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AGRICULTURAL POLICY IN ECUADOR
IMPACTS OF A SHIFT TO THE RIGHT

By

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Introduction

The 1984 election of Leon Febres Cordero as President of Ecuador resulted in a revision of the country's economic policies, including many of its basic agricultural policies. The new government had a private sector, free market oriented approach than the preceding elected government and the military governments of 1972-78. Since Ecuador has a multiparty political system the new government consisted of a coalition of generally "right of center" parties which operated under the banner of the National Front for Reconstruction. The Febres Cordero government was the second elected government after military regimes during the 1970's.

The decade of the seventies had been one of rapid economic change in Ecuador. Induced by increased oil revenues, incomes rose, industry was fomented, large investments were made in infrastructure and education was promoted. The basic policy was one of industrialization with import substitution being the major focus. However, the country succumbed to "Dutch Disease" and borrowed heavily in anticipation of a continued oil based prosperity (Avin, Martz). Despite large gains in average incomes, the distribution of incomes remained very unequal with little or no advances from the pre-oil situation (Luzuriaga and Zuvekas). At the close of the decade constitutional government was restored, but shortly afterward the country was severely affected by the worldwide economic crisis (World Bank, 1984).

Agricultural Policy Environment

A contention of the Febres Cordero government was that the agricultural sector had been maltreated by the preceding governments which had followed policies designed to benefit consumers at the expense of producers, that the agricultural sector had been ignored or even penalized to promote industrial development, and that the country needed to free the sector from the interventions that caused food production to stagnate, resulting in a growing dependence on imported food (Swett, Tompkins, Voss, Wheeler et al).

Agricultural policy had consisted of a variety of activities without a clear or consistent framework although all governments gave strong verbal supporter the sector (Coase, Swett). Most of the public debate was on land reform activities. Following the first agrarian reform law in 1964, the larger estates were subdivided and some land was distributed to the former labor renters who were freed from obligatory work and debt peonage (Blankstein and Zuvekas, Barsky, Commander and Peek). Results were mixed with some of the peasant sector benefitting economically while others were economically disadvantaged, but advanced in terms of greater independence and freedom (Cornick, Meier, Mino, Pomeroy, Schroder, Seligson, Suarez). A dual system resulted with a relatively few people still owning a large share of the land, although in smaller, more commercially oriented units, and a large majority owning very small units (minifundios). The distribution of resources and incomes remained very skewed and rural poverty was unabated for a large share of the indigenous population (Luzuriaga and Zuvekas, Seligson). However, colonization in the tropical forest areas of both the coastal and Amazonian Regions provided some outlets for the land poor (Bromley 1981a, Hirakoda and Yamamoto).

Other policy related activities included the development of a set of parastatals to carry out functions such as agricultural storage and marketing, retail food sales (for the poor), fertilizer imports and sales, artificial insemination, improved seed production, processing of some agricultural products, etc. Minimum prices were set for farmers, maximum prices for consumers were promulgated, wheat imports were subsidized, taxes on imports of many inputs were reduced as were taxes on most exports (the government's main source revenue was its share of oil earnings). Infrastructure (roads, dams, electricity, water, etc) was built, educational facilities were expanded with many rural schools built and the university system, including agricultural colleges, was enlarged. The bureaucracy was greatly expanded including that of the Ministry of Agriculture, new agencies were created and old ones were enlarged. Thus, while the major thrust of the country's economic policy was industrialization, agriculture was subjected to a set of growing paternalistic interventions.

The agriculture of the country was characterized as becoming stagnant during the 1970's, a result of an overall low rate of growth which became less than the relatively high population growth rate, which is around 3 percent and falling slowly. This aggregate result tends to obscure the rapid changes that were taking place in many of the agricultural subsectors. Production of many traditional crops such as potatoes, wheat, barley and beans, the basic crops in the Highland Region, declined very substantially, while the land in pastures and dairy production increased in that region. Poultry production increased in both regions, while beef cattle numbers increased, especially in coastal areas. The production of oil palm, field corn, rice, and soybeans increased in the Coastal Region. The area planted to bananas declined considerably but adoption of the Cavendish variety and improved technology resulted in yield increases adequate to offset the decline in area. This reduction enabled expansion in the output of other coastal crops. Shrimp production, for export, in artificial ponds along the coast was undertaken during this period and grew rapidly to become a major export activity..

The worldwide economic recession, declining oil prices, and the increased burden of the foreign debt due to higher interest rates produced an economic crisis in Ecuador during the first years of the 1980's (World Bank, 1984). This situation was exacerbated by the severe climatic effects produced by El Nino in 1982-83. Drought in some areas and heavy rains and floods along the coast destroyed a large share of the country's crops as well as severely damaging many of the shrimp ponds. Thus, Febres Cordero took office at a time of severe economic stress and was faced with a task of national reconstruction.

Rehabilitation of the agricultural sector was considered to be a key element in the reconstruction effort (Tompkins). The objective was to develop an approach where incentives would induce agricultural producers to respond positively, make investments, adopt improved technology and thus solve the country's agricultural production and productivity problems. This paper examines agriculturally related policies as they evolved during the current government's term in office. A basic assumption is that agricultural policy can have very important impacts on how the sector develops and on its economic well being. It is recognized that the general economic situation of the country and specific macroeconomic policies can be just as important in agricultural development. Also, Ecuador's relatively open and small economy is vulnerable situations beyond its control can swamp local policy effects - declining oil prices have caused such a problem in Ecuador. Similarly, natural disasters such as the 1982-83 El Nino can be so disruptive that economic objectives cannot be met.

Governance and Policy Making

Ecuador has had an erratic and unstable political history with periods of democratic rule interwoven between various types of dictatorships (Hurtado). It has had a number of constitutions, more less patterned on that of the United States. The latest was adopted at the end of the period of military governments in the years 1972-78. The government consists of a President and Vice President elected for a single four term, a unicameral legislature with elections every two years, and a court system in which a number of tribunals operate. It is characterized by strong executive power, the legislature meets for only a short period each year but operates through committees and commissions and can hold special sessions. The legislature does not approve executive appointments but can remove ministers by a simple majority vote. A multiparty system results in shifting coalitions and frequent legislative-executive conflicts.

Economic decision making is predominantly in the executive within legislated and limits. Very intense opposition to the Febres Cordero government within the legislature and his exercise of power resulted in the almost exclusive concentration of economic decision making in the executive branch. The primary actors, in addition to the President, are the Minister of Finance, the head of the Central Bank, and the Economic Board (Frente Economica) which includes the Minister of Agriculture. The Vice President often has economic influence as head of the national planning agency, but has not been strong in the current government. The Minister of Agriculture during the first two years was the dominant force in agricultural policy making and an important influence in overall economic policy. The various private interests exercise their influence through personal contacts or through their organizations. The Chambers of Industry and Agriculture in Guayaquil and Quito tend to be very influential, but some commodity organizations also are powerful. Labor unions, small farmer organizations, and student groups attempt to exercise power by lobbying and by use of general strikes.

Macroeconomic Policies

Macroeconomic policies in Ecuador during the 1970s and early 1980s were typical of those in many developing countries in recent years (Timmer, Falcon, and Pearson). They consisted of overvalued exchange rates, high levels of protection for industry, low and/or negative real interest rates, price controls especially on food products, and low prices for public services (electricity, water, telephones, fuels, etc). In Ecuador there also were inefficient fiscal systems, low taxes and reduced efforts at tax collection as oil revenue was substituted for other sources. There was a tendency to raise minimum wages above inflation rates and implement programs tending to produce economic distortions.

The new government moved quickly to institute a series of reforms designed to remove the distortions, encourage investments, reverse the flight of capital, and promote competition (Tompkins). It, also, was able to successfully renegotiate the nation's foreign debt and thus to relieve some of the severe economic pressures on the economy. Public spending was controlled and the rate of inflation was reduced, at least temporarily. Exchange rates were modified to reduce the overvaluation and finally were floated. Interest rates were raised to create positive real rates in most situations - the National Development Bank's real interest rate for agricultural loans remained negative. Minimum wage rate changes were restricted, but not eliminated, and prices of many services were increased to reduce the level of government subsidies. Tariffs were lowered although they still provided a substantial degree of industrial protection. Policies also were modified to encourage foreign investment.

The decline in oil prices that occurred in 1986 produced severe strains on the ability to carry out some of the reforms and a severe earthquake in March of 1987 destroyed the pipeline that transports oil from the Amazonian area and cut off oil revenue for several months. This caused the government to stop making payments on its international debt. The petroleum sector had been contributing about 18 percent to the GNP, 57 percent to the government's revenue, and 65 percent to its foreign exchange earnings. Each dollar of decline in the 1986-87 price of a barrel of oil cost Ecuador about $68,000,000.

Agricultural Price Policy

Agricultural price policy had been characterized by a set of controls and supports that were at times inconsistent (Wheeler, et al, World Bank, 1983).

Administrative procedures for carrying them out were often ineffective but they nonetheless produced distortions in the system and tended to inhibit the development of the sector due as much to the uncertainty surrounding them as to the levels of supports and controls. On one side there were maximum consumer prices and on the other minimum producer prices. This was an attempt to squeeze the intermediaries who are held to be speculators, exploiters and gougers. Enforcement was by a set of police power controls combined with parastatal operations.

Consumer (maximum) prices were "controlled" by the police of each municipality who were charged with the enforcement of the Price and Quality Control Law and with preventing speculation or profiteering. This was supplemented by a system of government retail stores (ENPROVIT) which were developed to sell basic products at controlled prices in low income areas. The enforcement of the price and quality laws was not consistent since the whims of local politicians as well as corrupt practices often influenced activities. ENPROVIT could sell at official prices only by incurring operating deficits and receiving public subsidies. Producer price support activities were limited to the basic grains (plus milk) and were effected through another parastatal, ENAC, the National Storage and Marketing Agency. ENAC bought and stored grain during harvest and sold it later in the season. Substantial amounts of storage were built with internationally supplied credit but many of the facilities did not function adequately or were located too far from production areas to be useful. In addition ENAC did not receive adequate financing to enable it to buy sufficient quantities to keep prices from falling during peak harvest times.

The administration's initial response to the agricultural price situation was to remove most maximum consumer prices and to raise the minimum prices for producers. The purpose was to stimulate agricultural production which had been lagging behind the population growth rates. The program was stimulative but failed to have the desired effect on production the first year because of relatively unfavorable weather and producer distrust of governmental promises. However, the area planted and production increased significantly in the following year (Agricultural Attache, EPI and Sigma One, Motes).

During the first crop year the Ministry of Agriculture (MAG) undertook an analysis of its grain price policy with USAID funded technical assistance (EPI and Sigma One, Quesada). As a result it was decided to adopt a program involving transition to a free market over a period of a 2 to 3 years would be preferable to an abrupt shift. Thus, official price levels were not changed, since it was assumed that their real levels would be eroded by inflation. The basic approach to be undertaken was to allow prices to fluctuate within a fairly wide band, with upper and lower limits related to international prices, to permit normal seasonal and other market related adjustments. A floor or reference price was to be established and the government would intervene when prices fell below it. The plan was to be effected through the purchase of warehouse receipts for grain stored under the new marketing system which was to be established and which is described in a later section of this paper. However, the price band mechanism was never implemented and prices were supported at the fixed minimums.

Marketing Policy

Agricultural marketing in Ecuador, as a generalization, can best be characterized as chaotic, antiquated, inefficient and costly (Bromley 1981b, Riley). Although still evolving, the system still resembles that developed during colonial era when populations were small and the country was oriented toward subsistence activities. It consists of a combination of local markets (ferias) to which producers bring their products and of private buyers (intermediaries) who buy directly from farmers. Products may pass through several intermediaries before reaching the final consumer (Simmons and Ramos). Recent governments have tried to affect marketing through parastatals, price controls, antispeculation laws, etc. They have made some investments in infrastructure, local and central markets and roads. Many local marketing facilities and livestock slaughter facilities are owned and operated by the municipalities. Most of these are antiquated and inadequate, but they are cheap and trusted which hinders the development of alternative systems. Growing supermarket chains are affecting the system, but minimally to date.

The Ministry of Agriculture developed a new system of marketing to address problems for the major grain crops, but did not attempt to solve the more general marketing problems. The new approach was to establish an Agricultural Commodities Exchange and a privately ran storage and warehousing system (Motes). The privately operated storage facilities were to store grain for farmers or others, providing warehouse receipts which could be traded on the commodities exchange, used as collateral for loans, or held until prices are more favorable. A government agency was to buy and sell the certificates when it became necessary to intervene to prevent either too low or too high prices. To help assure that the new system operated as effectively as possible improvements in grades and standards, market news, and crop and livestock information systems were established. Thus, the role to be developed for the government was directed more toward regulation and assistance instead of direct market interventions.

Agricultural Technology

Agricultural productivity in Ecuador is low; per hectare yields are far below the potential as evidenced by much higher yields in developed and developing countries, by generally higher yields in neighboring countries and by substantially higher yields obtained on experiment farms and by many individual farmers (Hammond and Hill). The National Agricultural Research Institute (INIAP) is underfinanced and its pay levels are inadequate to attract or retain good agricultural scientists (Dow and Soliz, Joint Ecuadorean/NCSU Subcommittee). Extension activities are fragmented, uncoordinated, and seldom interface directly with research. There are a number of universities with agricultural curriculums but the overall quality is low due to low faculty pay, lack of graduate training, open admissions policies and university governance mechanisms.

The Ministry of Agriculture used a number of ways to address problems in the agricultural research, extension, and education areas. Most of these involve round about and/or novel approaches since the economic, social, and political costs of adequately reforming the systems are thought to be excessive. One of the first acts was to increase the number of persons being sent abroad for training. To increase the rate of technology transfer the Ministry Subsecretariats created for each of the two major areas of the country, the Sierra (highlands) and the coast. Their primary function was to organize the technicians of the Ministry to work directly with farmers and farmer organizations. Working through farmer organizations became a primary focus of technology transfer including the "loaning" of technicians to the associations. A high level, internationally known Science and Technology Council, chaired by Norman Borlaug, was formed to evaluate, devise procedures, and advise the Ministry on ways to improve the level of technology availability and use.

Rural Development

One of the striking characteristics of the agricultural sector in Ecuador is its dual nature, one group is relatively small in numbers but controls a large portion of the land and a second group which is large in numbers of people each with a small amount of land and limited amounts of other resources. The former are commercial farmers and the latter are small farmers who produce for the market as well as home consumption, but are considered marginal from the standpoint of economic activity. This latter group is quite large and has grown considerably since agrarian reform activities were initiated in 1964. In addition there are large numbers of landless or nearly landless rural residents. Both farm and nonfarm rural residents consist of indigenous (Indian) and non-indigenous or mixed populations.

The previous government developed an integrated rural development (IRD) approach for assisting these "marginal" groups to improve their economic situation. A Secretariat for Integrated Rural Development (SEDRI) was established in the Office of the Presidency to carry out IRD projects and some 17 such projects were undertaken, most with some degree of international financing and technical support. While the experience with those projects has been mixed almost all have had implementation delays, counterpart funding deficiencies, and other problems. The government reduced support for the IRD projects as part of its austerity program and as a result of the lower priority it assigns to such activities. The activity was transferred out of the Presidency to the Ministry of Social Welfare where it was assigned subsecretariat status and its activities carried out at reduced levels.

Discussion

The current government of Ecuador developed its agricultural policies in line with conservative principles and a business, free market orientation, policies, similar to those proposed by the International Monetary Fund. A broad range of economic and agricultural reforms were instituted and carried out. However, the government is now nearing the end of its single permissible four year term. By the middle of its term it had become very unpopular and a congress with a strong anti-government composition was elected. In a January 1988 election the two largest vote getters were from opposition political parties; they will face each other in a May runoff. Thus, it appears that the policy reforms have been rejected and there is a strong possibility that many will be reversed, despite the relative success of many of the reforms.

The government is perceived as having policies that favor the rich. The majority of the direct benefits from its agricultural price supports accrued to a group of large grain farmers, as had similar activities by the preceding administration. The removal of many price controls and subsequently higher consumer prices in conjunction with the policy of holding down cost of living increases in wages meant a continued deterioration in the living standards of the large numbers of low income workers. In addition the lower emphasis on the rural development and similar programs gave the signal, intended or not, that the government was not all that concerned about the welfare of lower income persons.

The reform of economic and agricultural policies in democratically controlled, economically developing countries is a difficult and politically precarious program to implement, especially if past policies have been anti-agricultural, paternalistic and have become deeply ingrained. Higher prices are needed for agriculture to stimulate increases in investment and output, resulting eventually in lower prices due to a more efficient sector. However, the poor who have to buy the higher priced food are more important in terms of numbers, if not in political influence. With an already unfavorable financial situation, it is difficult to continue subsidies or support other policies to help the poor without aggravating inflation, a condition which also adversely affects the economic well being of the poor.

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