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THE ROLE OF THE PUBLIC SECTOR IN THE ECUADOREAN ECONOMIC DEVELOPMENT

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1. History

Since 1830, when the Republican era initiated in Ecuador, the public sector has planned its activities according to the existing challenges and opportunities. During the first century of the Republican life, its attention was oriented to defining the juridical ordinance of the nation, the consolidation of the territorial patrimony, the construction of the road infrastructure, the support to education, the stabilization of the commercial relations with foreign countries, and the relations with the countries of our continent and of the rest of the world. During the later 20's and the 30's of the century, a new political, technical and administrative policy was defined for the country, with an economical reorganization and the creation of new institutions responsible of ruling the economical life of the nation, with wich the participation of the State sector was consolidated.

Starting from the decade of the 60's, the economic activity of the State fully identifies with the need of reaching the country's social and economic development, for which there was an increase in the production, tending to a better distribution of income, extending the opportunities of labor and installed infrastructure, and promoting the necessary amendments. All this had as background the import substitution industrialization model, which aimed to suprass the agroexport model of the latter economic gesture.

Within this context, the basic activities of the state were production, investment, financing, redistribution of the production, and the adjustment of the economy. By means of the first three activities, the public sector redistributed the purchase capacity and the production, and regulated and oriented the economic activity, according to the decisions tacken during the economical political process.

The state participated in the production activity in order to avoid monopolies, to substitute the private sector in case the amount and time of the investment demanded several years, or in case the private sector was not interested in generating certain goods and services, and to control strategical areas. The public sector invested in order to extend the productive capacity of the economy, assuming the investment of the infrastructure throughout any of its institutional areas.

The increase of the production required an increase of the investment, with which the state financing of the public budget also increased in its turn. During this stage, the different governments made use of implements such as the taxes and the rates charged, and the subsidies and salaries the payed, selected as the most redistributive ones. The State regulated the economical performance throughout the mentioned activities, dictating the restriction, conditioning or requirement norms, based on the quality of being public power.

2. The crisis of the traditional public sector

The existance of the hydrocarbon activity had significative importance in the Ecuadorean economy. In 1990, its contribution to the General Budget of State will be of 50.4 %, and 54.4 % to the exports.

Its presence in the national development starts in 1964, when the oil exploration activity begins; but its importance grows since August 1972, when the country starts to exploit and export oil. The revenues of this activity and that coming from the agressive debts contracted since the last months of 1975 gave the Ecuadorean State huge economic resources, which permitted it to extend its participation in the productive activity, in the public infrastructure, by means of increasing the investment, and to supply financing for other activities.

The resources coming from oil and foreign debts covered the severe problems that Ecuador had in the area of the economic and social development; but the public policies detracted its original concept by favoring protectionism in the industrial development throughout tributary and custom policies which were included in the development statutes of such activity, and abandoning the development priorities os sectors such as agriculture, mining, and others.

On the other hand, although the State did not show enough capacity in the organization and management of the oil surplus, the public sector conducted the productive activity and became the center of the country's investments, to the point that its productive activities and the bureaucrat personnel grew disproportionately. The State centralized the economic resources without considering the need of the balanced development of all the regions and provinces, and, thus, without giving much importance to the development of the sectional goverments. Besides, the Government became the principal financial guarantor of the foreign debt and of the development financing.

The effects of the international economic crisis, which diminuished the entrance of export currency, punished the imports, restrained the entrance of new foreign capital, and, since 1982, disarticulated the Ecuadorean public sector's plan. Moreover, the development models conceived by the State at that time were not an answer to its structural problemns which, as a result of the points mentioned above, contributed to the existing crisis.

At the beginning of the 80's, we found ourselves with a critical public sector which had to face an economy that was also in crisis. The principal activity in the economic policies was a regressive adjustment oriented to reach the basic equilibriums of the external, fiscal and monetary and financial sectors, delaying the treatment of the social problems; that is, favoring the economic and financial aspects with detriment to the social ones.

At the end of the 80's, the crisis brougt to light, among others, the following structural problems of the economy: reduction of the relative autonomy of the State; high dependency of the productive organs and of the financial systems with regard to the State resources; an inadequate orientation of the productive structure, especially in the agricultural and industrial sector; the absence of a national scientific and technical system applied to development; physical, political, economical, and social disarticulation, and an uneven distribution of the benefits of development; deterioration of the natural resources and the environment; an illogical structure in the production and consumption of oil, and dependency of the energetical sector. In addition to the aforesaid, there has been an accelerated inflationary process, and agressive foreign indebtment, and a fiscal crisis (the latter as a result of an increase of its budget deficit), inefficiency in the public administration, and little capacity of the sectional organisms and municipal companies to produce their own resources.

3. The objectives of the Development Plan

In order to face the mentioned problems, the National Government, presided by Dr. Rodrigo Borja since 1988, approved the 1989-1992 National Economical and Social Development Plan, which, among others, establishes strategies based on the reformulation of the role of the State, strenthening of planning as an instrument of the public activity, the support to regional development, the establishment of concrete concepts regarding the financing of development, and the reorientation and strengthening of production. In what concerns the responsabilities of the State and the social agents the Plan proposes the following:

- To recover the State's capacity of managing the economy and to agree upon economic policy actions with every national sector and social agent.

- To perform duties based on the principles of economics efficiency and social justice; and maintain coordination and selectivity in the management of the economic policies.

- To increase the efficiency of the public companies by improving the administration techniques, the methods of determining costs and rates, by trainin the public employees, motivating a process of administrative and financial decentralization, carrying out institutional reforms that will lead to the operations' autonomy and efficiency, and leaving aside the companies that are not strategical nor profitable.

- To defend social equity and national autonomy, considering the macroeconomic equilibrium, the structural change, and the technological development.

- To promote investment projects with an active participation of the private sector, and to support the improvement of its productive efficiency.

- To encourage direct foreign investment which will develop productive activites; and to support the modernization of the areas of cooperatives, familiy economy, and micro-enterpreise, in order to reduce the levels of extreme poverty.

In what concerns the new concept of planning, the Development Plan appoints that there is no opposition between planning and market, reason why it invokes to concentrate efforts in strategical matters, while the market must support the decentralization of the decisions. This is why it is urgent to modernize planning, planning institutions, and the structure of the different markets. The State will tend to democratize the markets by punishing any monopolistic activity or by improving the relations between supply and demand, and creating more competitiveness. The new planning system pursues to put up to date its diagnosis and methodologies, and to become the principal tool of the Government's gesture in what regards the execution of the Plan. In this way, planning outstands as the central instrument of the development policies. This new system also searches for the democratization of its performance, for which it recognizes the existence of multiple social agents; the articulation of the local development interests with the national planning; and the orientation of its work to a participative formulation of plans and projects.

4. Principal development policies

4.1 The relative autonomy of the State with regard to the economical pressure groups in Ecuador has been reduced. The cause of the economic disorder, according to the economical and political circles, is "the excessive growth of the State", and its excessive intervention in all the national affairs. This opinion weakens the objectives of improving the life conditions of the population and of obtaining a better distribution of wealth and power. To abandon the social development objectives in favor of the economical ones would lead to a process of permanent accumulation and continuous social stress and conflict.

In order to overcome this situation, our objective is to "increase the relative autonomy of the State with regard to the economical pressure groups", by attaching; the causes of the uneven distribution of power, by improving the institutional coordination, the forms of organization, the work, the selection and training of human resources, and by improving the technical and political capacity of the political parties. This will be obtained throughout the strengthening of the State an efficient performance of the public duties, and the design of communication policies that identify with the social priorities and the need of unifying and organizing efforts in order to confront them.

4.2 The excessive dependency of the companies protected by the past development laws impeded the strenthening of the national productive apparatus. Until 1988, the companies depended indirectly of the Central Bank, since they financed productive activities with its resources. Today we will find problems such as insufficient equity capital of the companies, an inadequate use of the private savings, deficiencies in the private financial system, legal limitations, fruitless infrastructure, an excessive number of banks and financial enterprises, and the lack of long-term financial instruments.

In order to strengthen the productive apparatus and the financial system, and to reduce its excessive dependency on the State and the Central Bank, the State intends to orient the savings towards productive investment, to capitalize productive companies, to promote the necessary legal reforms, to develop the stock market, to improve the benefits resulting from the promotion laws, to establish adequate levels of custom protection, to extend and regulate the selective credit policies of the Central Bank, to stimulate the voluntary participation of the workers in the capital of the companies, among others.

4.3 The physical, political, economical, and social disarticulation and the uneven distribution of the benefits of development lead to an unfair distribution of the economy's profits, due to deficient redistributive policies, to a social, economical and political centralization in Quito, and Guayaquil, to a physical disarticulation and the existence of territorial spaces separated from one another, to a deficient road system, to the absence of an integral policy on human establishment, to the deterioration of our natural resources and to an uneven urban and rural development. As an answer to this situation, we intend to "promote the establishment of an integrated economic and politic space", which means we will give priority to the development of the small and average cities, stimulate production in poverty zones, organize the national physical space, strengthen the local and regional governmental institutions, and privilege the investment for infrastructure, social services and opportunities of employment in the average and small cities. A contribution to this purpose will be the establishment of policies regarding territorial ordinance and human establishment, and the development of provincial and regional plans, an irrigation master plan, and other services in the rural areas. All this also demands programs of administrative decentralization in the country.

4.4 The exploitation of the natural resources is under private and not social interests, reason why there is not an adequate handling of the land, there are contaminating technologies being used in agriculture, and the resources are being extracted at a rhythm superior to their renovating capacity. Besides, the industrial concentrations create the contamination of the air, land and water, and determine a low quality of life of those centers. There is no integral management policies regarding the hydrographical basins and the natural resources of the Amazonian region. In addition to the afore mentioned, there are problems such as the pressure of the population against the earth, deforestation, erosion, and the creation of deserts. The outlined picture determines that the general objective should consist in "obtaining an environmental ordinance, based on the definition of and environmental policy in order to promote the best utilization of the natural resources at a long term", for which it is necessary to promote the participation of society in the rational management of the natural resources, to determine a policy of space ordinance, to formulate a strategy of management of the fragile ecosystems, to discuss the urban environmental problems, and to formulate recuperation programs for the ecosystems.

4.5 With the purpose of solving the problems of the sectional organisms and municipal companies, the National Government intends, as a general objective, to diminuish their dependency on the Central Government by improving their capacity of generating and acquiring resources, and as specific objectives, to promote the local self-management capacity, to decentralize the state duties by promoting the participation of the local organims, to make real the integration of the country, to propitiate and strengthen the cooperation between sectional organisms, and to support the economic, administrative, and politic sectional systems in the process of satisfying the basic needs of the local population and the productive and service standards.

5. The application of the economic policy

The ecuadorean public sector the last two years it has been strengthened with important economic policies that corrrespond to the strategies and actions established by the National Development Plan, such as those regarding the fiscal, legal, and administrative amendments, the support given to planning, the reorientation of the public investment, the administrative decentralization, the process of transfering some public companies into the private sector, and others.

5.1 Among the amendments, those of the fiscal area outstand: the tributary amendment and the new Important Duties, which intend to increase the tributary collections. According to an idea of austerity in those public expenses that do not interfere with the ones addressed to social projects, there has been a reduction in the fiscal deficit, which, in August 1988 reached 17% of the Gross Internal Product and at the end of 1990 came down to 2 %, which means a contribution in reducing the inflationary rhythm.

In the process of redefinition of the role of the State, the magnitude of the public sector in the economy is still being discussed and an administrative revision is being carried out, with the purpose of moderninzing the social services by determining duties and standardizing compensations. For this matter, a process of redefinition of the institutions has started, and later on the entities with similar duties will be unified in order to build systems in charge of specific areas and problems. In addittion the juridical ordinance today is also a central procupation of theNational Government.

5.2 In Ecuador there is concentration of financial resources around the Central Government, without a significant transfer of resources and duties towards the regional and local institutions. Under these circumstances, the local governments have small spaces of participation and few possibilities of taking care of the basic services and the infrastructure needed to attend the social demands[1]. The solution found for the mentioned problems is decentralization, in which the munipalities, the provincial councils, the regional development organisms, and the organized community would be the principal social agents. This does not mean we are passing from a totally centralized system to another exclusively decentralized. What we are searching for is to design dynamic and opportune mechanisms that regulate and coordinate the duties of the different instances of the Government, in which the social organization will have opportunities of action and will be able to expose its needs and statements, and to engage its participation.

For this purpose we consider that: the regional development organisms must assume the responsibility of executing wide range projects that include the jurisdiction of several provincies and the integral development projects; the provincial councils must transform themselves in coordinating organisms between the municipalities and the Central Government, and execute provincial projects in areas such as roads, health, scholastic buildings; and that the municipalities must plan in order to take care of the cantonal jurisdiction and execute the infrastructure and urban equipment projects.

This phase of the decentralization must be complemented with training efforts. On the other hand, the Provincial Development Committees are under process of conformation, and will be responsible for the determination of local problems and the suggestion of their own solutions, as part of the National Planning System. Finally, in 1991, the process of decentralization will be intensified with the creation of the Social Development Fund, which will receive a large quantity of resources, including national allotments and a foreign common loan from the Interamerican Development Bank and the World Bank.

5.3 The companies of the ecuadorean public sector at the moment are being treated according to the following concepts: in the first place, those that have to be improved in order to attain better productive and financial levels, those that will not be transfered to the private sector due to legal prohibitions and to their condition of high-income monopolies; and, in the second place, the companies that will be transfered. The process of transfer of the public and joint venture companies to the private sector is at present in the phase of valuation of shares and sale through the stock market. The obtained resources will be addressed to projects of national interest that support the economical reactivation program designed by the Government.

1 The territory of Ecuador is divided politically in provinces, cantons and parishes.

From a general point of view, both groups of companies, those that will stay in the public sector and those that will be transfered, will face problems such as a rigorous legislation, the excessive bureaucrat allotment, the technical retardation, and financial restrictions, mainly.

5.4 In the specific case of Ecuador, it is clear that, until the 80's, the public sector was responsible of the economic development, and that starting from the 90's, the State has put more emphasis on social development. The new role of the State has brought answers to attack social problems, especially those regarding poverty, malnutrition, and the lack of services and basic infrastructure. In brief, it has to do with the development of new mechanisms and specific measures regarding the general and traditional measures. The National Government, in fact, is preocupied mostly of the payment of the social debt, which is specifically determined in the National Development Plan. The technical operative structure was designed between 1989-1990, as well as the definition and conformation of specific funds for such matter [2] Likewise, there has been correctives introduces in the credit policies of the public financial institutions, in order to promote lodging, social services, productive activities such as agriculture and construction, which require large amounts of labor.

5.5 Within the development strategy designed by the National Government, the Investment Plan outstands as an answer to the need of orienting the state productive management and of distributing the resources according to the social and economical requirements of development, avoiding the maladministration of these resources. The Investment Plan integrates the projects that are being executed and those that will start each year, according to the program of the institutions of the Central Goverment, the sectional entities, the public companies, and the non-financial autonomous organizations. The Plan includes projects that promote productive development, regional development and integration, and works in favor of the social sectors. In fact, a group of important projects that do not have any financing are not included in the Plan, nor those that are part of the Integrated Projects Program, which have special financial characteristics.

Also within the context of the National Projects Systems, there is the projects bank, under process of formation due to a provisional project used for its implementation. The creation of this Bank is advancing step by step, and at present it has the information of 720 projects

2 Social Development Fund, Marginal Rural Development Fund, Enviromental Improvement Fund, Social Welfare Fund, Funds for Children's Medicine, and others.

approximately, of which 324 are completely realiable. One of the problems to overcome in this project is the reliability of the information, for which pertinent actions are being carried out.

The fact of having the investment ilan, the National Projects System, and the projects bank gives an idea of the instruments with which we count and that will permit us to assure continuity in the governments' actions and to address the national financing towards priority projects in the productive, infrastructure, and social areas. In this manner, we are advancing in the reorganization of the role of the public sector in what concerns the management of investments and the financing of national development

5.6 One of the most important activities of the public sector still is the distribution of the income, but, its importance has been redetermined. It is not only matter of redistributing purchase capacity throughout financial instruments but to conceive it within the payment of the social debt. This is why the redistribution of income implicates the widening of the purchase capacity the opportunities of employment, to render available services such as health, education, increase, sanitary infrastructure, transportation, and to have goods and services at non-speculative prices, for which it is necessary to act firmly against the elements that accelerate inflation.

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