age enrolled in general secondary and higher schools increased from 7 percent (60,035) in 1962 to 20.2 percent (228,562) in 1970. However, about 77 percent of the students at the secondary level and more than 90 percent of higher level students do not graduate. In other words, about 5 percent of the appropriate age group graduates from high school and about 1.5 percent graduates from universities.

Even for those who do attain functional literacy and related skills, the system is highly inefficient. One of the most serious problems is a teacher training system that is costly in time (6 years) and money yet produces inefficient teachers who contribute to the high dropout rate and to poor learning results.

Expenditures for education from 1961 to 1969 have averaged 12.6 percent of total Government of Ecuador expenditures. Reliable data on Ecuadorean education expenditures

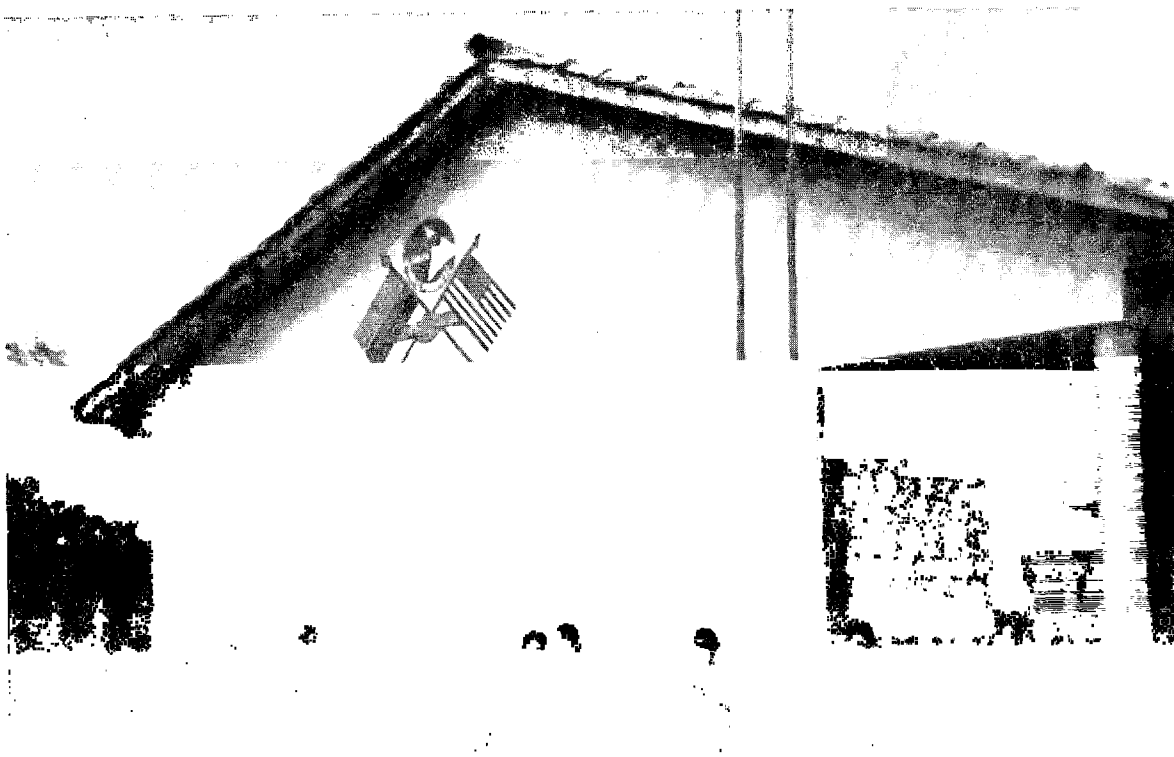
was not available to U.S. program managers. Estimates of such expenditures ranged from 10.6 to 21.6 percent of total Government expenditures. Close to a third of the Central Government's education expenditures are devoted to students who drop out before achieving functional literacy and other basic skills needed to participate effectively in development.

External assistance allocated to educational development in Ecuador through fiscal year 1972 amounted to about \$38.1 million, of which \$36.3 million has been programmed since 1961. The equivalent of \$1.5 million in local currency has been provided. In addition, the participant training component of AID and military assistance programs has trained about 4,000 Ecuadoreans.

Primary and university education have received most of AID's assistance in this area. Despite certain gains, a program of U.S. assistance to universities was determined to be less than successful and was terminated. A U.S. program to make textbooks available to university students at prices they could afford succeeded in establishing stores selling inexpensive textbooks at 13 university bookstores.

AID assistance has served to finance the construction of primary school facilities, the production of textbooks, and the training of personnel. The U.S. goal of constructing 3,000 primary school classrooms under a February 1966 AID loan for \$5.3 million will not be met. In June 1970 the United States agreed to reduce the number of classrooms to be constructed under the loan from 3,000 to about 1,450. The reasons cited for the reduction were changes in the Ecuadorean political situation, inflation, and underestimates in the loan paper. According to estimates available as of November 1972, 639 classrooms were completed and 520 were under construction. Over 200 of these replace rented classrooms.

We observed an AID-financed primary school near Cuenca, Ecuador, in operation and noted that the school was a replacement for existing school facilities. (See GAO photograph.) U.S. assistance in building this school amounted to about \$5,000.



AID-Financed Primary School

Progress was being made in a selected primary textbook design and production project financed by AID. As of 1970 six series of primary textbooks had been designed and an estimated 480,000 textbooks had been distributed.

The problem of insufficient numbers of secondary and university graduates is compounded by the emigration of trained Ecuadoreans. The 1970 manpower study stated that

Ecuador had the second largest "brain drain" problem in Latin America. At least 10 percent of the graduates in engineering, medicine, and public administration leave Ecuador. From fiscal year 1961 through the end of the decade, the number of Ecuadoreans emigrating to the United States totaled 32,599. Although Ecuador accounts for less than 3 percent of the population of South America, this level of emigration represents almost 16 percent of the total immigration into the United States from South America during this period. GAO estimated, on the basis of data compiled from reports of the U.S. Immigration and Naturalization Service, that about 2,350 of the emigrants were skilled or professional Ecuadoreans. This included about 500 teachers, 275 physicians and surgeons, 250 nurses, 235 engineers, and 455 Ecuadoreans with other technical specialties.

According to the manpower study, the desire to improve personal financial standing is the basic reason for migratory shifts. While it is likely that other countries are going to increase their barriers to emigrants from Ecuador in the future, it is possible that emigration to the United States will increase because of its present immigration policy.

Agency comments

AID disagreed with our statement that Ecuador's efforts to accelerate its development of human resources were not intensified during the 1960s. AID stated that this was an area in which Ecuador had made impressive gains. To support its statements, AID cited such data as (1) educational expenditures increasing to 21 percent of the national budget in 1970, (2) increases in the percentage of population 15 to 24 years of age enrolled in secondary and higher schools, (3) increases in graduates of teacher training institutions and teachers employed, and (4) a decreasing student-teacher ratio.

GAO evaluation

AID comments concerning Ecuador's efforts to accelerate its development of human resources do not appear consistent with its own longstanding formal assessments. For example,

in 1969 the Department of State and AID concluded that little, if any, improvement in the educational sector had been made despite continued U.S. and other donor inputs. Additionally, in 1971 AID concluded that Ecuadorean formal education systems were not likely to meet Ecuador's need for trained manpower during the next decade.

The educational expenditures figure (21 percent) cited in the agency's response is based on the amount of money budgeted for educational purposes by the Government of Ecuador, whereas the figure included in our report (12.6 percent) is based on actual expenditures. If GAO were to use the same base as the Department of State and AID, the educational sector's share of the Central Government's budget would have declined from 24 percent in the late 1960s to 21 percent in 1970. Therefore, the data provided by the agencies is not representative of a gain in developing human resources.

Housing

U.S. assistance policy provides for supporting programs to reduce housing shortages with particular emphasis on low-cost housing for low-income families. During the 1960s and early 1970s, little of the limited housing constructed in Ecuador could be afforded by low-income families.

A regional agency has reported that the need for housing is equaled in intensity only by the problem of malnutrition. More than 88 percent of Ecuador's housing units do not meet minimum standards of habitability.

The United States has financed all the \$15.7 million in external assistance to Ecuador for the housing area. In addition to this assistance, the United States has provided housing investment guarantees of \$7.4 million.

External assistance has served to promote the establishment of 10 mutual savings and loan associations with a capital of about \$10 million for financing middle-income housing. U.S. officials believe that, although such financing is needed, it is not the answer to the growing slums and to the crowding of poor people into shack towns in the cities and huts in the countryside.

Assistance has helped to finance Ecuador's National Housing Bank established in 1961 for programming and financing low-income housing throughout the country. The largest loan, \$10.6 million from the Social Progress Trust Fund, financed houses out of the low-income-family range for which they were supposedly built. In 1971 the Bank had \$48 million available: \$30 million of private foreign capital; \$12 million of internal resources; and \$6 million from an AID-guaranteed loan. The Bank's program included \$32 million for construction of 7,000 houses out of the low-income-family range and \$10 million for site preparation of areas already owned by the Bank. The plans did not indicate immediate use of the AID-guaranteed loan.

Evidence available in late 1972 indicates that the gap between housing needs and housing availability in Ecuador widened rapidly during the 1960s. Unless present rates of progress are greatly accelerated, the gap will widen more rapidly in the 1970s.

We found little evidence that U.S. program managers had mobilized or directed significant effort and attention to finding solutions to the great need for low-cost housing in Ecuador. Priority was not given to housing in allocating assistance resources. Housing problems in a country like Ecuador would be solved only when most families were in a position to demand decent housing because they could afford it.

Agency comments

The Department of State and AID agreed that in the earlier years they had not directly supported low-income housing in Ecuador. They justified their position on the basis that in the early 1960s it was agreed that an international agency would finance housing programs for low-income families while AID concerned itself with development of a savings and loan system. In 1970, when it became obvious that the international agency program was not meeting the needs of low-income families, AID adopted a policy of trying to promote a low-income-housing program. However, it has proven difficult to convince the National Housing Bank to undertake this type of program.

GAO evaluation

Although it is AID's policy to reduce housing shortages and to emphasize low-cost housing for low-income families, AID did not attempt to specifically promote a low-income-housing program until 1970. We found that AID and the international agency in the 1960s made no formal agreement concerning housing programs, although the international agency did grant a loan for low-income housing during that period.

As of early 1972 the efforts had had limited success. For example, in November 1970 an AID consulting team reported on the study to assist the Housing Bank and the AID Mission in determining the feasibility of new approaches to providing better living conditions for low-income families. One recommendation was that approximately \$1 million of the recent \$6 million AID Housing Investment Guaranty loans be channeled through the Housing Bank and the Savings and Loan System to support low-income housing. In May 1971 an AID survey stated that the Housing Bank did not appear enthusiastic for the program proposed by AID. According to the

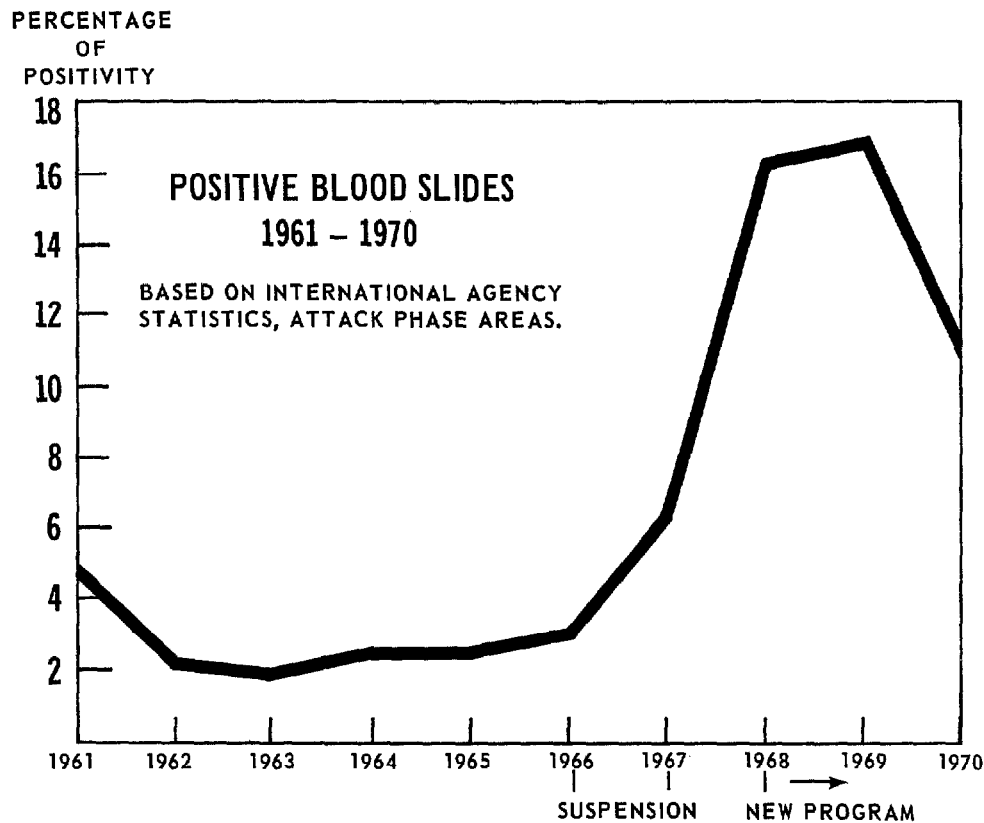
survey, the Housing Bank had decided to proceed with a project to build higher priced homes. The project is to be financed by private U.S. and other international capital and should fully occupy their lending capacity for several years. The \$6 million in AID Housing Investment Guaranty loans is not being disbursed as quickly as it should be, because of insufficient working capital and the Savings and Loan System's preference for relying on national savings as opposed to higher cost capital from the loan program. In December 1971 the AID Mission reported that the Savings and Loan System had limited capacity for absorbing the \$6 million. Although turned down by AID in January 1972, the Housing Bank had requested changes to the loans including raising the maximum sales price of houses to \$9,000.

Health and sanitation

External assistance to Ecuador through June 30, 1972, for health and sanitation amounted to \$50.3 million. About \$41 million has been provided since 1961. Of the U.S. direct assistance, \$4.9 million involved programs in malaria eradication, including \$2.8 million in capital assistance and \$2.2 million in technical assistance. In addition, the United States has provided the equivalent of \$0.4 million in local currency for health and sanitation activities in Ecuador.

By mid-1965, malaria, a disease that had plagued Ecuador for centuries, had been practically eliminated by an eradication program initiated in 1956 by the United States, an international health agency, and the Government of Ecuador. In 1965, the Department of State and AID terminated U.S. grant funding for the program before an acceptable alternative plan for financing the program was implemented. From 1965 until late 1968, there was limited support of Ecuador's malaria program. After 18 months of negotiations, the United States signed a 3-year malaria loan with Ecuador in 1967. Limited disbursements were made until late 1968 because the Government of Ecuador had curtailed its support of the program due to its tight fiscal situation. During 1966-68 Ecuador experienced a sharp resurgence of malaria. The threat of a serious outbreak of malaria reportedly prompted the Government of Ecuador to resume its support of the program in late 1968. AID then resumed its disbursements.

Recent statistics indicate that in 1970 the incidence of malaria declined and the rate of positivity declined for the first time since 1965. According to an international agency, attack measures must be continued to insure that this downward trend continues and studies must be undertaken in some areas which have not improved as quickly as the rest of the country.



The United States has been the principal and almost exclusive contributor to the population planning program in Ecuador. U.S. program managers realize that the phenomena of increased birth rates and declining mortality rates, experienced by Ecuador during the 1960s, has led to a high proportion of children to the working population in Ecuador. In 1970 the ratio of children to each member of the Ecuadorean labor force was estimated to be 1.46. About \$2.7 million of U.S. funds have been programmed for population planning. Accomplishments have included establishing an Ecuadorean national planning program, training both planning and medical personnel, equipping a number of public health clinics, and establishing sex education programs.

Water and sewer services were extended in several urban areas in Ecuador with the help of loans totaling \$20.5 million from an international agency. Data available at the time of our review showed that (1) not more than 28 percent of the total population were served by water systems and (2) about 22 percent had sewer service.

Hospital facilities also increased during the decade, but the current availability is only about half the international minimum standard of 4.5 beds per 1,000 population. Gastrointestinal disease and fatalities and infant mortality have decreased due, in part, to increased facilities.

Health studies have confirmed that standards of medical education in Ecuador are among the lowest in Latin America. Plans to provide assistance in this area were rejected in 1965 by the Department of State and AID for political reasons.

One of the most serious barriers to health development is the quality of medical education and the shortage of personnel due to lack of training facilities. According to AID, Ecuador cannot afford either to train or support the number of doctors and nurses needed to meet the country's health needs. AID estimated that Ecuador had about 2,850 practicing physicians and about 600 nurses at the beginning of 1972. Ecuador's supply of trained medical personnel increases by approximately 150 doctors and 30 nurses each year. Complicating the problem is emigration from Ecuador. From data compiled by the U.S. Immigration and Naturalization Service, we estimate that about 275 physicians and surgeons and about 250 nurses emigrated from Ecuador to the United States alone during the 1960s.

Agency comments

The Department of State and AID comments did not respond to the specifics of our discussion of its malaria eradication program during 1965-68. The agencies claimed that our discussion of the malaria program was inaccurate and stated that, after the program was resumed in October 1968, it had proceeded well.

GAO evaluation

The agencies claimed that our discussion of their malaria eradication program was inaccurate, yet their comments restated much of the factual material contained in our draft report and ignored the sharp recurrence of malaria in Ecuador during 1965-68 when little assistance was provided for the eradication program. Although the resumed AID program has reduced the incidence of malaria, the eradication campaign has had to be restricted due to renewed financial difficulties. An international agency reported that eradication progress for 61 percent of the Ecuador program was dependent upon receiving funds. In September 1971 the AID Mission asked Ecuador to make immediately available those budgeted quotas which had fallen behind schedule. The Mission also requested that a 15-percent reduction in Ecuador's monthly contributions to the program for January through June 1971 be replaced, if at all possible.

POLITICAL STABILITY

A basic aim of U.S. assistance to Ecuador during the 1960s was the promotion of a democratically oriented, politically stable Ecuador.¹ It is evident that the trend of peaceful change of constitutional governments achieved by Ecuador in the 1950s was not continued during the 1960s.

¹ Social and physical conditions in Ecuador are reflected in its political structure. Transportation difficulties and regional isolation contribute to localized political parties. The prevalent social system includes a small, educated minority of white citizens and a large number of Indians and Mestizos who are illiterate and isolated and therefore cannot vote. Political parties are organized by and for small portions of the population. Ecuador has two traditional parties and a number of others which play relatively uninfluential roles. The resulting system is characterized by shifting alliances and coalitions, strongly influenced by individual personalities. The Ecuadorean Armed Forces continue to be the final arbiter in national politics--a role it has maintained since Ecuador became independent.

During the past 12 years there have been six changes of government in Ecuador, two of which--in 1960 and 1968--were the result of elections. In between the two presidential elections four changes of government occurred. Four administrations were removed from office--in 1961, in 1963, in 1966, and in 1972--including (1) the constitutionally elected government in 1960, (2) the government of the constitutional successor in 1961, (3) the military junta of 1963, and (4) the constitutionally elected government of 1968 which had assumed supreme powers. After assuming supreme powers in 1970, the President had announced his intention to surrender them by August 1972.

On February 15, 1972, President Velasco was overthrown by a military coup, and the proposed elections scheduled by Velasco have been indefinitely canceled by his successor.

Internal security

Related to the problem of political instability is the problem of internal security. The United States had been assisting Ecuador's Armed Forces since 1952 and Ecuador's National Police since 1959. The role of the military in Latin American politics came to the fore as a major issue in U.S. policy toward Latin America in the late 1950s and in the 1960s.

In 1958 the Congress became concerned that U.S. military aid could be used by dictators to keep themselves in power. It amended military assistance legislation to provide that internal security should not be a basis for U.S. military aid. In 1959 legislative provisions required a Presidential determination regarding the necessity for military assistance. These provisions prohibited assistance for internal security--unless determined necessary by the President--and placed a ceiling on such assistance in Latin America. In 1961 under strong executive branch urging, the Congress changed the primary purpose of military assistance from hemispheric defense to internal security. Continuing concern during the decade over U.S. support of military governments in Latin America was reflected in congressional efforts to restrict further military assistance to them.

U.S. assistance to Ecuador's Armed Forces and National Police was provided during this period of major reorientation in U.S. military policy toward Latin America. U.S. assistance to Ecuador's Armed Forces totaled about \$54 million for military equipment, parts, and training. This includes excess military stocks having a utility value of about \$3.9 million (acquisition value of about \$9.9 million). U.S. aid to the National Police totaled about \$3.8 million through fiscal year 1972.

To maintain the United States as the primary foreign military advisor and to keep the Ecuadorean Armed Forces favorably oriented toward the United States, program managers assert that the United States has been influential in recent years in persuading the Ecuadorean Armed Forces not to purchase certain military equipment which the U.S. program managers believed to exceed Ecuador's requirements. Ecuador has purchased military equipment, including tanks, aircraft,

patrol boats, armored cars, and jeeps, from a variety of non-U.S. sources, including France, Britain, Chile, and West Germany.

To assist Ecuador in developing an adequate internal security capability, U.S. advisors have been successful in securing a number of improvements in both the Ecuadorean National Police and Armed Forces.

Indications are that the U.S. reorientation of its military policy toward internal security may have clashed somewhat with the Ecuadorean Armed Forces concept of their role. For example, Ecuador deploys about one-third of its army in close proximity to the Peruvian frontier¹ and thus inhibits concentration on the internal security role. Further, Ecuador's military leaders retain their right to intervene in politics, although they generally have avoided the assumption of power.

During the 1960s U.S. bilateral agreements with Ecuador for military assistance emphasized hemispheric defense. These agreements were negotiated with Ecuador in the 1950s when the primary purpose of U.S. military assistance to Latin America was hemispheric defense. When the Congress changed the principal purpose of the program from hemispheric defense to internal security, bilateral agreements with Ecuador were not changed accordingly. The question of mutual agreement must be viewed in the context of the following circumstances: (1) Ecuador's denunciation in September 1969 and subsequent termination in September 1970 of U.S. bilateral agreements; (2) suspension in mid-January 1971 of U.S. military sales to Ecuador under the Foreign

¹This situation is an outgrowth of Ecuador's border war with Peru in the early 1940s and the Rio Protocol of 1942 which awarded Peru the upper Amazon Basin. Since its inception the treaty has been an important political issue in Ecuador and is a part of the background to the importance Ecuador attaches to the protection of its land and maritime boundaries.

Military Sales Act--a response to Ecuador's seizure of U.S. fishing vessel required by law;¹ (3) Ecuador's order in February 1971 that the U.S. military assistance mission withdraw from Ecuador; and (4) the consequent termination of negotiations for a new military assistance agreement.

When the U.S. military mission withdrew, U.S. military assistance to Ecuador was to be continued, political situation permitting, beyond mid-1971 at declining levels. U.S. policy guidance provided that military grant assistance be scaled down as gradually as possible. A basic justification for continuing U.S. military assistance to Ecuador was the judgment that Ecuador's development budget would suffer if U.S. military assistance were terminated.

Agency comments

The Department of Defense acknowledged that the bilateral agreements with Ecuador had never been amended to reflect internal security as an express purpose of the military assistance program. However, the Department of Defense pointed out that, because there were no bilateral agreements in effect between the United States and Ecuador after September 10, 1970, the question of mutual agreement regarding the purposes and uses of military assistance is moot.

¹The Foreign Military Sales Act Amendments of 1971 provide for a suspension of military sales for a 1-year period from the date of the most recent vessel seizure.

CHAPTER 4

CONCLUSIONS, RECOMMENDATIONS, AND

MATTERS FOR CONSIDERATION BY THE CONGRESS

CONCLUSIONS

The United States has had years of experience in planning and administering programs to promote economic, social, and political development in Ecuador, but the country continues to be characterized by poor development and political instability.

During the 1950s heavy emphasis was placed on technical assistance for training personnel, for developing Ecuadorean institutions, and for generally aiding in the establishment of the necessary preconditions for growth and democratic development within Ecuador. In the 1960s U.S. aid to Ecuador averaged \$24.9 million annually--an amount equal to about 10 percent of Ecuador's annual Central Government revenues.

A freeze was placed on direct U.S. assistance to Ecuador in 1971 and early 1972. However, in May 1972 three loans to Ecuador, approved in 1970, totaling \$15.9 million were signed. The United States had programmed \$20.6 million in development and humanitarian assistance and \$1.3 million in security assistance for Ecuador for fiscal year 1973. However, as of early 1973, AID was operating under a continuing funding resolution, providing emergency financing for the foreign aid program and permitting spending at the fiscal year 1972 rate.

The level of U.S. assistance to Ecuador for much of the past decade has been sufficiently high to denote that the United States is a major partner in Ecuador's development. Did the increased levels of U.S. assistance effectively promote Ecuadorean development? On the basis of our review and in accordance with the evaluation criteria outlined in chapter 1, we conclude that the increased levels of U.S. assistance to Ecuador during the past decade:

- Have not served as a catalyst causing or permitting Ecuador to achieve increased political stability or to

achieve accelerated progress in economic productivity, social reform, educational opportunity, housing, health, or employment availabilities--nor as a means of attaining a significantly more ample and equitable distribution of income and level of living for all Ecuadoreans.

- Have served to a large degree as a substitute for Ecuador's own self-help due principally to a lack of real commitment to basic reform and development on the part of the Ecuadorean Government during most of the past decade.

- Have served to construct or modernize such things as transportation and power production facilities, health accommodations, and schools; to feed people; to transfer skills; to change attitudes; to cement relations; and to protect U.S. economic interests. Some of the accomplishments were small when measured against the relative need.

Recognizing that much of the value of U.S. developmental assistance programs springs from their influence on the policies and actions of the recipient nation--as contrasted to its resource transfer function--we believe it is evident that this influence potential has been used, during much of the past decade, to try to promote nondevelopmental aims, such as improved diplomatic relations, promotion or protection of U.S. economic interests, or alleviation of Ecuador's seizures of U.S. tuna fishing boats.

An independent review of AID policies and operations in Ecuador has been made by the Operations Appraisal Staff of the Office of the Auditor General of AID. The Auditor General's major findings, contained in a classified report issued in April 1972, were generally consistent with GAO's findings. We understand that AID's Latin American Bureau has taken issue with some of the Auditor General's conclusions and recommendations but has them under consideration at this time.

In view of limited past program results, the lack of an effective Ecuadorean commitment to development, and the large revenues being realized by Ecuador from its petroleum

development, there is a need to reassess the purpose and value of U.S. developmental assistance to Ecuador, as well as the methods of administering such assistance.

In addition to the matters discussed in chapter 2, policy matters and questions which deserve particular attention include:

- Is it in the long term U.S. interest to continue to be a major participant in Ecuador's development effort in view of evidence that, during the past decade, Ecuador has not effectively responded to the problems and opportunities of the period and that the disparity between needs and accomplishments has widened?
- Should the United States attempt to promote basic reform, such as land reform in Ecuador, when the recipient country has not effectively supported such reform?

Agency comments and GAO evaluation

Of the respondents to a draft of this report, only the Department of State and AID, in joint comments, responded to the above conclusions and identified policy questions. The specific comments of the Department of State and AID are outlined and evaluated below.

In our view, U.S. assistance to Ecuador during the past decade had not been effective in terms of the basic and ultimate development purpose of such assistance because of the lack of Ecuadorean commitment to development and therefore the purpose and value of continuing such assistance to Ecuador should be reassessed. The Department of State and AID:

- Did not agree that the continuation of the program needed to be reassessed.
- Pointed out that weakness in the Ecuadorean response was not sufficient reason for abandoning the effort unless the United States believed that, by so doing, the Ecuadoreans would respond more effectively in the future.

--Stated that Ecuador had taken certain development actions during the past decade and cited reforms in civil service legislation, foreign exchange, customs, and family planning; certain newly established or modernized institutions; and Ecuador's improved ability to attract, coordinate, and administer capital assistance from international lending agencies.

The Department of State and AID implied that the United States should continue to provide major development assistance to Ecuador notwithstanding the lack of commitment and self-help effort in its own behalf. We believe that such a course of action is not only contrary to the self-help criteria in the enabling legislation, the Foreign Assistance Act of 1961, as amended (FAA), but also to the agencies' own public pronouncements of the basic principles and policies underlying both the current and proposed¹ foreign aid development programs.

The agencies have taken the position that it is appropriate that the United States should make loans for, or otherwise devote resources to, promoting land reform, although the recipient country does not support such reform. The agencies agreed that during the past decade the political climate in Ecuador has not been favorable for land reform or any reform. They stated, however, that the \$3.6 million land sale guarantee loan made to Ecuador (see p. 56) offered the local governments in Ecuador a vehicle that could assist in overcoming local obstacles to land reform activity.

More than one-half of Ecuador's labor force is involved in agriculture. In our opinion, the \$3.6 million land sale guarantee loan, which would equal about \$5 per farm unit in Ecuador's agricultural sector, could promote only inconsequential results in a country not committed to land reform. Further the practice of providing U.S. development resources to programs for which the recipient country is not committed

¹On April 26, 1971, proposals to recognize the foreign aid and foreign military sales programs were submitted to the Congress by the President.

also runs counter to the criteria of the Foreign Assistance Act that U.S. development assistance is to be furnished to those countries willing to make contributions of their own to the projects and programs for which the assistance is provided.

RECOMMENDATIONS

The following recommendations are directed to the problems identified above and in chapters 2 and 3.

We recommended that the Secretary of State and the Administrator, Agency for International Development:

- Reassess the purpose and value of U.S. development assistance to Ecuador, together with the methods of administering developmental assistance, giving particular consideration to policy questions discussed in this report.

- If a determination is made to continue developmental assistance to Ecuador, the agencies, in planning for the transfer of U.S. public developmental resources to Ecuador, should require the systematic identification and recording of (1) program instruments or channels through which public resources are to be transferred; (2) long-term-development aims being supported, or to be supported, by the United States defined in terms susceptible to objective measurement; (3) subordinate objectives, goals, and courses of action formulated in objectively measurable terms; (4) the justification for changes in basic program aims; and (5) interagency and interprogram tradeoffs developed and considered in formulating the program mix.

Agency comments and GAO evaluation

The Department of State and AID, in joint comments, did not agree on the need to reassess the value and purpose of U.S. development assistance to Ecuador. They informed us that they had initiated or would engage in (1) tighter formulation of program aims which can be objectively measured over a period of time, (2) more explicit and considered

study of the rationale for shifts in goals or the arrangement of priorities, and (3) cost benefit analyses to facilitate expanded systematic consideration of interagency and interprogram tradeoffs where feasible, and to develop methods which would permit the expanded use of the tool. They did not state what specific actions had been or would be taken.

We believe, as discussed on pages 73 to 75, that the experience of the past decade, together with the recognized lack of commitment to development and reform on the part of the country, indicates the need to reassess the value and purpose of continuing U.S. developmental assistance to the country. If, notwithstanding the lack of such commitment, other considerations are deemed to warrant continuing a substantial aid program to Ecuador, we believe the Supporting Assistance Appropriation or the President's Foreign Assistance Contingency Fund would be more appropriate for use than either Development Loan or Development Grant funds.

We are encouraged by the Department of State and AID actions on formulating the various programs for transferring U.S. public resources to Ecuador for development purposes. We believe that the potential for more effective U.S. public resource use or resource savings from an improved planning process is great. The need for such a process is magnified because of the various programs and instruments of U.S. developmental assistance which are currently separately administered by the Departments of State, Agriculture, and the Treasury; AID; Peace Corps; and the Export-Import Bank of the United States.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress has had a longstanding interest in the administration and effectiveness of foreign aid. Such aid has come under increasing scrutiny by the Congress in recent years. In view of (1) the absence of a clear commitment to its own development by Ecuador during most of the past decade; (2) the contention that additional development funds currently programed by the Department of State and AID for Ecuador are at levels sufficiently high to denote that the United States is a major partner in Ecuador's development; (3) the fact that

Ecuador is on the verge of becoming an important oil producer with additional revenues estimated at \$100 million in 1973 and \$300 million to \$500 million in the not-too-distant future, we believe the Congress should consider:

1. Whether it may be in the U.S. interest to place a limit on the U.S. development resources which can be made available to Ecuador until the country can demonstrate a reasonable commitment to its own development.
2. The appropriateness of creating statutory standards limiting the aggregate amount of U.S. public resources that can be provided to recipients who have not demonstrated a reasonable commitment to their own development.
3. Whether legislation emphasis might be desirable to insure more effective implementation and monitoring of the self-help provisions of the Food for Peace legislation.

CHAPTER 5

SCOPE OF REVIEW

We reviewed the administration of U.S. assistance to Ecuador from 1961 through late 1972. The examination was directed toward evaluating (1) the long term effectiveness of U.S. developmental assistance in promoting Ecuador's development, (2) the adequacy of existing management controls in bringing resources to bear on achieving U.S. developmental objectives for Ecuador, and (3) the extent to which U.S. foreign assistance serves as either a supplement to, or a substitute for, Ecuador's own efforts.

We reviewed U.S. policy papers, strategy statements, program documents, reports, correspondence, and other pertinent data available both at the Washington offices of the Departments of State and Defense, AID, the United States Information Agency, and the Peace Corps and at their respective locations in Ecuador. Statistics and other data were secured from the United Nations and other international agencies and from the Departments of Commerce and Agriculture. We discussed relevant topics with officials of the Departments of State and Defense, AID, the United States Information Agency, and the Peace Corps and with Ecuadoreans. In addition, we visited selected locations in the country in 1970 and again in late 1971 where assistance activities, such as schools, roads, power projects, food distribution points, family planning centers, and Peace Corps projects, had been or were being conducted.



PEACE CORPS
WASHINGTON

OFFICE OF
THE DIRECTOR

June 10, 1971

Mr. Joseph E. Kelley
International Division
U. S. General Accounting Office
Room 3237 - Department of State
2201 C Street, N. W.
Washington, D. C.

Dear Mr. Kelley:

Thank you for the opportunity to comment on the Peace Corps' role as viewed by your evaluators in their draft report: The Need to Reassess Purpose, Value and Methods of Administering U. S. Developmental Assistance to Ecuador.

Peace Corps has been active in Ecuador since 1963. After reaching a peak of 300 Volunteers in eight different projects in 1967, it has undergone a period of assessment, evaluation and consolidation. We have eliminated unsuccessful and low priority projects and focused our energies on three related program sectors. These are in the areas of rural regional development, increased production for small and medium sized farmers, campesino leadership and rural electrification.

We will continue to evaluate our programs in Ecuador and will make every effort to maintain quality program standards.

Sincerely yours,

Joseph H. Blatchford

APPENDIX I



UNITED STATES INFORMATION AGENCY

WASHINGTON 20547

OFFICE OF
THE DIRECTOR

June 28, 1971

Dear Mr. Stovall:

Thank you for your letter of April 30 enclosing a draft copy of your proposed report to the Congress entitled "Need to Reassess Purpose, Value and Methods of Administering U. S. Developmental Assistance to Ecuador."

We refer to the statement on page 83 that the United States Information Agency is "unable to measure its accomplishments."

For some years the Agency has been concerned with developing methodology for measuring the impact of its overall program, and it is still seeking a practicable solution. If the real world were like a controlled laboratory situation, it would be much more feasible to measure opinions before and after Agency efforts to program.

The fact of the matter is that often there is tremendous input of other information about the United States from many and varied sources--the daily newspapers, magazines, commercial motion pictures, etc.--and in countries where this phenomenon occurs it is exceptionally difficult to measure the net effect of Agency products and Agency interpretation. In certain cultures social research itself is suspect, and an attempt to question a local population with respect to its beliefs and attitudes can meet considerable resistance.

The degree to which Agency material is used can often be traced, and the extent to which public exposure to it comes about can frequently be measured with some precision, but the net effect on attitudes of exposure over a period of time to Agency programmin is rarely amenable to direct measurement.

Mr. Oye V. Stovall
Director
International Division
United States General Accounting Office
Washington, D. C. 20548

Indeed, the consulting firm mentioned in the report concluded: "We perceive no immediate hope for a single quantitative index of effectiveness of Agency efforts to influence target audiences or to change attitudes."

Aside from the question of attitudinal research, the Agency has been intensifying its search for better ways of targeting its resources:

1) A consulting firm was hired in 1969 to review the Agency's Program Planning Budget System and make recommendations for further improvements in the Agency's resource allocation and management information systems. After the report was submitted, an Agency Task Force was set up to review the recommendations and determine the next steps to be taken. The Task Force concentrated its efforts on revising the planning and programming memoranda submitted annually by our posts overseas. This spring, new instructions for preparing these memoranda were sent to the field. Among other things, the instructions required the following: (a) a clear statement on the relationship between post objectives and U.S. national interests in a country; (b) statements, in precise and finite terms, of USIS objectives in a country; (c) an array of the major activities planned to promote each objective; (d) feedback on the relative value of media products used at posts.

2) Priorities of countries in terms of importance to the U. S. have been established in order to guide decisions affecting the allocation of resources among country programs (Resource Allocation Group list).

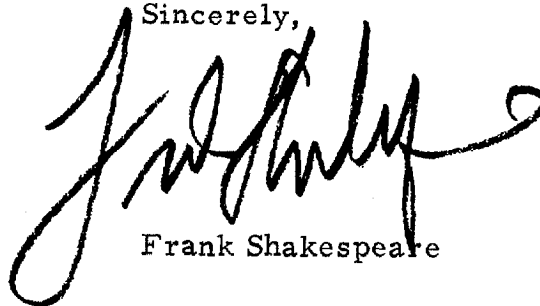
3) Procedures have been established to give our personnel in the field more control over resources applied directly by them, the assumption being that they are in the best position to determine how much of each media activity most effectively promotes USIS objectives.

4) To provide an additional perspective on Agency operations, private citizens are appointed to serve on certain Agency inspection teams. The inspection and audit program continues to serve as a major evaluation albeit subjective, tool.

APPENDIX I

I appreciate the opportunity to furnish comments on your proposed report.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Frank Shakespeare', written in black ink.

Frank Shakespeare



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

6 JUL 1971

In reply refer to:
I-23,575/71 ct

INTERNATIONAL SECURITY AFFAIRS

Mr. Oye V. Stovall
Director
International Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Stovall:

The sections of the GAO draft report, dated 30 April 1971, "Need to Reassess Purpose, Value and Methods of Administering U.S. Developmental Assistance to Ecuador" (OSD Case No. 3279), relating to military assistance and foreign military sales, have been reviewed. The report contains no recommendation that is pertinent to Military Assistance or Foreign Military Sales activities. Comments on certain of the findings that are pertinent to military assistance or foreign military sales activities (keyed to the page of the report on which they appear), are contained in the attachment to this letter, which replies to the Director, International Division, GAO, 30 April 1971 letter to the Secretary of Defense.

The security classification of the paragraphs of the subject report that relate to military assistance and foreign military sales have been reviewed and found to be correct except for Footnote 1 on Page 58 which should be classified "SECRET".

In accordance with DOD Directive 5200.1, you are authorized to distribute those portions of the final report covering the review of MAP to appropriate Congressional Committees, individual members of Congress and Executive Agencies.

It is requested that this reply be published in the Appendix to the final report.

Sincerely,

Harold V. Larson
Director of Military
Assistance and Sales,
Office of the DASD, MA&S

Attachment
a/s

APPENDIX I

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

SEP 28 1971

Mr. Oye V. Stovall
Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

I am forwarding herewith a memorandum dated September 24, 1971 from Mr. Herman Kleine, Assistant Administrator for Latin America, which constitutes the comment of AID and the Department of State on the U.S. General Accounting Office's draft report titled, "Need to Reassess Purposes, Values, and Methods of Administering U.S. Developmental Assistance to Ecuador."

As mentioned in Dr. Hannah's letter of August 13 to you, the complexities of the report and the broad policy issues raised therein, made it important for the Department of State and AID to make a painstaking review both in the field and in Washington. We believe that the resulting attached comprehensive comment will contribute to the preparation of a complete final report to the Congress.

Sincerely yours,



Edward F. Tennant
Auditor General

Enclosure: a/s

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG 11 1971

Mr. Oye V. Stovall
Director
International Division
United States General
Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

This is in reply to your April 30 request for OMB comment on a recommendation contained in the proposed GAO report on the "need to reassess purpose, value, and methods of administering U. S. developmental assistance to Ecuador." The recommendation urges "the Office of Management and Budget to designate responsibility and authority for implementation and monitoring of the statutory self-help provisions of the Food for Peace Program" in Ecuador. The proposed report asserts that the executive branch needs to take action in this regard because there "appears to be a lack of clearly defined responsibility and authority among the Department of State, AID and the Department of Agriculture for implementing the self-help provisions." This conclusion is based on your review of a June 30, 1969, food sale agreement with Ecuador, the first such agreement following the inclusion of the 1966 self-help provisions in Public Law 480.

While responsibility for monitoring and evaluating self-help performance has not been formally delegated to any agency by Executive order, standard instructions for negotiating P. L. 480 sales agreements direct the Country Team, including the AID Mission Director (or his representative) and the Agricultural Attache (where present) to consult frequently with the recipient government in the implementation of the self-help program. The Country Team is further directed to report to Washington promptly if the government is not following through adequately on the self-help program.


P. L. 480 sales agreements require governments to furnish statements of progress being made in carrying out the provisions of the self-help program. In the past, these reports were required semi-annually. In April 1970, however, in accordance with the President's directive to reduce overseas reporting, the requirement was put on an annual basis. Each report must be accompanied by the Mission's evaluation of the country's performance. The reports are reviewed in Washington by the appropriate regional bureau in AID. Any problems which the Washington review determines as warranting further action are brought to the attention of the Mission, which is, of course, responsible for dealing with the host government.

APPENDIX I

In the specific case of Ecuador, we are informed that extensive consultation was carried on between Washington and the Embassy and AID Mission in Quito in developing the self-help provisions of the agreement. Moreover, the aforementioned evaluation report was submitted on January 20, 1970, covering each of the self-help provisions of the June 1969 agreement and indicating the progress which the Government of Ecuador had made in discharging its self-help obligations.

In light of these facts, we are of the opinion that there are "meaningful guidelines, instructions, policies or procedures to assure efficient Food for Peace program operations in Ecuador."

Sincerely,



James M. Frey
Chief
International Programs Division

COMPARISON OF PER CAPITA GNP FOR
LATIN AMERICAN COUNTRIES IN 1961 AND 1971 (note a)

<u>Country</u>	<u>Per capita GNP</u>		<u>Percentage change</u>	
	<u>1961</u>	<u>1971</u> <u>(note b)</u>	<u>1961-71</u>	<u>Average</u> <u>annual</u>
	(constant 1970 prices)			
Panama	\$479	\$ 739	54.3	4.4
Mexico	474	664	40.1	3.4
Costa Rica	388	539	38.9	3.3
Brazil	288	391	35.8	3.1
Nicaragua	324	440	35.8	3.1
Bolivia	151	203	34.4	3.0
Chile	662	859	29.8	2.6
Venezuela	730	931	27.5	2.5
Argentina	856	1,074	25.5	2.3
Guatemala	284	354	24.6	2.2
El Salvador	237	294	24.1	2.2
ECUADOR	217	267	23.0	2.1
Colombia	266	320	20.3	1.9
Dominican Republic	284	340	19.7	1.8
Peru	383	446	16.4	1.5
Honduras	225	255	13.3	1.3
Paraguay	218	246	12.8	1.2
Uruguay	831	833	0.2	0.0
18 Latin American Republics (weighted average)	418	537	28.5	2.5

^a Latest available data.

^b Preliminary data.

APPENDIX III

PRINCIPAL OFFICIALS HAVING
MANAGEMENT RESPONSIBILITIES ASSOCIATED
WITH MATTERS DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF STATE

SECRETARY OF STATE:

Christian A. Herter	Apr. 1959	Jan. 1961
Dean Rusk	Jan. 1961	Jan. 1969
William P. Rogers	Jan. 1969	Present

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Thomas S. Gates, Jr.	Dec. 1959	Jan. 1961
Robert S. McNamara	Jan. 1961	Feb. 1968
Clark M. Clifford	Mar. 1968	Jan. 1969
Melvin R. Laird	Jan. 1969	Present

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATOR:

James W. Riddleberger	Mar. 1959	Feb. 1961
Henry R. Labouisse (note a)	Feb. 1961	Nov. 1961
Fowler Hamilton	Sept. 1961	Dec. 1962
David E. Bell	Dec. 1962	July 1966
William S. Gaud	Aug. 1966	Jan. 1969
John A. Hannah	Apr. 1969	Present

^aMr. Henry R. Labouisse remained Director of the International Cooperation Administration until it was terminated on November 3, 1961. Mr. Fowler Hamilton was named Administrator of the successor agency, the Agency for International Development, effective September 30, 1961.

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

UNITED STATES INFORMATION AGENCY

DIRECTOR OF THE AGENCY:

Edward R. Morrow	Mar. 1961	Jan. 1964
Carl T. Rown	Feb. 1964	Aug. 1965
Leonard H. Marks	Sept. 1965	Nov. 1968
Robert W. Akers (acting)	Nov. 1968	Jan. 1969
Frank Shakespeare	Feb. 1969	Present

PEACE CORPS (ACTION) (note b)

DIRECTOR:

R. Sargent Shriver	Mar. 1961	Mar. 1966
Jack H. Vaughn	Mar. 1966	Apr. 1969
Joseph H. Blatchford	May 1969	Present

^b Executive Order 11603 dated June 30, 1971, effective July 1, 1971, provided for the transfer of the Peace Corps from the Department of State to the agency known as ACTION.

