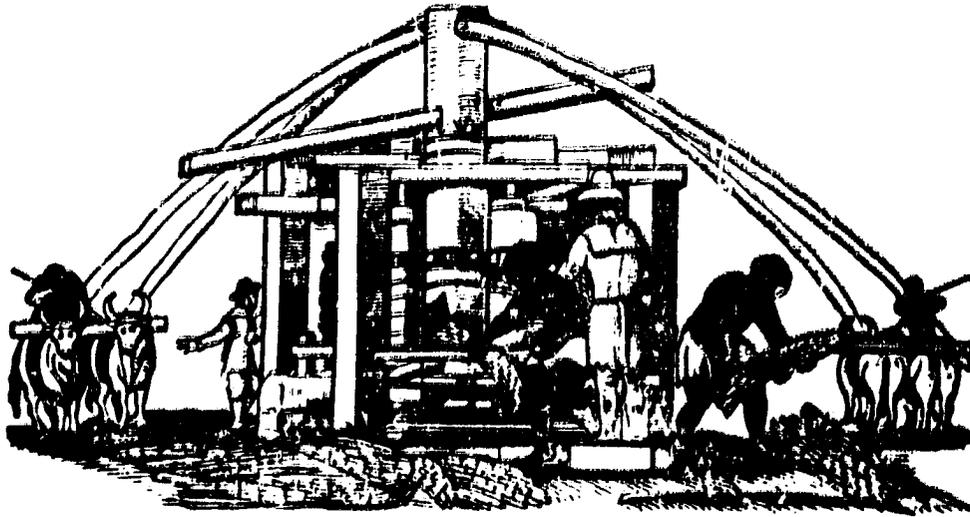


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Report of the U.S. Presidential Agricultural Mission to Ecuador



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REPORT OF
THE U.S. PRESIDENTIAL
AGRICULTURAL MISSION TO ECUADOR

MEMBERS

RICHARD O. WHEELER, LEADER
JOSEPH J. BORGATTI
CAROL BROWN
JERRY T. DAVIS
GERALD GRANT
ROLAND M. KEMP
ARTHUR LOWE
WALTER W. MINGER
J.B. PENN
ARTHUR L. QUINN
JOSEPH L. WELSH
MORRIS D. WHITAKER

JANUARY 1985

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Preface

Presidential Agricultural Missions to developing countries were established at the direction of President Reagan following the North-South summit talks in Cancun, Mexico, in October 1981. At the request of a developing country, a mission is organized to review the agriculture and food system, agricultural and other policies, and the state of farm technology, and then suggests ways to improve the agricultural production and marketing system. The Task Force to Ecuador is the seventh such mission.

The first phase of the Task Force's work began on October 11, 1984, and was completed with a briefing and discussion of our preliminary conclusions and recommendations with President Leon Febres-Cordero on October 26. At that time, certain followup activities were agreed upon and provision made for their implementation.

This formal report contains the final observations and conclusions of the Task Force and our recommendations for policy and program initiatives for more rapid and efficient development and growth in Ecuador. It presents more specifically the recommendations and policy initiatives which earlier were communicated to President Febres-Cordero. We hope that these suggestions will be of assistance to the Ecuadorean Government and its people in tackling the enormous task of increasing agricultural production. We also hope they will be helpful to the United States in designing programs and policies to assist Ecuador in that undertaking.

We are proud to have participated in this important endeavor as members of the Presidential Agricultural Mission, and are most grateful to President Febres-Cordero for his significant personal involvement and support. We appreciate the excellent cooperation of Minister of Agriculture Marcel Laniado, and the time and effort given us by him, his staff, and the many others in both the public and private sectors with whom we worked in Ecuador. Finally, we would like to offer our appreciation to the American Embassy in Quito and the United States Agency for International Development, who provided critical support for and greatly facilitated our work.

Members of the Task Force

Richard O. Wheeler (Task Force Leader)

President and Chief Executive Officer of Winrock International since 1975; Dr. Wheeler has taught agricultural economics in U.S. universities and served as a consultant to the agribusiness sector.

Joseph J. Borgatti (Agribusiness Investments)

Consultant, New York, New York; Former Vice President of Citibank and President of ADELA Investment Company; Mr. Borgatti has over 30 years experience in banking and business development in Latin America.

Carol Brown (Aquaculture Bio-Engineering and Management)

Vice President and Manager, Aquaco Development Corporation, San Francisco, California; Ms. Brown has wide experience in international aquaculture project design, operation, and management.

Jerry T. Davis (Forestry)

President of Davis Forestry International, Monticello, Arkansas; Mr. Davis has extensive experience in all aspects of the forest industry.

Gerald Grant (Agricultural Research and Training)

Office of International Programs, Oklahoma State University; Dr. Grant was the first Director General of the Center for Tropical Agricultural Research (CIAT), Cali, Colombia, and his career with the Rockefeller Foundation spans service in numerous agricultural development capacities.

Roland M. Kemp (Crop Production and Marketing)

President, Ronald Kemp and Associates, Salinas, California; Mr. Kemp has worked for many years in the United States and foreign countries directing fruit and vegetable production and distribution operations.

Arthur Lowe (Fishing and Aquaculture)

President of Aquaco Development Corporation, San Francisco, California; Mr. Lowe is an investment banker with extensive experience in commercial fishing and aquaculture.

Walter W. Minger (Agricultural Finance)

Consultant; Recently retired Senior Vice-President, Bank of America; Mr. Minger has had a long career in banking and finance for agriculture and the food industry.

J.B. Penn (Agricultural Policy, Planning, and Trade)

Consultant, Economic Perspectives, Inc., McLean, Virginia; Dr. Penn formerly headed USDA's economic research agency and served as Senior Staff Economist for the President's Council of Economic Advisers.

Arthur L. Quinn (Agribusiness Investments)

Attorney, Washington, D.C.; Mr. Quinn has extensive experience in advising on international investments and investment policy matters, especially in developing countries.

Joseph L. Welsh (Agroindustrial Management and Marketing)

Director, Agricultural Projects, Sears World Trade, Washington, D.C.;
Mr. Welsh has wide experience in both public and private aspects of
agribusiness planning, organization, and management.

Morris D. Whitaker (Agricultural Economist)

Director of International Agricultural Programs, Utah State University;
Dr. Whitaker has been a university professor, USAID official, and
consultant for agricultural projects in South America.

REPORT OF
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SUMMARY

The Task Force travelled to many parts of Ecuador, and spoke with numerous people in both the private and public sectors. We were treated most graciously and received excellent cooperation. We convey our thanks to all the people for the hospitality shown us.

We offer our sincere appreciation to President Febres-Cordero, Minister Laniado, the Ministry of Agriculture, U.S. Embassy, and USAID Mission for the hospitality throughout our visit.

The Task Force was extremely impressed by the tremendous agricultural potential of Ecuador. Natural resources are rich and abundant, and the climate is ideal for food production. Farmers everywhere have a strong commitment to greater production. The potential exists for Ecuador to provide its people with an abundant food supply, and to be significant suppliers of some commodities to the world market.

The Task Force also found an agriculture that reflects many years of neglect. The lack of emphasis given to development of agriculture relative to other sectors of the economy in the past is evident. We fully recognize the problems that must be confronted in helping agriculture achieve its full potential for the benefit of the country and all Ecuadoreans.

We were impressed with the highly professional and extremely competent group of people who have been persuaded to join the new government. Moreover, we were delighted to see the emphasis being placed on agriculture, ~~recognizing the fundamental role it plays in the total economic development~~ of the country. We also were encouraged by the philosophical approach--that agricultural development will occur more rapidly and be more resilient with private enterprise and market forces playing a much greater role.

We believe the economic policy changes already implemented along with those contemplated will achieve significant improvement. Early efforts of the new government toward a free market exchange rate, containing the growth of the public sector, bringing down inflation, and improving the fiscal balance will do much to improve the confidence of business and potential investors.

Although we are strongly endorsing movement toward the unification of exchange rates, we recognize there is another related matter of importance. That is the legislative earmarking of funds which seriously hampers the ability to allocate additional revenues resulting from the unification of exchange rates. We strongly suggest that for the benefit of the economy as a whole, this matter be recommended for legislative change.

We realize that at this point government presence in agriculture is pervasive. This intervention cannot be made to disappear at once. It requires a transition period for orderly adjustment. We understand that a greatly reduced presence in the future is desired and that the overriding problem is how to get from here to there. It is to this problem, both the short term and longer run aspects, that we focus our report.

First, we address some broad areas before turning to the more specific aspects.

We are impressed with the determination and dedication with which the people are addressing the problems that confront them. We suggest, however, an urgent need to more clearly articulate among government entities the goals and objectives of agricultural and general economic development policy. This is needed to guide the process of developing consistent plans for achieving greater reliance on freer markets. Also, we think there needs to be much closer coordination between general economic development policy--especially ~~monetary policy~~ and overall agricultural policy.

For the agriculture sector, one of the most severe constraints is the lack of investment capital to spur the development process. But, availability of that capital from both local and foreign investors is closely

related to the general business environment. While the business environment is improving under the new government, more can and must be done to improve it to attract investment.

An immediate action that could materially improve the investment climate is to drastically reduce the bureaucratic processes involved in importing, exporting, obtaining credit, or starting a new business venture. Today, as many as 15 agencies of government must be consulted on some transactions, a tedious and lengthy process that significantly adds to the uncertainty and the cost.

We now turn to more specific aspects of the agricultural and food situation.

Basic Policy for Agricultural Development

The transition to a more market-oriented agriculture will require close attention to the goals and objectives of agricultural policy. We would suggest that it is now time for senior officials to develop a consensus on integrated government-wide policy. This will help reduce the tendency for contradictory policies that result from individual ministerial action. It also will provide the framework for developing more consistent operational plans as they affect agriculture. We recognize that the adjustments contemplated will not be equitable for all interests.

Some policies now in place are contradictory to the overall objective of moving toward freer markets. This is highlighted by the government presence in setting minimum and maximum prices for several commodities; subsidizing the prices of imported inputs and penalizing some exports through a system of three-tiered exchange rates; and the allocation of production credit by commodity. This results in conflicting price signals which distort the ~~allocation of food to consumers, and reduces productivity growth.~~ Wheat is an example. Its importation is being subsidized by exchange rate policy at the same time that farmers are being encouraged to expand production through the minimum price supports.

Maintaining minimum prices involves operations of a large government entity, ENAC (National Agency for Food Storage and Marketing), for buying, selling, and storing operations. Besides being an unnecessary drain on the federal budget, many of the functions of ENAC could be performed more efficiently by the private sector.

In addressing the food and nutrition needs of the poorest people, we fully support a role for the public sector. We also think this should be done in the most efficient manner, to ensure the greatest nutritional benefit per sucre expended. We are struck by the inefficiency and poor performance of ENPROVIT (National Agency for Retail Food Sales).

In this general area of basic agriculture development policy, the Task Force recommends that:

- o immediate attention be given to formulating at the interministerial level a specific policy direction with clearly delineated operational goals and objectives for development of the agricultural sector.
- o to assure proper coordination in the development and execution of agricultural programs, we suggest establishment of a Cabinet Council for Food and Agriculture, composed of appropriate Ministers and officials and chaired by the Minister of Agriculture.
- o a policy coordination unit be established in the office of the Minister of Agriculture to coordinate policies and programs across the subsecretariats.
- o as quickly as possible, exchange rates be unified for the trading of all agricultural inputs and products at the free market rate.
- o ~~the number of commodities subject to minimum and maximum prices be reduced and eventually eliminated.~~

- o priority be given to reform and restructuring of ENAC, to privatize many of its functions and thus encourage greater private sector participation in grain marketing and storage.
- o the Ministry proceed immediately to develop and implement a program for creation of a credible production and market price information system for producers, consumers, and intermediaries.
- o the examination of alternative means for food distribution to low income people proceed as rapidly as possible. ENPROVIT should be returned to its original purpose of distributing basic foodstuffs and the rest of its current functions be performed through the private sector.
- o as a means for quickly freeing milk prices, market differentiation in the milk markets be explored. The lowest income consumers could be provided milk products obtained from foreign donors while allowing the price of domestically produced fluid milk to seek its market level. This would encourage more local production and result in a greater quantity and quality of milk for all consumers.

Research, Education, and Extension

One of the elements most critical to sustained long-term development of Ecuadorean agriculture is greatly improved research, education, and extension institutions. A scientific base particularly suited to Ecuador, well-trained scientists, experienced technical specialists, and greatly improved farmer education all are essential.

Due to actions of past governments, Ecuador presently lags behind many other countries of Latin America in this important area. We believe that ~~significant and rapid~~ improvements only can be made by a strong commitment to a policy that guides the development of interrelated programs for these three areas.

We believe the problems in this area are critical enough to warrant quick and perhaps unconventional actions. The Task Force recommends:

- o consideration be given to formation of a National Agricultural Science and Technology Board to advise the Minister of Agriculture on research, education, and extension. Such a body should be composed of several eminent scientists and educators.
- o development of a long-term policy and strategy for research, education, and extension, with the proposed board taking the lead in its formulation.
- o existing research, education, and extension institutions be greatly strengthened.
- o strengthen education in the area of applied agriculture.
- o immediate attention to undergraduate science education to be followed by masters and doctorate-level education.
- o the GOE recognize the value of human capital and pay adequate salaries to employ and retain agricultural scientists and technicians.
- o action should be taken to mount national production campaigns based on technology currently available.

Credit, Investment, and Trade Practices

We cannot stress enough the importance of credit, investment, and trade to the overall development of agriculture.

Credit

Agricultural credit delivery is greatly impaired by an unbelievably complex and expensive system. Overregulation is pervasive, causing confusion

and discouragement. Agricultural credit is generally too little and too late, especially for the small farmer.

The Task Force recommends:

- o the Central Bank relax its prohibition on rediscounting documents of more than two years, in order to provide more medium-term credit.
 - o the Banco Nacional de Fomento use its guarantee powers to co-participate with private banks which finance agricultural activities as a way to get more private capital into this sector.
 - o requirements be simplified and coverage expanded for short and medium-term credit.
 - o Banco de Fomento and FODERUMA attempt a pilot program to grant uncollateralized, seasonal, operating loans of one year or less relying on the signature of the borrower. These loans should be charged a market rate, undoubtedly less than rates charged by the ubiquitous local money lenders.
 - o increase interest rates on seasonal production loans to positive rates, coupled with much quicker loan approvals and simplified documentation.
 - o encourage commercial banks, through the Central Bank, to expand their agro-industry loan portfolios to include more "linked credit." Banks would lend to financially responsible food processors who in turn provide financing or production inputs and technical assistance to groups of farmers. Farmers would provide the processor with raw product in return.
-
- o provide financial training for the purpose of improving small farmer credit to selected board members of cooperatives, associations, or communes to increase their ability to tap the institutional financial programs of entities such as FOMENTO and FODERUMA.

- o the loan approval process of FODERUMA be shortened. A credit committee composed of the submanager and the heads of FODERUMA's operations, finance, and planning sections should provide adequate credit control and speed up customer servicing at less cost.

Investment

The Ministry of Finance, with broad responsibility across government, should undertake with other ministries and the Monetary Board a program to attract local savings and foreign capital for agricultural investment. Such an effort might include:

- o mobilizing capital that is outside the regular financial system; by permitting interest rates high and flexible enough to foster domestic savings.
- o foster new activities and new instruments such as guarantees or insurance programs and including dollar-denomination instruments to capture savings, especially Ecuadorean-owned dollars.
- o relaxation of the more onerous features of Decision 24. Amerliorating steps should be aimed at the type of investment desired, e.g., preparing products for market and finding foreign markets for them.

Trade Practices

The existing system of controls and multiple exchange rates is costly. The proliferation of forms and procedures cost time and money.

We recommend that all trading be conducted at free market rates. This would eliminate underinvoicing and reduce the expensive bureaucracy. It would also address the problem of deferred foreign exchange remittances. With a free market, imports would tend to be controlled by cost and availability, thus having a positive impact on dollar balances. However, firms abroad would be more willing to sell to Ecuador, thus improving the

availability of inputs. We believe that firms involved are already acting on the basis of free market rates, and would make an easy adjustment.

We offer an additional recommendation which is to consider permitting participation in established financial futures markets so that both exporters and importers may hedge their prices and costs.

The government should encourage the creation of effective intermediary organizations which are designed to finance new and expanded investments in agro-industries, and facilitate trading in export-oriented products.

Export Market Development

Ecuador's agricultural exports typically have been tropical commodities undifferentiated in major consumer markets. This raises several concerns in maintaining and expanding export markets for these and other commodities.

Ecuadorean agricultural products are not generally distinguished from competing products either as ingredients or when directly consumed. This precludes some quality products from commanding a premium price, and makes the commodities very sensitive to price changes.

Since most of the products move through brokers, processors, and distributors, the exporter often is isolated from actual consumer demands and preferences. This removes much of the incentive to operate above minimum quality standards or to conceptualize ways to improve quality and increase demand.

A cooperative government agro-industry effort could effectively address these problems for export market expansion. Such an effort might involve:

- o first, establishment of quality standards in each industry that meet or exceed standards for target markets. The market will eventually eliminate exporters who do not meet such standards.

- o second, identification of products that might be differentiated and marketed for premium prices.
- o third, develop an export promotion program to differentiate Ecuadorean products in the minds of consumers.

Aquaculture and Fisheries

One of the fastest growing areas of food production in Ecuador over the past decade has been aquaculture produced marine shrimp. Ecuador now is a major world producer of shrimp. It contributes to the domestic food supply and is a significant foreign exchange-earning industry. But, the industry now faces major challenges, some serious enough to jeopardize its future.

The primary concern is the lack of larvae. This problem requires immediate attention while longer term solutions are found. The Task Force recommends:

- o immediate initiation of an extension-type education program directed by industry to improve handling techniques during collection and transportation of wild larvae, and to assist farmers in obtaining greater survival of the available larvae.

Over the longer run, the pressure on the larvae supply can only be reduced by construction of sophisticated hatcheries to produce larvae from captive animals. Incentives and long-term credit will be required to encourage technology development and infrastructure development before the problem becomes even more acute. Traditional credit lines are unavailable for hatcheries which now are viewed as research and development activities.

~~Maintaining market position over time in the face of growing competition~~
will require long-term capital for continual modernization and increased efficiency as well as new technology.

While the industry has been hampered by past exchange rate policy, your Administration's move towards unification of the exchange rate is serving to

bring more dollars into Ecuador and helping eliminate distortions in the industry. A free market rate will maximize exchange earnings from shrimp exports.

Another important issue is assuring that exported shrimp meet quality standards. Export products failing to do so undermine the reputation of the entire industry. The Task Force recommends:

- o that quality standards for major markets be adopted to protect the integrity of the industry. We might add that this applies to several other commodity markets as well.

Farming of aquatic species other than shrimp is constrained by the lack of modern technology, knowledge of external markets, and capital. There is considerable interest in Ecuador to diversify aquaculture. The Task Force recommends:

- o that an appraisal first be made of the technical and market conditions before beginning specific development plans for this industry.

The traditional fishing industry suffers many of the problems of fishing industries worldwide. Declining harvests, overcapitalized fleets, and changes in consumer preferences are forcing contractions. Structural change is required for the industry to remain efficient over the long run and to shift to nontraditional species. Such change will require capital investment, new technologies, and market development.

The Forestry Resource

Ecuador has a vast potential in its forestry resources for meeting both domestic and export needs. Forestry is a critical component both for meeting housing needs and generating employment. However, major changes are required to fully develop and sustain this resource. Its wise use and conservation involve roles for both the public and private sectors. Each should be given responsibility for what they do best.

We suggest that attention be given to development of a national forestry policy to clearly delineate the role for the public and private sectors.

The Task Force recommends that the public sector role embrace:

- o a complete delineation of the government forest lands, and management of these lands for sustained yields for timber production and soil and water conservation.
- o increased reforestation in the highlands for timber production, erosion control, watershed management, and creation of employment with private implementation.
- o joint development with the private sector of domestic and export market promotion for wood products, and streamlining regulations which control timber flow.
- o develop with private sector input a master plan for future pulp and paper needs, drawing upon the several studies that already exist.
- o introduce technology which will reduce the destructive sawmill and board manufacturing methods of the small board producers.
- o provide the private sector with long-term credit and special guarantees to encourage reforestation activities.
- o analyze the research needs of the forestry program. Jointly with the private sector, develop priorities and financing to accomplish research needs.

The Task Force recommends the private sector, with government cooperation, can best perform in areas such as:

- o development of large scale, low cost wood housing to help meet the critical housing and employment needs of the country.

- o investment in long-term reforestation with appropriate security for that investment such as eliminating the threat from colonization.

The Small Farmer

The agriculture of Ecuador could not be addressed without attention to the small farmers who comprise the majority of the farming population. The approximately 340,000 small farm families represent 2.4 million people. These farms provide a major proportion of the country's food supply, and they produce some export crops. Productivity gains among these farmers can be significant, improving total production and their well-being.

Crop yields of small farmers are significantly lower than those of larger farmers. Important constraints to increasing income are a lack of effective marketing systems, tenure security, water, credit, and technical know-how. Programs are now addressing these, but only with varying degrees of success.

These programs do not have the desired impact because they fail to recognize the tremendous diversity among small farmers. Two distinctions should be made. Small farmers should be placed in homogenous groups according to similar production objectives. Second, production constraints should be identified for each of these groups.

Once these distinctions are made, the task of increasing production and productivity becomes more focused. Improved varieties, better cultural practices, and techniques for reducing post-harvest losses then can be introduced. While these may produce only incremental changes, they will have positive effects on productivity, production, and income.

The Task Force recommends that government:

- o emphasize land tenure security and titling to help consolidate reform, increase productivity (through access to credit), and encourage investment.
- o expand research, education, and extension programs for small farmers.

- o use the private sector in addressing problems of small farmers. We believe contract farming for vegetable production in the Sierra and incentives to private enterprise to incorporate small holder satellite plantings in oil palm are but two of many ways the private sector can assist in increasing small farmer incomes and production.
- o initiate a pilot program in cacao, linking small farmers and processors to demonstrate how government and the private sector, working together, can improve small farmer income while increasing value added exports.
- o give higher priority to on-farm water management for more efficient use of existing water resources.
- o encourage greater credit from private financial institutions and adjust interest rates to cover the true market cost of the loans.

Public Sector Organization

The public sector organizations relating directly to agriculture include the Ministry of Agriculture and several associated parastatals or quasi-government organizations. We recognize that formation of these parastatals may have been initially justified, but many of their functions can now be performed by the private sector. The government's review of many of these and plans for divestiture are steps in the right direction.

For the Ministry itself, we believe the new organizational structure could prove advantageous if care is taken in ensuring coordination of activities across the subsecretariats. We believe a strong policy analysis staff attached to the Minister can greatly facilitate development and coordination of policies and programs.

We have focused on what we believe the government of Ecuador needs to do to unleash the private sector. We have not presented a strategy for development of specific aspects of the private sector. Government has a role to play but it is not to pervasively control agriculture as has been the case

in the past. Rather, it is to create a different environment, one that opens opportunities for the private sector which is receptive and eager to participate.

Again, all members of the Task Force were honored to serve in this important role. We hope our efforts will make a contribution to Ecuador.

INTRODUCTION

Ecuador is located on the northwest coast of the South American continent straddling the equator. Its borders are shared by Colombia on the north and Peru on the east and south, and is bounded by the Pacific Ocean on the west. It occupies an area of 271,000 square kilometers (27.1 million hectares), extending 714 kilometers north to south and 658 kilometers east to west. It is roughly comparable in size to the state of Colorado. The country is comprised of four distinct topographic regions: the Costa or Coastal Plain; the Sierra or highlands; the oriente or eastern jungle; and the galapagos.

The population approaches 8.5 million, growing approximately three percent annually. Over 55 percent of the population is under 20 years of age. The population is almost evenly divided between the Sierra (47 percent) and the Coast (49 percent), with the remaining small amount in the galapagos and oriente. About 55 percent of the people reside in rural areas.

The Ecuadorean economy is relatively small. The World Bank estimates the 1983 Gross Domestic Product at \$12.8 billion with an average per capita income of \$1,150. Petroleum activity in recent years brought increased economic growth, but it was not shared evenly across all sectors, notably, the agricultural sector. Further, general improvement in living standards is constrained by the rapid population growth and poor income distribution.

The major sectors of the economy are agriculture, manufacturing, petroleum, and services, together accounting for over four-fifths of GDP. Agriculture remains the backbone of the economy. It employs almost one-half of the labor force, contributes 15 percent of GDP, and earns almost one-fifth of the foreign exchange. Major export commodities are bananas, cacao, coffee, and marine products.

Long an independent republic, Ecuador has had a democratic government since 1979 following a period of military rule. The top two constitutional offices in the executive branch are filled by direct vote and the cabinet is composed of 11 ministers nominated by the President. The one-house

legislature has 71 members elected to four-year terms. The present government headed by President Leon Febres-Cordero assumed office in August 1984.

CURRENT AGRICULTURE AND FOOD SITUATION

Ecuador has a total land area of 27.1 million hectares, of which 6.3 percent is cultivated, 13.7 percent in pasture, and 52.2 percent in forests, and the remaining 24.7 percent devoted to a variety of other uses. The farm sector is comprised of a large number of small farms and very few large farms, a result of the traditional colonial structure and agrarian reform programs. Performance in the past decade was lackluster and failed to keep pace with population growth. The discovery of oil in the Amazon region in 1967 diverted attention away from agriculture which had traditionally been the main source of economic growth. Average yields for major crops stagnated. Production of domestic food crops declined an average of three percent annually due primarily to pricing, trade, marketing disincentives, and policies which increased food imports, subsidized consumer purchases, and favored traditional export commodities. The new government thus finds itself faced with an agriculture sector suffering from a decade of neglect. With stagnation of oil revenue, there is a renewed interest in emphasizing agricultural development.

Agriculture for the most part is in the private sector. On the marketing side, however, the government does intervene for producer and consumer price stabilization and food distribution to the poorest consumers. The government also administers input controls, and carries out most of the agricultural research.

The five major crops are coffee, cacao, yellow corn, hulled rice, and sweet corn, accounting for 74 percent of total cultivated land in the country. In value, coffee, bananas, cacao, and shrimp and fish are the most important export commodities. Agricultural commodity imports include wheat, soybeans, cotton, barley, and oats. Nearly all chemical and mechanical inputs used in agriculture are imported. However, Ecuador has never failed to maintain a positive agricultural trade balance, although it has declined significantly in recent years.

The agricultural sector is quite diverse, with three distinct geographical and climatic regions. The Sierra and Coast each occupy about

one-fourth of the total land area while the Oriente accounts for one-half. Although the Oriente has potential, it is sparsely populated, heavily forested, and not currently a significant agricultural area. The coastal area is one of the most fertile tropical lowlands in the Western Hemisphere and Ecuador's main agricultural resource.

The coast has warmer weather (average monthly temperatures of 80° F) than the Sierra (annual mean temperatures between 50-60° F), and a more reliable rainfall which allows for a harvest of two crops per year in some cases. Traditional coastal crops are export crops: coffee, cacao, bananas, and sugarcane. It has a higher concentration of commercial farms (five or more hectares) than either the Sierra or Oriente. Only 30 percent of cultivatable land is in crops in the region.

The Sierra has a diverse climate, and a wide variety of crops is cultivated in the region. Food crops--wheat, barley, potatoes, soft corn, beans, and vegetables--and dairy are the most important. Sixty-three percent of the arable area is in production. Most of the country's small farms (under five hectares) are concentrated in this region.

There is significant growth potential throughout the country. Land resources are abundant and only 44 percent of the available cropland and 62 percent of the pasture land is currently in use. Given improved credit, marketing, and extension services, productivity of major commodities could be increased substantially on land now farmed.

The development of nontraditional agricultural export products also could be increased. Rationalization of subsidy and tax policies which now distort prices and incentives would greatly improve prospects for an increase in both traditional and nontraditional exports.

The most important domestic food crops are soft corn, rice, barley, potatoes, plantains, and cassava. Traditionally, the staple food was rice on the Coast and potatoes in the Sierra. Wheat bread, however, has become the staple largely due to the government subsidy on wheat which is the primary food import.

The Ecuadorean population generally is not short of food energy. However, a nutritional problem remains among the lower income people. In attempting to resolve this problem, low cost foods are available for all income groups, and prices of some food items are government controlled. The growth in average per capita income which resulted from the oil boom caused some shift in dietary patterns. Per capita consumption of wheat bread, refined sugar, vegetable oils, beef, and poultry increased, while potato, rice, grains, and unrefined sugar declined.

AGRICULTURAL POLICIES

Price and exchange rate policies generally have constrained rapid and efficient agricultural growth and expansion of agricultural exports. These policies, developed over several decades and inherited by the current government, distort the allocation of inputs to farmers and food to consumers. Although well-intentioned, the result is excess supply of some inputs and products and scarcity of others. Moreover, they create uncertainty among farmers, investors, and consumers alike concerning prices and inputs and product availability in both domestic and international markets.

Minimum Prices to Farmers

The government currently attempts to encourage domestic production of some 20 agricultural products by setting minimum prices to farmers based on estimated costs of production. ^{1/} In theory, the government-owned ENAC (National Agency for Food Storage and Marketing) stands ready to purchase products whose market price falls below the minimum price, and then to store the product for resale when supply is short and prices are higher. However, in practice, ENAC has only limited success with the price support program. ENAC storage capacity for cereals in the past has been adequate, but extremely limited for other products. It has engaged in buying operations for only a few crops and has even less experience in selling. ENAC attempts to provide all ancillary services itself (such as storage) rather than utilizing private sector services (such as storage through purchase and sale of warehouse receipts). Overall, ENAC likely has had little impact on actual producer prices.

While farmers are understandably supportive of ENAC purchases to maintain prices during large harvests, they are less aware of the need for ENAC

^{1/} These products are: unhulled rice, sugarcane, barley, milk, hard corn, soybeans, raw cotton, ginned cotton, cotton seed, raw palm oil, soybean meal, semirefined fish oil, red (semirefined) palm oil, meat, coffee, cacao, bananas, wheat, potatoes, and shrimp.

selling operations during short harvests to moderate price increases and recover storage and inventory costs.

Prices of the 20 products are distorted from their real scarcity value because they are set administratively on the basis of average costs of production. Errors undoubtedly are introduced by the inadequate cost of production data, but more serious is the failure to account at all for the effects of demand (either intermediate processors or final consumers). Consequently, the minimum prices do not reflect the true scarcity (economic) value of these products. Moreover, the values of the commodities are distorted relative to one another. Farmers thus are induced by these administrative prices to produce different amounts of these products than processors or consumers actually want.

This outcome is compounded by a second reality--farmers are very uncertain about whether ENAC actually will buy sufficient quantities of the products to maintain the minimum prices. ENAC's limited storage capacity for some products precludes it from supporting prices through buying operations. Moreover, ENAC has reduced the minimum price of some commodities when the market price has fallen (e.g., soybeans), thus further undermining its credibility with farmers.

The Task Force recommends:

- o the number of crops and commodities with minimum prices be reduced from 20 to no more than three or four of the politically and economically most important.
- o eventually eliminate all commodities from the minimum price support program.
- o minimum prices be set on the basis of average world market prices (CIF) calculated at the free market exchange rate for some immediately preceding period.

- o trigger point for sales prices be set on the basis of percentage spread (10 to 20 percent) between market price and minimum price. (For example, when market price reaches 20 percent above minimum price, ENAC would begin to sell.)
- o divest ENAC of storage facilities (sell to private sector) and administer minimum price support program through the purchase and sale of negotiable warehouse receipts. ENAC should be restructured and as many of its functions as possible sold to the private sector.
- o develop and implement a production and market price information system in the Ministry of Agriculture (outlook reports on land area, yields, production, land prices, and actual production and price reports).

Maximum Prices to Consumers

The government also sets maximum prices to consumers for some basic foodstuffs. Prices are based on costs of production and intended to hold down costs of basic food items to the politically important urban consumer. The number of such items was recently reduced with only six remaining--including four food items--sugar, flour, processed milk, and milled rice.

ENPROVIT (National Agency for Retail Food Sales), under jurisdiction of the Ministry of Agriculture, was created in 1973 to assure availability of food products at the retail level at official maximum prices. The impact of ENPROVIT on the general price level of regulated commodities is thought to be negligible due to the relatively small quantities handled. Moreover, it has moved well beyond its original scope and its retail outlets have become, in essence, publicly owned and operated grocery stores with extensive product lines including nonfood items such as liquors and toiletries. ENPROVIT now operates at a loss, constituting a substantial drain on the Treasury.

It is unlikely that the official maximum price for any of the four commodities is actually the effective price. Moreover, it appears that the effective (market) price tends to be higher than the official price. For

example, the official price of milk at the farm gate is S/12 and for processed milk S/25 per liter, but packaged, processed milk sells for as much as S/32 per liter.

The distortions introduced by the minimum prices to producers and maximum prices to consumers actually may result in lower quality and quantity of the product available to consumers. To maintain earnings of farmers and processors and assure supply, the Ministry of Agriculture needs to allow movement toward free market prices. Milk again provides an illustration. The farm gate price of milk has been rising while the maximum price has remained constant. The earnings of milk processors would be substantially reduced if all processed milk were actually sold at the maximum price. This profit squeeze has resulted in some milk being diverted from the processed liquid market to production of butter, cheese, and other processed products not subject to price control. Also, unprocessed milk sold directly to poorer urban consumers has been watered down, short weighted, and skimmed, with the milk and cream diverted to processing.

While most such raw "milk" sold to poor urban consumers appears to be at the maximum price, the quality is very poor and volume likely has been substantially reduced. The high quality milk (packaged, pasteurized, and homogenized) continues to sell substantially above the maximum price. The poor urban consumers actually have been made worse off by the attempt to control prices.

The Task Force recommends:

- o eliminate, as quickly as possible, maximum prices for the four agricultural commodities (processed milk, wheat flour, hulled rice, and sugar) remaining under price control.
- o return ENPROVIT to its original purpose of distributing basic foodstuffs to poor consumers and shift the rest of its functions to the private sector. Examine alternative, private sector means of providing food to low income people.

--divest ENPROVIT of its larger stores located in middle-income neighborhoods in the larger urban centers by selling these stores to the private sector.

--reduce ENPROVIT's inventory from the relatively large number of items (that now compete with a variety of private sector retail outlets) to the few basic commodities it was originally intended to provide.

- o consider differentiating markets for basic foodstuffs as a basis for increasing supply. Milk is an example. The lowest income consumers could be provided less expensive but wholesome powder milk products obtained (perhaps) on a concessional basis from foreign donors. These products could be provided either on a subsidized basis, or at cost through ENPROVIT, and might also be sold publicly through private sector outlets at market prices (albeit at low prices relative to whole milk products because of quality differences). At the same time, the price of domestically produced fluid milk would be allowed to seek its market level. This dual approach would encourage more local production and would result in a greater quantity of improved quality milk for all consumers.

Such a program perhaps could be implemented under the supervision of a milk control board, composed of producer, processor, consumer, and government representation. This board would function to insure dairy products designated for the low income market do not find their way into the fluid milk market.

Overvalued Exchange Rates

The official rate of exchange was held at S/25 per \$1 throughout the 1970s, but became increasingly overvalued in the early 1980s. The sucre was devalued several times and a crawling peg (devaluing the sucre at five cents per day) was established in March 1983. The official exchange rate was about S/60 per \$1 in early August 1984, while the free market rate was nearly S/100 when the Febres-Cordero administration took office.

The result of previously requiring many products to trade at a highly overvalued rate was to discourage exports and subsidize imports. Proceeds received by exporters were reduced below what would have been obtained at free market exchange rates since exporters received sucres at the lower (overvalued) exchange rate. (In effect, dollar prices paid for Ecuador's exports were artificially high.) Ecuadorean importers paid relatively low sucre prices since they could obtain scarce foreign exchange at the overvalued exchange rate. The agricultural sector was affected adversely in two ways. First, the policy encouraged imports of food at artificially low prices, depressing domestic production. Second, the policy overpriced exports and reduced their competitiveness in the world market. Another effect was to subsidize imports for agriculture (such as fertilizer) which tended to increase agricultural production.

The overvalued exchange rate encouraged widespread illegal trade as exporters sought to obtain greater sucre proceeds, and deposits of foreign exchange proceeds in foreign bank accounts. Moreover, the trade statistics were confounded as traders also resorted to under-invoiced exports and over-invoiced imports as well as direct smuggling. For example, it is estimated that in shrimp trading approximately \$100 million annually in foreign exchange was lost from the foreign exchange reserve because of the previous government's requirement to export at the official exchange rate.

The Febres-Cordero administration has moved quickly to unify the exchange rate for most commodities by significantly reducing the number of commodities required to be traded at the official rate. The new government established a three-tiered system--an official rate of S/56.5 per \$1, an official market rate of S/96 per \$1, and the free market rate, nearly the same as the official market rate on August 10, 1984, but increased to S/113 per \$1 by October 1984.

~~The three-tiered system still is used to channel subsidies to certain~~
sectors. All agricultural inputs (fertilizers, seeds, etc.) are imported at the official rate of S/66.5 per \$1, and wheat also is imported at this rate. This is an implicit sucre price subsidy of 41 percent on these products, given a free market exchange rate of S/113 per \$1.

Most exports now are valued at the regulated market exchange rate. Shrimp now are exported at this rate (\$/96 per \$1), but since the free market rate is \$/113 per \$1, some under-invoicing likely still is occurring with ensuing loss of foreign exchange earnings. No agricultural exports are required to exchange at the official rate (\$/66.5 per \$1) and only a few trade at the official market rate.

One increasingly difficult problem is the continual decline in the free market value of the sucre relative to the dollar and the increasing degree to which official and official market rates are overvalued. When the Febres-Cordero government took office, the official rate was about 33 percent overvalued, and the official market rate was about equal to the free market rate. The official rate now is 41 percent overvalued, and the official market rate is about 15 percent overvalued. It appears the government should move quickly to reduce the official market rate and shift more commodities toward free market exchange rates. Maintaining subsidies for preferential imports of wheat and agricultural inputs is increasingly costly.

The Task Force recommends: 2/

- o continue the movement toward a unified, free market exchange rate for exports.
- shift the last of the agricultural products to the free market exchange rate that still are required to be exported at the overvalued official market rate.
- eliminate any government bonuses on exports (that are intended to compensate for losses in trading at the required, overvalued exchange rate) or any taxes.

2/ All recommendations regarding shifts to free market exchange rates for agricultural exports and imports also apply to all other sectors. All trade should be at the free market exchange rate if Ecuador's economy is to identify and fully exploit its comparative advantage.

- o eliminate preferential access to foreign exchange reserves for imports of wheat and agricultural inputs and require all sales of foreign exchange for imports to be at the free market rate. (Since substantial subsidies will be eliminated, this reform probably will have to be implemented in stages.)

- o eliminate reference prices for domestic sales of imported fertilizer, agricultural chemicals, and other agricultural inputs; involvement of government agencies in price setting or price regulation for such inputs, with free markets to determine price and allocation; and maximum price for wheat and associated government control in price setting or regulations, with wheat flour and bread prices to be determined by market forces.

Subsidized and Controlled Input Prices

Imported agricultural inputs (e.g., fertilizers and chemicals) are subject to reference prices, resulting in an input subsidy to farmers from importing at the overvalued exchange rate. Government regulations require these prices be set based on costs of importation and any associated processing, so that the exchange rate subsidy is passed to farmers. 3/

The subsidization of agriculture input imported prices and subsequent price controls further distorts economic signals. Larger amounts are imported than would be at higher free market exchange rates. This encourages greater production of agricultural products than consumers would demand at free market exchange rates and prices for inputs. Moreover, since demand is not considered in setting input prices, the price relatives also are distorted just as for the set of minimum product prices, resulting in relative over or under use of each input and the wrong mix of inputs. This further distorts the production level of agricultural products compared to what consumers want.

3/ In a similar way, the subsidy on wheat imports is passed to final consumers by the maximum price on wheat flour.

Limited Coordination for Price and Exchange Rate Policy

Various government entities are involved in setting and administering prices and exchange rates. The Monetary Board has responsibility for exchange rate policy. The Ministry of Agriculture (MOA) has both ENAC and ENPROVIT which help set and administer minimum and maximum product prices. The Ministry of Industry and Commerce also is involved in setting and controlling some prices. In addition, various entities of MOA are involved in helping to set and administer controlled prices.

The situation now involves numerous government agencies at various levels with little or no coordination in setting, monitoring, and enforcing minimum and maximum prices for products, prices for inputs, and exchange rates.

The predictable result is policies which frequently are inconsistent and sometimes completely contradictory. For example, highly subsidized wheat imports (S/66.5 per \$1) substantially reduce incentives for domestic production. At the same time, a minimum price is set for wheat (raised in October 1984) to stimulate domestic production. Moreover, substantial (and generally unsuccessful) efforts have been expended by various government agencies to maintain agricultural sector earnings, assure fair profits, provide appropriate incentives, protect consumers, and assure adequate supplies in a timely way. The end result of all these interventions has been uncertainty among farmers, producers, and consumers about prices, inefficient use of resources, and excess or too little production of some products relative to what Ecuadorean consumers want.

The transition to a freer market agriculture will require careful attention to development of an integrated and coordinated government-wide policy for agricultural development. There is need for senior government officials to develop such a consensus policy, to help reduce the tendency for contradictory actions by individual ministries. It also will provide a framework for developing more consistent operational plans affecting agriculture and for monitoring and coordinating the implementation of policies and programs.

Fortunately, the Febres-Cordero administration has recognized the inefficiencies and failures of such government interventions in the market and has already taken steps to improve the situation.

The Task Force recommends:

- o for improved policy development and coordination, a Cabinet Council be established for Food and Agriculture chaired by the Minister of Agriculture, and comprised of appropriate ministers and other officials. The Council initially should focus on developing and implementing an integrated government-wide policy for agricultural development.

- o further, that a Policy and Analysis Planning Unit be established in the Office of the Minister of Agriculture to coordinate policies and programs across the subsecretariats, and to carry out appropriate analyses and planning activities.

In making all of the recommendations, we recognize that the adjustments contemplated will not be neutral, but will be advantageous to some while penalizing others. The government should carefully consider such impacts and respond with short-term programs to facilitate necessary adjustments. We are convinced, however, that these recommendations, if implemented, will lead to a generally more abundant and lower cost food and fiber supply, and enhance foreign exchange earnings from agricultural exports, which should benefit all Ecuadoreans.

The Livestock Sector

Growth of the livestock sector generally is insufficient to keep pace with national needs, even though recent weather conditions have in part contributed to the below-trend growth. However, an expanding poultry industry has offset some of the slow growth among other livestock products. Moreover, opportunities exist for relatively quick increases in swine production with more modern technology. Reversing the trend in growth rates

in the cattle subsector, however, will require several years even under favorable conditions, since the national cattle herd must be rebuilt.

Accelerated and sustained growth of dairy and beef cattle numbers faces several obstacles, political, technical, and market related. One of the most significant problems is political, relating to land reform. The ever-present threat of land invasion increases the uncertainty of the owner, resulting in less capital investment for land improvements and slower adoption of improved technology. Land titling and security of land ownership are necessary ingredients for stability and growth of this subsector.

Many tend to view livestock feed production as an underutilization of land. Their common mistake is failure to take into account the complementary relationship of land grazed by livestock for which most of the plant energy from these lands is not in a form that can be directly utilized for human food. Nor are these adjacent lands suitable for cropping.

The cattle industry has very low production off-take rates. Low reproduction and high mortality rates and poor production performance characterize the industry. These problems primarily are directly related to animal health and nutrition.

Hoof and mouth disease is a major problem, appearing to be endemic, and thus it is probably unrealistic to hope for complete eradication. Recent advances in genetic engineering have promise for solving this problem, but not in the near future. High abortion rates suggest a large brucellosis problem, with consequences for human consumption of infected products. Leptospirosis and bat transmitted rabies further exacerbate animal health problems.

In addition to poor animal health, poor nutrition is another important constraint. Mineral deficiency is a major factor and not sufficiently taken into account by producers. Improved pasture management technology packages should be developed and made available to producers.

To avoid a common mistake in technical assistance for livestock production, both health and nutrition should be addressed and not one without the other. Expenditures for importing improved cattle germ plasm will yield little return unless health and nutrition are greatly improved.

The Task Force recommends:

- o technical assistance for animal health and nutrition be sought, and special efforts be made to disseminate information developed to livestock producers.

- o steps be taken to improve the livestock marketing system including the allowance for premium prices for quality.

AGRICULTURAL CREDIT

Insufficient agricultural credit is one of the most limiting constraints to improved agricultural production efficiency, increased output, and higher living standards for the country's rural people. It is variously estimated that less than three-fifths of the current demand for credit is being met. Beyond that, serious problems are evident with the existing credit delivery system. It is cumbersome and highly inefficient, and fails to reach a large segment of the sector, notably the numerous small farmers.

Insufficient credit not only constrains production agriculture, but also development throughout the food system including storage, marketing, and distribution, both for domestic and export commodities. At the farm level, all types of credit are lacking: annual production credit to procure inputs such as seeds and fertilizers; intermediate credit (two to three years) for capital items such as machinery and equipment; and long-term credit for facilities, land purchases, and improvements. The capital shortage in many rural areas is reflected at its worst by the associated high interest (annual rates well over 60 percent) extracted by the "chuqueros." Farmers' failure to adopt technology likely is more directly related to lack of credit than to any other factor. Continuation of this situation without significant improvement would seriously dampen any optimism for significant growth in the agricultural sector in the future.

The overall availability of loanable funds and extension of agricultural credit are fundamentally related to general economic forces and policies. In the past, agricultural credit policy has been in accordance with overall development policy which focused on economic growth through an import substitution strategy. But, this has proved to be more beneficial to the nonagricultural sectors than to agriculture. The market interventions and price policies pursued were designed to favor the consuming public, and have ~~adversely affected agriculture, precluding development and productivity~~ growth. And, the interest rate policy has proved to be a serious impediment to capital availability. Nominal interest rates have remained below the rate of inflation, and at times substantially so. The negative real rates obviously discourage saving, further exacerbating the scarcity of funds.

Moreover, as a result of the complex, unrealistic, and inhibiting regulation of the financial sector, the public has responded by maintaining a significant volume of funds outside the normal banking channels, if not outside the country.

The capital gap for agriculture, while the result of several interrelated factors, is importantly related to the financial infrastructure itself. The delivery of credit is greatly impaired by an unbelievably complex and expensive system. The major institutional suppliers are the National Development Bank (BNF), FODERUMA, and private commercial banks. Overregulation in all facets causes unnecessary confusion and discouragement. Too much time elapses between request and disbursement, and many worthwhile projects languish as a result. What at first appears as cheap credit actually is very costly both to the borrower and lender. Unrealistically low lending limits and short-term maturities cause borrowers to fall short of filling needs or to necessarily have to resort to a myriad of inappropriate tactics to obtain what credit they can. In short, agricultural credit generally is too little and too late, and this is especially true for the small farmer.

The system is deficient not only in financing the critical production inputs, but also is inadequate for future growth and development. Facilities, machinery and equipment, land, and agricultural improvements are extremely difficult to finance either with debt or equity capital. Solutions to the general credit problem are further complicated by the constraints imposed by the various programs, each of which has its own standards and criteria which a prospective borrower must meet. Most notably, the lack of definitive property title prevents access to formal capital markets.

The Central Bank's shortage of foreign exchange causes the country's agricultural importers to suffer high interest penalties because of their inability to meet the payment dates on drafts drawn on them by foreign exporters. The practices surrounding imports also discourage merchants who desire to provide inputs to agriculture. In the desire to limit dealer's profit margins and user prices for items such as chemicals and fertilizers,

the dealer is required to set the delivery price before the total costs are known and unforeseen delays add costs.

So much red tape, insecurity, and inadequate returns have discouraged lending to or investing in agriculture, and especially so for the foreign financial community. Because government's presence in agriculture is so pervasive (as in general business activity as well), the private sector has sought, without much success, more government help. Private sector agriculture has not been free to seek its own solutions, and so is anxiously awaiting signs from the new government that more reliance will be placed on the private sector to solve its own problems while it removes some of the restrictions that have inhibited such a development.

Improving the overall credit situation for agriculture will first require attention to the overall economic environment to create conditions conducive to the flow of capital to the sector. Rather than attempt this through artificial regulation, substantive changes should address conditions which will allow the market to allocate sufficient credit to the sector. That involves reducing the riskiness of lending to agriculture and enhancing the return on capital deployed there. But, as a beginning and to focus attention to the problem, the Task Force recommends that capital needs for agriculture be accorded much more prominent consideration in the formulation of national policies affecting capital allocation (such as interest rate policy). Beyond that, substantial reform of the delivery system will be required.

A useful starting place for that is with the two major lenders, Banco De Fomento and FODERUMA. BNF is the principal supplier of agricultural credit, particularly to small farmers. The requirements credit applicants must meet are long and complex, a significant deterrent to small farmers' use of credit. FODERUMA lends to groups of farmers organized as cooperatives, associations, and communes. It suffers many of the same problems as BNF: a large inefficient bureaucracy, an analysis process that includes requirements for extensive, complex project studies, and slow delivery of credit proceeds, to name but a few.

The Task Force recommends:

- o coverage be expanded for production and medium-term capital costs, and that loan requirements for both BNF and FODERUMA be substantially simplified and approval time significantly reduced.
- o BNF and FODERUMA attempt a pilot project to grant uncollateralized seasonal operating loans with a term of one year or less, relying on notes signed by the borrower. These loans should be charged a nonconcessionary rate, one undoubtedly less than rates now charged by the ubiquitous local money lender. A serious experiment of this type may provide a convincing argument for reducing the cumbersome, expensive delivery system now in place.
- o FODERUMA's approval process be shortened. A credit committee composed of the submanager and heads of sections (operations, finance, and planning) should provide adequate credit control and speed-up customer servicing, and at less total cost.
- o basic financial training be provided to one or more board members of agricultural cooperatives, associations, and communes to increase the ability of organized small farmers to gain access to the financial programs of banks and other institutions.

These actions would do much to stimulate agricultural credit delivery and to provide appropriate signals to the agricultural private sector.

The Task Force additionally recommends:

- o the Central Bank relax its prohibition on rediscounting documents of more than two years, in an effort to provide more medium-term credit.
- o increase interest rates charged on seasonal production loans; the rates should be positive real rates (after inflation adjustment). This change must be accompanied by quicker loan approvals, simplified

documentation, and a willingness by the lender to rely on anticipated cash crop returns as a source of loan repayment.

- o encourage commercial banks to expand their agro-industry loan portfolios to include more "linked credit" schemes whereby the bank lends to a financially responsible food processor who, in turn, provides financing of in-kind production inputs to groups of farmers. These farmers agree to provide the processor with raw product in return for the technical assistance, and a market for their products.
- o the BNF use its guarantee powers to co-participate with private banks which finance agricultural activities as a way to get more private capital into this sector.

An important contributing factor to the shortage of credit for agriculture is lenders' perception that financing in this sector is highly risky. Part of this perception is owed to the present system which limits or effectively prohibits lenders from obtaining the loan collateral in the event of default. Without this assurance, lenders much prefer to place their limited funds in nonagricultural loans that provide equivalent returns with much less risk. The usual ownership documents that would accommodate the creation of new debt or title instruments, along with their attendant security documents (called certificates of value) are not available to either the borrower or lender. The existence or ability to create these almost certainly would enhance the flow of funds into agriculture.

An immediate and significant increase in food production could be achieved at relatively small cost by focusing on the small producers (farming 62 percent of the land) and especially in the Sierra region. These small farmers could be provided with the type of credit which is easily understood and especially suited to their needs.

The Task Force recommends:

- o development of a credit delivery system, augmenting existing programs, with special features such as streamlined application forms and group responsibility for repayment.

The Central Bank estimates that in addition to the funds it is able to track there is a substantial quantity of money in the economy that is "invisible." This would appear to suggest a liberalization of the restraints that now inhibit the organization and operation of local "financieras" or credit unions. Allowing local ownership and control of such a financing vehicle which is capitalized by a modest amount of "mattress money" and leveraged by access to discount facilities of the Central Bank or the cofinancing and/or guarantee powers of other governmental financing agencies might attract some of these "hidden assets" to more productive uses.

The risk factor in farm credit increases whenever anticipate credit requirements are not met, i.e., the loan amount is arbitrarily reduced by the credit officer, the money is not available to the farmer when needed, the loan repayment date does not correspond to receipt of proceeds from sale of products or when too much time and expense is spent negotiating the loan. Much of the risk associated with these factors could be reduced by procedural changes.

The Task Force recommends:

- o that the Ministry of Agriculture form a task force composed of appropriate financial authorities, private sector representatives, and others to immediately find ways to reduce the paper flow and streamline requirements.

The Flow of capital to the sector also is impeded by a low level of knowledge about agricultural financing, loan analysis, loan administration, and the lack of literacy on the part of the borrowers. The government must accept the idea of utilizing credit schemes that involve greater risk of loss

but that also may sharply increase the flow of funds into agriculture (such as the small farmer program suggested above). Additional training for both lending officers and borrowers will eventually reduce the risk in this type of lending. As the loan totals and borrowing base increase, so will the repayment rate and loss ratios will improve. Lending rates that cover market costs of money and an add-on to provide a fund to cover loan losses, while higher than present concessionary rates, would still be far lower than rates in the informal money market and might be an incentive for savers.

It is general government policy to privatize agencies and quasi-commercial entities it owns and operates. If, for example, the commodity operations of ENAC were liquidated and a warehouse commodity storage program developed, this would permit the creation of negotiable title documents to stored commodities. Warehouse receipts could be freely sold, traded, or discounted, allowing farmers to obtain liquidity and to market commodities in a more orderly fashion. It also could promote development of cooperatives to provide storage, processing, and marketing services and perhaps become an input supplier to other smaller local cooperatives.

Another major factor in the capital situation for agriculture is land titling. Clear and definitive titles are needed to provide lenders with collateral that can be converted to cash in the event of default. Also, small farmers desiring to increase their hectareage and become more commercial are prevented from doing so by existing prohibitions against renting or leasing additional land. Moreover, the lack of a widely functioning land market precludes ready transfer from one party to another. Policies should be reexamined to facilitate deliberations of IERAC, liberalize not only purchase and sale of title lands but also occupancy rights, and the size of holdings any one person may control. Such changes must reflect social and political concerns, but also are fundamental to development of an efficient, modern agriculture.

INVESTMENT

Attraction of both foreign and domestic investment capital to Ecuadorean agriculture and the food industry requires improvement in the overall business climate. We recognize that the Febres-Cordero government, fully aware of this, has already taken steps to enhance business confidence and improve the investment environment, but much more remains to be done.

In recent years, uncertainties about economic policy and dissatisfaction with the system of controlled and multiple exchange rates have tended to encourage the expatriation of savings (estimated to be as much as \$1.7 billion) or their diversion to the "invisible" market. In addition to this, tax regulations as applied to private instruments and dividends (a discriminatory 44 percent for foreigners, and 20 percent--withheld--for nationals) favored the purchase of tax-free government bonds offering prompt liquidity.

A clear, consistent program developed to attract local savings and foreign capital for agricultural investment could prove highly beneficial. The Ministry of Finance, having responsibility across most areas of public and private economic activity, perhaps is the appropriate entity to lead an interministerial council in undertaking this.

The Task Force recommends consideration of such a program with the following elements:

- o mobilization of capital now outside the regular financial system by permitting interest rates to reflect market conditions, i.e., to allow them to be high and flexible enough to foster domestic savings. Adjustment problems might be lessened by trying this first for agricultural export financing, perhaps initially using financieras as described in the Agricultural Credit section.
- o fostering new activities and new financial instruments through insurance or guarantee programs to attract and harness savings, especially those now held offshore.

Additionally, term capital to finance heavy equipment and infrastructure improvements might be attracted by permitting floating or adjustable rates. This could be applied in selected areas, such as export-oriented agri-industries which could adjust to such rates and to which the government wants more resources applied. Another alternative is to issue notes or bonds, either in sucres or dollars at attractive rates, backed by a sinking fund or other such guarantee to provide both safety and liquidity.

Another aspect of the investment and business climate is the effects of Decision 24 of the Andean Pact. Primarily, these requirements discriminate against foreign capital by requiring investments to be sold to nationals within a specified period which often is difficult and disadvantageous especially when the investment is large. Additionally, they require capital to be brought in at the official exchange rate but remitted at market rates, and involve differing and higher tax rates.

The Task Force recommends:

- o that steps be taken to ameliorate the more onerous provisions of Decision 24. Further, that these incorporate favoring the type of investment desired, such as that for preparing products for market and finding markets for them.

Another policy area very influential in determining the investment environment for agriculture is the tax laws. In the 1970s, the emphasis was on industrial investment facilitated by a strong industrial incentive law. That law made possible, in effect, deduction of investments twice. The accelerated depreciation plus tax-free reinvestment of profits in new capital items was thought to be more responsible for industrial growth than any other incentive.

A similar type program for agriculture warrants examination. The individual farmer already is exempt from income tax, and not likely to make real growth anyway. But, association of farmers to achieve greater production and realize economies of size through cooperatives or other associations, especially in the highlands, motivated by laws favoring

formation of agricultural associations may be one way to achieve needed agricultural investment. At the same time, such organizations will be likely to provide better wage-benefit packages for labor than the individual farmer could afford.

Another improvement in overall investment climate relates to the bureaucracy--the paperwork--involved in obtaining clearances, etc. Inexperienced investors, especially foreign, are impatient with having to make the rounds of so many government departments. Streamlining such procedures would be greatly facilitating and much more efficient. Other countries have implemented such systems with considerable success.

The Task Force recommends:

- o creation of a one-stop clearinghouse to handle all investment requirements of new (principally foreign) investment. The Ministry of Agriculture or other appropriate agency might take the lead in establishing such a system or office for potential investors.

The Ecuadorean government recognizes the advisability of privatizing many of the quasi-government corporations that have come into existence over the years. Proceeding with this not only can improve efficiency of services performed but also is tangible evidence to a yet unconvinced private sector, both domestic and foreign, of the government's commitment to fostering private enterprise. One strategy which might prove appropriate in facilitating public to private ownership is employee stock ownership plans (ESOP). Such plans could be a means of spreading private capital ownership to more people in lower economic strata.

Once signals become clear as to government intentions to foster the private sector as the engine for expanded agricultural production and export, and a coherent policy is in place, investors then can be made to see opportunities for them. At that point, specific efforts could be undertaken to inform overseas investors. This might best be approached by working through intermediary private sector organizations such as binational chambers of commerce and international financial institutions represented in Ecuador.

later, when there is more certainty as to precisely which investments are sought, the government might seek to hire individuals, in particular foreign markets, to put people and projects together.

TRADING PRACTICES

The agricultural sector recorded a positive trade balance throughout the 1970s. Bananas, cacao, coffee, and sugar comprised over 90 percent of agricultural export earnings. After peaking in 1979 at \$547 million, the trade balance declined to \$231 million in 1982, due to reduced volume and lower prices for the major products. Meanwhile, imports (primarily wheat, vegetable oils, and animal fats) rose to \$292 million.

While continued reliance on traditional exports is necessary, prospects for market growth and export expansion of these products are not favorable. All face slow growth prospects over the long term. Given Ecuador's balance of payments, it is critical that every opportunity be explored for export diversification and expansion. An important element of this is increasing productivity and remaining competitive. Achieving this, along with slowing the growth in food imports, would importantly contribute to a healthier trade balance.

Substantially strengthening the agricultural export sector first and foremost requires rationalization of the exchange rate policy. Beyond this, capital availability for technological adoption is necessary, and changes are needed in the trading practices and marketing strategies of the export sector.

The existing system of multiple exchange rates and controls and the proliferation of forms and procedures cost time and money. Substantial losses occur from deferment and erosions of export proceeds. Conducting all trading at a unified (free) market rate would eliminate under-invoicing and reduce the expensive bureaucracy. It also would address deferred or delayed foreign exchange remittances to foreign countries. Imports would tend to be controlled by cost and availability, thus having a positive impact on dollar balances. Moreover, firms abroad would be more willing to sell to Ecuador, thus improving the availability of inputs. We believe that firms involved already are acting on the basis of free market rates, and could make a relatively easy adjustment.

The Task Force recommends:

- o that as rapidly as practical, exchange rates be unified at the market determined rate.
- o consideration be given to permitting participation in established financial futures markets enabling both exporters and importers to hedge their prices and costs.

Contributing both to expanded investment and facilitated trading, new entities, such as effective intermediary organizations designed to finance new and expanded investments in agro-industries and to facilitate trading in export-oriented products, may prove advantageous.

One such entity that might stimulate private sector development in Ecuador is one performing both trade and development functions, interfacing with foreign (principally U.S.) markets, and taking equity (minority) positions locally. It could be composed of a combination of local and capital from U.S. interests, and funds from USAID. It would act as a trading company by providing procurement, delivery, inventory, and technical services. As a core feature, it could use its resources to expedite the importation of essential materials through a trade exchange facility (it would have a pool of hard currency funds which it could advance on behalf of the importer to produce targeted imports, and later be reimbursed when the Bank eventually provided the currency to the importer). This company would perform as a development firm by promoting joint ventures and business expansions, providing venture capital, investment banking funds and services, and export promotion and marketing assistance.

The Task Force recommends:

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- o that the government, perhaps with the assistance of USAID, explore the possibility of encouraging development of such effective intermediary organizations.

While modification of exchange rate policy is a priority concern for improving the trade environment, there are other actions that would encourage agricultural export expansion. Such an expansion clearly is needed to reverse the decline in the agricultural trade balance--from \$547 million in 1979 to \$231 million in 1982. Moreover, this encompasses the need to broaden the export base from the traditional agricultural exports to include more nontraditional and value-added products. There is ample potential to do this, both for traditional and nontraditional products. But, realizing the potential is constrained by several factors such as:

- o reduced quality of products resulting from improper collection and handling procedures. An example is cacao where high quality product is commingled with inferior quality product in collection, reducing average quality and precluding price premiums for the high quality.
- o nonexistent or lax enforcement of quality control standards and regulations for sanitation and weights and measures.
- o inadequate market information regarding consumer demand (varieties, packaging, grades, quality and other product characteristics) available to producers and consumers.

Successfully addressing these problems involves a role for both the private and public sectors. Improving collection procedures is appropriate for the industry. It would appear that the government has a valid role in establishing with the industry and implementing standards for product quality, wholesomeness, and approved weights and measures to facilitate commerce and product acceptance in both domestic and export markets.

The Task Force recommends:

- o that the government, with private sector participation, consider a comprehensive program to review, revise, and supplement product standards, and facilitate industry in improving export product quality through improved collection and handling procedures.

Another area where substantial improvement can be effected is in export market information collection and dissemination. This requires involvement of all entities in the complicated linkage among customer, exporter, processor, and producer. Such an effort is critical to maintaining, and certainly to expanding, market share in the face of growing competition. Industry associations, chambers, and organizations clearly can provide critically needed leadership in such efforts, perhaps cooperatively with the Ministry of Agriculture.

There is potential opportunity for expanding exports through alternative marketing strategies. One involves product differentiation and creating brand loyalty. Presently, many Ecuadorean products such as shrimp, bananas, cacao, and coffee are consumed in U.S. markets without identity of their origin. Other countries have expanded and strengthened markets by creating identities for their products through promotional efforts (e.g., Colombian coffee and New Zealand lamb). Exploration of such potentials for Ecuador would seem warranted, and could be pursued through a cooperative private sector industry and government effort.

THE FORESTRY RESOURCE

Ecuador's forestry resource holds vast potential for meeting domestic market wood product needs, expanding employment, generating foreign exchange, and for meeting critical housing needs. Development, wise use, and conservation of this resource involves roles for both private and public sectors.

Although approximately one-half of the country's area is forested, contribution to GNP is a relatively small four percent and employment is less than 30,000. Most economic activity related to forestry (except Sierran eucalyptus plantings) has involved exploitation of natural forests. In the Sierra, population pressures resulted in natural forests cleared for fuel and cultivation, with consequent serious soil erosion problems. Extensive deforestation now is occurring in the Oriente associated with petroleum development and colonization. And, the natural forests of the coast are increasingly threatened by settler and timber concessions.

Responsibility for establishing forest policies and coordinating development of the sector is vested with the Ministry of Agriculture's National Forestry Program. It is the only institution with functions spanning all aspects of forestry including national parks, protective forests, reforestation, and management of productive forests. Many of its activities and resources are devoted to reforestation and forest management.

The private wood processing industry is modern, technically advanced, and has been growing rapidly. Industrialized largely in the past 20 years, a large number of various sized plants have been established to manufacture forest products. However, industrial use still accounts for a relatively small proportion of domestic consumption. Wood product exports, which were relatively small but growing (to \$35 million in 1981), since have plummeted with the loss of important Colombian and Venezuelan markets. Industry capacity far exceeds domestic demand, and development of foreign markets is urgently needed.

The goal of government policy for forestry is stated as ". . . a vital natural resource to be protected, controlled and increased to be able to obtain the maximum benefit from their primal functions such as the prevention of soil erosion, protection of its waters, wildlife and other resources, to produce for the benefit of present and future generations." Greater development of the forest industry to realize more of its economic potential requires several problems to be resolved. A useful beginning is review of national forestry policy to more clearly delineate the roles of the public and private sectors.

The Task Force recommends that the public sector role embrace:

- o a complete delineation of the government forest lands, and management of these lands for sustained yields for timber production and soil and water conservation.
- o increased reforestation in the highlands for timber production, erosion control, watershed management, and creation of employment with private implementation.
- o joint development with the private sector of domestic and export market promotion for wood products, and streamlining regulations which control timber flow.
- o develop with private sector input a master plan for future pulp and paper needs, drawing upon the several studies that already exist.
- o analyze the inefficient and destructive sawmill and board manufacturing methods of the small board producers and assist with introduction of efficient technology.
- o provide the private sector with long-term credit and special guarantees to encourage reforestation activities.

- o analyze the research needs of the forestry program. Jointly with the private sector, develop priorities and financing to accomplish research needs.

The Task Force recommends the private sector, with government cooperation, can best perform in areas such as:

- o development of large scale, low cost wood housing to help meet the critical housing and employment needs of the country.
- o investment in long-term reforestation with appropriate security for that investment such as eliminating the threat from colonization.

THE AQUACULTURE INDUSTRY

Continued growth of the fishing industry has been an important exception to the general stagnation in export growth in recent years. This occurred largely because of growth of shrimp farming, which has boosted Ecuador to the second largest shrimp exporter in the world (after Mexico). Fish and shrimp exports together now rank second to petroleum.

Shrimp farming began in the early 1970s in the swampy lowlands of El Oro and Guayas Provinces. Today, shrimp farms have grown to 60,000 hectares, and provide almost three-fourths of the commercial product. The rapid growth is explained by several factors: a conducive climate; a developed industry which was able to rapidly diversify and expand; established ties to a ready market (99 percent of the exports are directed to U.S. markets); and strong economic incentives such as tariff-free importation of capital equipment and subsidized credit.

The situation for the rest of the industry was not so favorable. Exports of mackrel and other non-tuna fish have declined from the 1981 peak. Fishmeal exports which had grown rapidly from 1970 declined in 1983 as both economic and climatic factors deteriorated--warming of offshore currents and weakness in major markets (Venezuela and Colombia). Utilization of canning capacity has fallen precipitously, and many companies are on the verge of bankruptcy. Non-shrimp exports will be some time in recovery. New markets must be found, and some time will be required for recovery of the fish reserves.

Shrimp exports, on the other hand, remain promising. Modification of the exchange rate, ample processing capacity, a growing U.S. market, and greater maturity of the industry portend the potential for continued strong growth. But, there are critical problems faced by the industry which must be overcome rather quickly.

The most immediate problem of the industry is insufficient larvae to seed the existing areas available for cultivation. As much as 40 percent of the land is underplanted or without seed. Much of the larvae used in the farms

has been wild, collected in the estuaries. But, the rapid growth of the industry, while failing to adopt efficient practices, has caused serious depletion of this source. Moreover, much of the available supply is wasted by inefficient production. Ready availability of land on concessional terms for flooding has led to considerable extensive cultivation that wastes much of the seed. But, even with much less extensive and more efficient intensive cultivation, the wild seed larvae source would continue to be a constraint to growth of the industry.

This problem perhaps can be ameliorated somewhat in the short term while longer term solutions are sought.

The Task Force recommends:

- o immediate implementation of an extension-education program directed by the industry to improve handling techniques during collection and transportation of wild larvae, and to help farmers obtain greater survival of available larvae through improved husbandry.
- o development of a stringent program to end destruction and protect the mangrove areas which provide a vital habitat for the wild shrimp larvae and many other aquatic and terrestrial species.

Larvae hatcheries to provide an assure supply removes this constraint. Over the long term, the pressure on the larvae supply can be reduced only by larvae produced from captive animals. But, this requires sophisticated technology and long-term capital. Presently, the availability of only short-term capital precludes development of this part of the industry. Traditional lines of credit are unavailable for hatcheries because they now are viewed as research and development. This presents a dilemma in that credit and other policies appear to be conflicting, leading to unwise ~~depletion of a long-term resource.~~

Incentives and long-term credit are required to encourage technology and infrastructure development before the problem becomes more acute.

Maintaining market position over time with growing intense competition will require long-term capital for continued modernization and increased efficiency as well as new technology.

Another important constraint to the industry is assuring that shrimp meet quality standards. Export products failing to do so undermine the reputation of the entire industry.

The Task Force recommends:

- o that quality standards for major markets be adopted to protect the integrity of the industry.

Farming of aquatic species other than shrimp is constrained by the lack of modern technology, knowledge of external markets, and capital. Declining harvests, overcapitalized fleets, and changes in consumer preferences are forcing contraction of the industry as well as diversification into underutilized species. There is considerable interest in diversifying the aquaculture base. Structural change is required for the industry to remain efficient over the long run and to shift to nontraditional species. Such change will require capital investment, new technologies, and market development.

The Task Force recommends:

- o an appraisal first be made of the technical and market conditions before beginning specific diversification plans.
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RESEARCH, EDUCATION, AND EXTENSION

While many ingredients are necessary for successful development and sustained growth of agriculture, one of the most critical is development of the country's human resources. These resources are crucial to adaptation of existing technology, creation of new technology for the future, and for effective dissemination and use of technology in applied forms. This entails not only training teachers and researchers, but also extends to the many farmers who must put knowledge to work.

The Task Force observed that higher education in the sciences is not adequate to meet either current or future scientific and technical needs of the nation. This situation is further exacerbated by relative low salaries and consequentially low esteem of many capable scientists and technicians, many of whom are well trained and highly capable. Faced with this market prospect, they seek and find employment either outside the country or in activities other than those for which they were educated.

A major problem is the inflexibility in budgeting public funds for support of education. The problem has much less to do with funding levels than with ability to allocate or reallocate funds to meet emerging needs. The result is a higher education system rapidly becoming sacrosanct. Relaxing the funding rigidity and elevating this truly national need in higher education to the proper level will require extraordinary measures. It requires sensitivity on the part of the institutions themselves as well as sensitivity of the political forces to the concerns of the academic community.

The Task Force recommends:

o consideration be given to formation of a National Science and Technology Board to advise the Minister of Agriculture on research, education, and extension.

The National Science and Technology Board initially should be composed of scientists from several disciplines and both from Ecuador and elsewhere.

Members should have international stature, perhaps Nobel Prize winners, to elevate the discussions above technical arguments and toward meeting national needs. Such a body would provide peer dialogue between the academic community, the Board, and appropriate political leaders. At the same time, it could help dampen anxieties among the academic community about loss of freedom, stability for scholarly pursuits, and other issues of concern.

The Task Force further recommends:

- a. the National Science and Technology Board review and define a strategy for improving the functional relationship between education, research, and extension.

Agricultural education now is separated from research. Extension is fragmented into small units and nonexistent for several commodities. These three services should be interrelated. Each is part of a continuum that cannot be separated or fractionated and still remain effective. Education depends on research for teaching materials, and extension is effective only if it utilizes valid research and training methods. A capable extension service can be effective in identification of practical researchable farm problems that constrain production.

Research emphasis should be given applied or adaptive technology as opposed to basic research. For example, improved varieties for several commodities could be placed in widespread production in a short time and at relatively low research cost if proper institutional interrelationships existed between research and extension.

A high priority effort for seed improvement and distribution would yield large dividends to the nation. The private sector, through production of quality seed supplies for wide distribution, should be considered an important component of this effort.

The Ministry of Agriculture is required by law to set seed prices. These prices are intended to reflect production costs. EMSEMILLAS, a mixed company

formed by the government for production of certified seed, may not be financially able to retire its development bank loan even though it has received substantial contributions from the Ministry of Agriculture.

Farmer adoption of improved seed is relatively low. The reasons for this are unclear, particularly if it is profitable to do so. However, it likely relates to credibility--farmers lacking evidence of the benefits, but the lack of production credit is perhaps much more important.

From a broad public benefit viewpoint, the extension-research organizations should be charged with identifying reasons for the low adoption rate and to quantify expected improved returns under typical farm conditions. Such information then should be extended to those providing credit to farmers.

The Task Force recommends:

- o immediate attention be given to quantifying cost and returns for typical farms in use of improved practices that are known and could be easily adopted.
- o the results of such analyses be made available to organizations providing credit to farmers for their use in encouraging adoption by farmers.

INIAP is the public agency with responsibility for genetic improvement research and seed certification, an appropriate function of the public sector. However, progress in these functions is lagging. Moreover, use of technology generated elsewhere, particularly at the international research centers, is not being utilized nearly as much as it could be. The reasons may relate to organizational factors, funding levels, lack of appropriate personnel, or simply management--lack of direction and objectives. However, given the important responsibility of this agency and its potentially pivotal role in advancing Ecuadorean agriculture, immediate attention is warranted.

The Task Force recommends:

- o immediate attention be given to determine the conditions necessary for strengthening and improving the activities of INIAP.

Recently, the private sector has been increasingly interested in investing in the production, preparation and distribution of seeds. The principal limitation for greater participation seems to be directly related to the laws and policies of the Government.

The Task Force recommends:

- o a re-evaluation of governmental policies with respect to intervention of the private sector in the price of seed, with the object of establishing a more favorable atmosphere for investments on the part of the private sector in the production and distribution of seeds.

In addition to the national need for a better preparation of human resources through improvement in higher education, there is a shortage of basic agricultural education and training at intermediate levels and its application.

The Task Force recommends:

- o the creation of a solid educative body dedicated to applied and practical agricultural research, extension, and education.

The Escuela Agrícola Panamericana of Honduras, commonly known as the El Zamorano School, is a model school dedicated to the type of training contemplated and is considered internationally as one of the best in the world. The graduates of this school are highly esteemed in the entire region and many Ecuadorians have studied there. As an alternative to the founding of a similar school in Ecuador, the possibility of establishing formal ties directly with the El Zamorano School could be explored.

PUBLIC SECTOR STRUCTURE AND ORGANIZATION

Public sector organizations related directly to agriculture include the Ministry of Agriculture and other public enterprises that are attached to it by law. The latter include a dozen or so parastatals or quasi-government organizations that have come into existence over the years. ^{4/} While there perhaps was ample justification for their initial creation, conditions and circumstances have changed over time. These changes suggest that many functions still vested with these organizations could be performed more efficiently and at lower cost by the private sector. This appears to be true especially for ENAC and ENPROVIT. Overall, the Task Force suggests that activities of all parastatals be reviewed and that where private sector capacity exists, the functions be shifted and the parastatal scaled down or abolished.

Shortly after taking office, the Febres-Cordero government reorganized the Ministry of Agriculture, abolishing the previous structure and replacing it with four subsecretariats reporting to the Minister. Two of the subsecretariats are for geographic regions: the Pacific Coast and islands and the Sierra and Amazon region. A third is for agricultural marketing and related independent agencies with broad functions for research, water resource management, etc. The fourth is for administration. The Presidential decree specified functions for each subsecretariat but without detail as to organizational structure and staffing. The Task Force was asked specifically to include the organization of the MOA in its review.

^{4/} Among the organizations are:

ENAC	- National Institute for the Storage and Marketing of Agricultural Products
ENPROVIT	- National Company for Vital Products
ENDES	- <u>National Semen Company</u>
EMSEMILLAS	- National Seed Company
IERAC	- Ecuadorean Institute for Agrarian Reform and Colonization
INIAP	- National Institute for Agricultural Research
INERHI	- Ecuadorean Institute for Water Resources
CREA	- Center for Economic Recovery of Azuay, Canar, Morona, Santiago
CRM	- Center for Rehabilitation of Manabi
INCRAE	- National Institute for the Colonization of the Amazonian Region

The new structure is considerably different from the previous one, in that it is a functional and geographic mixture. Experience suggests that no particular structure will guarantee an efficiently functioning bureaucracy. Rather, we think this results from strong leadership and commitment of staff.

While the new organizational structure addresses existing problems, the potential also exists for new problems to emerge. This is most likely to be true for the geographic subsecretariats. It is well known that the two regions have a long-standing, usually healthy, rivalry--in business and other endeavors generally. The potential exists for development and implementation of policies and programs oriented to each region that may be directly contradictory, duplicative, or in combination not the most efficient use of scarce national resources. An example is crop diversification. The coastal region appears prepared to place greater emphasis on soybean production and processing, for oil, meal, and export. At the same time, the Sierra and Amazon appears prepared to emphasize development of large-scale African oil palm plantations and processing capacity, again for oil, meal, and exportation. The country cannot afford both.

We believe this emphasizes the essential nature of an across-subsecretariat coordination function to ensure development of national policies with regional compatibility. We would suggest that the policy analysis unit (discussed on page 30) is the appropriate entity with which to vest this function.

The subsecretariat for marketing has tentative plans to divest ENAC and ENPROVIT of functions which the private sector has the capacity to efficiently perform. At the same time, its plans to expand and improve the basic data and information gathering functions are very much in accord with needs, both to better inform producers and agribusiness of current economic conditions and to provide invaluable input for informed policy development and program planning. But, successful design and implementation of such an information system will require careful coordination across all subsecretariats of the Ministry. We believe this is another appropriate role for the policy analysis unit.

We also recognize that the Febres-Cordero government inherited a massive bureaucracy and that the MOA is no exception. Given the limited flexibility for reducing employment in the MOA, the challenge becomes finding ways to most efficiently utilize existing staff while diligently allowing its size to shrink.

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This concludes our treatment of specific areas of the agriculture and food system which we examined in our effort. In closing, we reaffirm our hope that this mission will serve as only the beginning of a renewed effort to address the problems that confront Ecuadorean agriculture. We were delighted that at the conclusion of our mission President Febres-Cordero embraced the suggestion of a joint Ecuadorean-United States commission to plan follow-up activities.

Our government, and especially the Agency for International Development personnel, stand ready to assist and to fully participate in these subsequent activities. And, we reiterate that the individual members of this Task Force are prepared to assist in any capacity in which we might make a contribution to improving the agriculture and food supply for the benefit of all the Ecuadorean people.