

In 2000 the Ecuadorian economy registered a radical change as the country adopted a “dollarization” scheme. GDP growth in 2000 reached 2.3 percent, a significant growth from the negative 7.3 growth of the year before. Prospects for 2001-02 remain optimistic with increase sales of oil and higher prices.

In 2000 the total contribution of agriculture to the gross domestic product of Ecuador was 18 percent¹, continuing with the trend of the previous five years. Since 1995, agriculture has become the main economic activity, surpassing the oil sector in importance to the economy. When considering the agribusiness industry as a whole, agriculture’s contribution to the GNP rises to 25 percent, a share maintained since 1995. The agricultural sector in Ecuador accounts for 30 percent of the economically active population and for 47 percent of foreign exchange receipts.

Macroeconomic Situation and Outlook

The year 2000 reflected the financial crisis that impeded economic growth in 1997–1999. The dollarization of the economy managed to stabilize the currency but not the inflationary pressure. Even though GDP registered positive growth, per capita income growth registered only a slight increase of US\$22 between 1999 and 2000. Income distribution remains a large problem. According to a Survey of the National Statistics Center, 20 percent of the highest income population receives about 59 percent of total national income.

The current forecast is for a 3.6 GDP growth in 2001, figure which could be higher if the new oil pipeline enters production. GDP growth for 2002 is forecasted at 5 percent.

The economic and political instability created great harm to the agrarian sector in 1998 and 1999. Producers were significantly affected by three economic variables: interest rates, the exchange rate and government expenditures. The closing of credit lines and the freezing of bank accounts in March 1998 led to a significant reduction in working capital available to productive sectors of the economy. The situation worsened between 1999 and 2000, when most financial resources did not go into productive investment but to finance a bankrupted national financial system. It has been estimated that the cost of the financial crisis was equivalent to 23 percent of the GNP. In 2000, agrarian sector’s contribution to national production fell by 0.7 percent compared to 1999, with lower investment in agriculture and a contraction in the food processing industry.

By contrast, the oil sector experienced a remarkable recovery due to rising international prices². Ecuador was successful in placing its oil production in international markets at prices higher than expected, US\$25.20 dollars per barrel, which significantly increased foreign reserve levels, preventing the collapse of the new monetary system. The process of “dollarization” was initiated in March 2000 with an exchange rate of 25,000 sucres per dollar and by September of the

same year, the sucre ceased to be used for transactions and the dollar became the only legal currency in the country.

Both the oil sector and the agriculture sector have become the basis for the consolidation of the dollarization system in Ecuador. However, macroeconomic policy tools remain insufficient to eliminate social and economic instability.

Food Prices and Consumption

At the end of 2000, the inflation rate was 96 percent, an increase over 1999 by 61 percent. Food, beverages and tobacco prices rose 107.8 percent in 2000, compared to 52.7 percent in 1999. The largest increases in major components of the Consumer Price Index (CPI) were: hotels, cafeterias and restaurants (a total of 109.4 percent); followed by food, beverages and tobacco (107.8 percent); health (106.2 percent) and clothing and footwear (104.7 percent).

Food, beverages and tobacco accounted for 37.4 percent of the annual CPI increase, and products from the subgroups: fruits, milk, cheese and eggs, together with the subgroup vegetables, legumes and tubers accounted for most of the increase. Inflation for 2001 is forecasted at 30 percent.

The accelerated inflationary process had repercussions in raw material prices and wage rates which increased rapidly and had a negative effect on productivity. In addition, the government’s austerity programs led to a reduction in resources dedicated to agriculture relative to total government expenditures. The government has been forced to reduce and/or postpone all investment in infrastructure, research and technology transfer, with potential negative impacts on cost efficiency in the agri-food sector.

Food Processing and Marketing

According to national statistics³, by 2000 most enterprises in Ecuador were in dire financial difficulties. Producers reported that income obtained from sales in the local market or sales to food processors barely allowed them to subsist, making it almost impossible to invest in research and development.

Most agribusinesses that were planning to expand in the local market in 2001 needed credit but encountered difficulties because of the economic recession. Investment financed with private capital has been almost nil since capital flight has been taking place to avoid the considerably high risk in the local financial system. It has been estimated that there is about US\$6 billion in Ecuadorian capital outside the country.

The recession in local markets shifted some productive investment toward areas concentrated on export markets such as flowers and vegetables. For the year 2000, total investment in the agri-food industry reached US\$214 million, an increase of 17.8 percent compared to

1999. This investment supported construction of 5,342 new enterprises and expanded capital for 3,109 other.

Agricultural Production and Trade

The local market has been severely affected by the current economic recession and speculative tendencies in 1997–2000 that have weakened investment in agriculture and have threatened most productive activities.

Farmers and food processors have faced severe difficulties in financing production due to the closing of credit operations by many financial institutions. Even though the National Bank of Development opened a credit line with resources from the National Financial Corporation, just a few agricultural producers had access to it because of stringent credit conditions regarding time limit requirements and interest rates.

High interest rate levels led to farmers not being able to meet their financial obligations. As a result, agricultural activity has been deemed high risk activity over the past four years.

One can safely say that the engine of growth in the agricultural sector has been foreign trade. The Government has taken significant steps to participate in subregional and multilateral forums in an effort to present a unified proposal to achieve expanded access for domestic products. A particular example is the work and negotiation carried out by the Export and Investment Promotion Corporation (CORPEI), to benefit producers of potentially exportable products to the global market.

However, export revenues (in contrast to what should be expected because of the constant devaluation of the currency through January 2000), did not reach expected levels due to speculation in capital markets. Thus the policy of devaluating the currency did not promote exports, but rather transferred resources from productive activities to international financial institutions having a negative effect in the level of exports and imports.

After the implementation of the dollarization scheme, traditional products such as shrimp, coffee, tuna and bananas registered a drop in export levels; while exports of non-traditional products such as cut flowers, seafood and food processed products increased.

Food and Agricultural Policy

The Department of Agriculture in Ecuador has received funds from several international institutions and has invested them in technology

transfer, information systems and irrigation systems, with the objective of improving the competitiveness and efficiency of the sector.

Water Resources and Management

A fundamental element influencing the performance of the agrarian sector is the management of water resources. Irrigated area in Ecuador accounts for 533,000 hectares, representing 16 percent of total cropland. This small share shows an important potential for the country to expand intensive agricultural production.⁴ About 20 percent of irrigated hectares are part of public projects, the remaining are private systems⁵. The irrigation systems built by private proprietors and farm communities account for over 79 percent of the surface under irrigation.

Since 1992 a series of reforms have been implemented to develop a framework for managing water resources and for privatizing public systems by transferring the operation and maintenance of irrigation channels to user committees. In 1994 the Water Resources National Council (CNRH) was established to provide administrative functions for water resource management, irrigation and drainage control. Currently, the CNRH is the only institution authorized to give concessions and register property rights on water.

The CNRH is working on the preparation of a new Water Law,⁶ under review by Congress since 1999; and the design of irrigation policies to include cost recovery and tariff collection. The transfer of the irrigation systems to users is to be implemented under the Department of Agriculture and the Technical Assistance for the Irrigation Project (PAT) and the Project Execution Unit (UEP). To date the PAT project has signed 28 user-transfer agreements, encompassing 505 public irrigation projects.

1 According to Central Bank Data, Base year 1975.

2 In 1998 it registered an average price of US\$9.20 per barrel, by 1999 it had gone up to US\$15.50.

3 Superintendencia. "Consolidated Situation State of 26,123 enterprises." 2000.

4 Manuel Chiriboga, "The Ecuadorian Agrarian Sector, Tendencies and Challenges." July, 1998.

5 SICA-MAG, "The Current Situation of the Agrarian Sector." Working Paper. 1998.

6 The current Water Law was promulgated in 1972.

ECUADOR

	Units	1997	1998	1999	2000	2001 ^E	2002 ^F
FOOD CONSUMPTION PATTERNS							
Per capita caloric intake	Cal/day	2,620	2,509	na	na	na	na
From animal products	Cal/day	389	413	na	na	na	na
From vegetable products	Cal/day	2,231	2,096	na	na	na	na
Protein (% of calories)	%	67.1	61.5	na	na	na	na
Fat (% of calories)	%	66.5	63.6	na	na	na	na
INCOME AND FOOD PRICES							
Per capita income	US\$/capita	1,655	1,621	1,109	1,079	1,353	na
POPULATION							
Total population	Million	12.1	12.3	12.7	12.9	13.2	na
Urban	Million	7.2	7.3	7.5	7.6	8.3	na
Nonurban	Million	4.9	5.0	5.2	5.3	4.9	na
Share of population in the following age groups							
0–4 years	%	13.0	13.0	13.0	13.0	13.0	na
5–14 years	%	25.8	25.8	25.8	25.8	25.8	na
15–19 years	%	10.8	10.8	10.8	10.8	10.8	na
20–44 years	%	35.0	35.0	35.0	35.0	35.0	na
45–64 years	%	11.1	11.1	11.1	11.1	11.1	na
65–79 years	%	3.4	3.4	3.4	3.4	3.4	na
80+ years	%	1.0	1.0	1.0	1.0	1.0	na
Female labor force participation	%	28.9	28.9	28.9	28.9	28.9	na
FOOD INFRASTRUCTURE							
Trade capacity							
Grain exports	1,000 Tons	112.7	54.2	30.3	na	na	na
Grain imports	1,000 Tons	512	744	556	na	na	na
Total food and agricultural trade	Million US\$	2,940	2,607	2,166	1,702	914	na
Total food and agricultural exports	Million US\$	2,648	2,312	1,967	1,463	766	na
Perishable products	Million US\$	1,348	1,101	998	867	na	na
Fishery exports	Million US\$	1,164	1,195	934	560	na	na
Total food and agricultural imports	Million US\$	292	296	199	238	149	na
Perishable products	Million US\$	33	22	20	21	na	na
Port capacity	1,000 Tons	na	na	479	na	na	na
Road access	Kms	na	3.00	na	3.00	3.56	na
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY							
Agriculture as a share of GDP	%	17.6	17.3	18.4	17.0	16.8	na
MACROECONOMICS INDICATORS							
GDP growth	%	3.4	4.1	–7.3	1.3	3.6	na
Interest rate	%	13.3	13.7	15.9	15.5	15.3	na
Exchange rate	Sucre/US\$	4,321.00	6,780.00	20,100.00	25,000.00	25,000.00	na

na = not available E = estimate F = forecast

Sources:
 SIICE, Version 2.0
 Proyecto SICA-BM
 Central Bank of Ecuador
 Ministry of Agriculture
 National Institute for Statistics and Census -INEC