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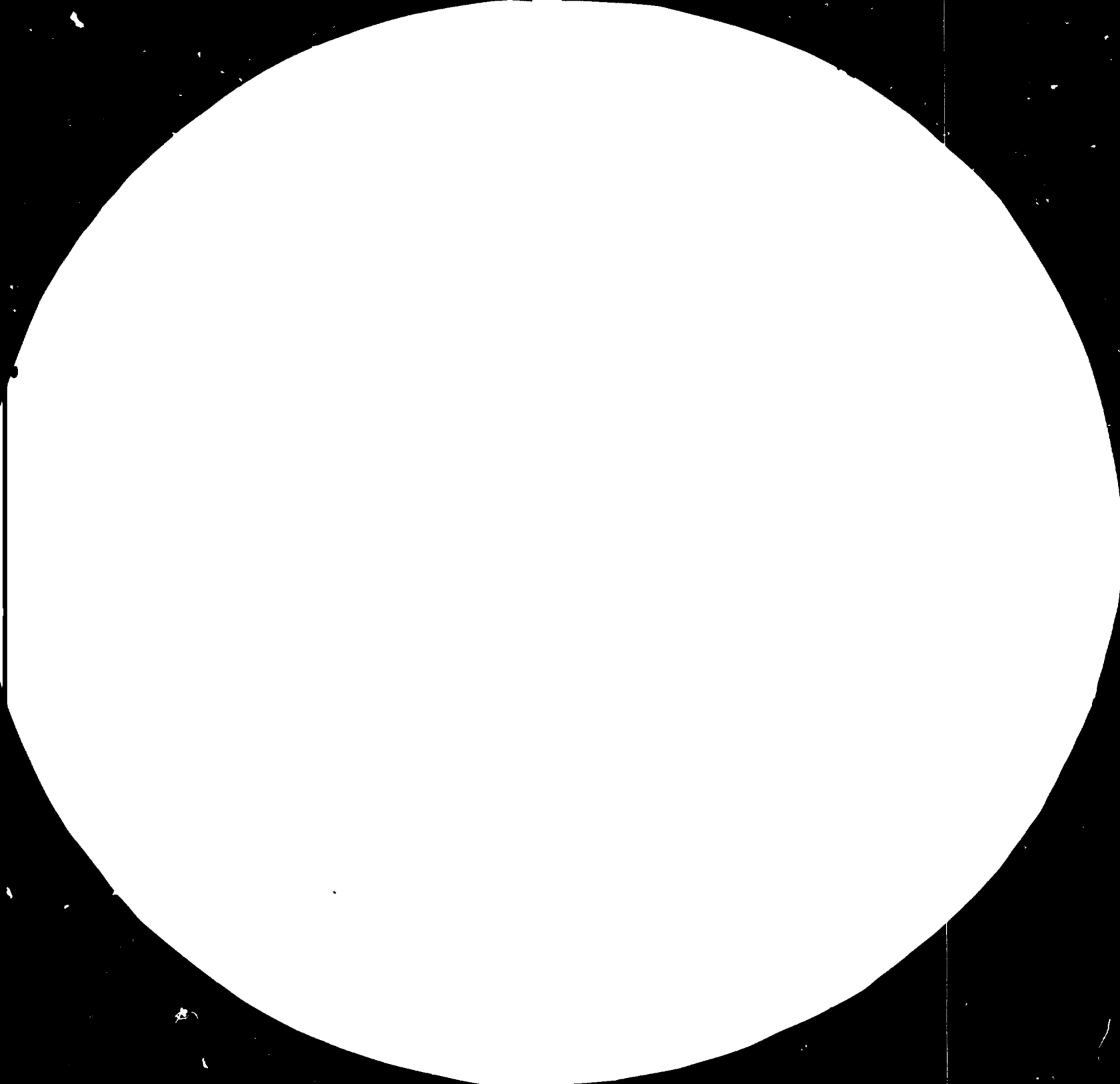
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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)

Ecuador. Evolution and structure of incentives to the
manufacturing industry

FINAL REPORT

14670

In the document of the Fifth Agreement of Loan No. 2096 with the World Bank for Financial Development Institutions, in Article 3, Part B, Paragraph iii, it is established that MICEI should make an analytical study of the industrial incentive measures of the seventies and their possible consequences and repercussions for the country.

To this end, the Ministry of Industries, Commerce and Integration channelled the execution of this study through the United Nations Industrial Development Organisation (UNIDO), which proceeded to hire a director and a team of experienced Ecuadorian professionals as consultants to perform this research, together with technicians, analysts and auxiliaries from the public and private entities that have to do with this topic, for which the following goals were set:

1. To make available objective, reliable information on the results and effects in the economic and governmental domains of the policy and mechanisms applied to incentives for industry in the seventies.
2. To obtain valid, practical criteria for orienting the decisions of the public sector and the activity of the private industrial sector, with regard to the strategy and instruments best suited to industrial development in the eighties.
3. To identify the positive elements and obstacles existing in the legal, institutional and infrastructural fields for a sustained process of industrial development, congruent with

the country's economic and social conditions in the eighties.

4. To derive viable, concrete conclusions and recommendations regarding the changes and innovations deemed expedient and necessary for favouring a rational, possible development of the industrial sector, within the real framework of over-all priorities detected and indicated for the national economy as a whole.

The work carried out pursuant to these aims is described below:

- A. Gathering of Informations: The statistical base has been made up of the data from the National Accounts and from the conjunctural analyses of the Central Bank, the economic censuses and manufacturing surveys of the INEC, tax and customs exemptions, discounts and deductions from the Ministry of Finance, and other complementary sources such as CCNADE, CENDES, the Superintendency of Companies and the Superintendency of Banks, the National Financial Corporation, the National Development Bank, CENAPIA, CEBCA, and the Ministry of Industry, Commerce and Integration itself, in terms of useful, reliable references that would bring us closer to the reality in this area. With the assistance of the DINATI minicomputer, it has been undertaken to classify and process this information for the development of the different chapters enumerated in the approved listing of topics. With regard to the manifold tasks performed in these various entities, involving the diverse aspects related to the study, they have been summarised in a bibliographical reference index.

The statistical information compiled and processed for the purposes of the study involve, among others, the following aspects:

- National Accounts (from the Central Bank and CONADE).
- Trade Balance and Balance of Payments.
- Statistics from the Industrial Sector: employment, investments, credit, aggregate value, etc.
- Statistics on protection and incentives for the sector; customs exemptions, tax exemptions, CAT, Subsidised Credit (FOPEX and sui generis).

B. Activities of the Consultant Team: The persons who comprised the Ecuadorian consultant team were chosen by consensus between the honorable Minister and Under-Secretary of Industry, and the first work meeting was held with the Study Director on 26 October 1983. In that meeting, it was decided to suspend the execution of a possible future survey of a representative sampling of classified industries until the need for this instrument could be clearly determined due to evident gaps or defects detected in the available information, and the decision was reached at the same meeting to begin with the Evaluation of the Law of Industrial Incentives made in early 1967 by a Special Commission appointed by the Interim Constitutional President of the Republic, which was composed of representatives of the Ministries of Industry, Commerce and Integration and of Finance, the National Planning and Economic Co-ordination Board, the Development Centre (CENDES), and the Chambers of Industry of Pichincha, Guayas and Azuay provinces.

This methodological focus accelerated the progress of the study through successive approximations and a cross-referencing of the data from different sources, leading to a first schema of over-all and sectorial analysis. The consultant group also collaborated with the Director in the selection of the foreign experts who would intervene in this work in connexion with the allocation of World Bank Loan No. 2096, and it was agreed to contract with the Centre for Latin-American Development Studies (CLADS) of the University of Boston, on the basis of its academic qualifications and practical experience with similar work, including a study recently concluded in Ecuador regarding industrial efficiency, performed satisfactorily for the Inter-American Development Bank (IDB) and for the Andean Development Corporation (CAF). The corresponding terms of reference were also formulated, and the services offered by said Centre were examined. Finally, each of the Consultants co-ordinated and oriented the tasks of work sub-groups, which were structured with technicians from different entities and specialists on each topic.

In order to facilitate the tasks, a distribution of topics was proposed to each of the Consultants, who presented each contribution for the discussion of the entire group.

- C. Work of the Inter-Institutional Group: It is appropriate to highlight the positive experience obtained in terms of the effectiveness of this participative, co-ordinated work by the officials and technicians named by the public and private entities involved, with the achievement of a group that has

ranged from 10 to 15 persons attending sessions, in which the information available in all the agencies has been gathered and provided, precise tasks with fixed deadlines for their completion were distributed, timely follow-up was made of the obligations assumed by each and every institution, and above all a frank, open exchange of concepts, initiatives and opinions was maintained, which has doubtlessly served to better clarify the focus, the contents and the methodology.

In the final phase, the meetings of the inter-institutional group were suspended in order to make possible the use of information available from the Ecuadorian consultant group.

- D. Co-operation from CENDES: To obtain agile, reliable technical and operational support with specialised professionals and with analysts and auxiliaries in addition to the officials who have collaborated with the project to enable it to meet the commitment acquired, within the shortest possible time, it was decided that this urgent requirement be satisfied through a service agreement between UNIDO and CENDES, which thereby took responsibility for satisfying these specific needs of the study, in close co-operation and under the control of the Director thereof, according to the tasks laid out and the stipulations agreed upon for this purpose. The tasks that CENDES undertook were precisely delineated, and differed from those that it took charge of together with other entities, as a co-participant in the study.

The contribution of CENDES, made under this agreement, was

completed to full satisfaction, and a book of statistics with its figures updated to 1983 is now available.

E. Contract with CLADS from the University of Boston: With the approval by the honorable Minister and Under-Secretary of Industry of this decision, we proceeded to the negotiation of the terms of reference, the budget and work schedule, during the visit that the representatives of this Centre, Professors Daniel Schydrowsky and Shane Hunt, made in early 1984. On the basis of our agreements during that visit, CLADS presented their formal offer of services, which was analysed and discussed in great detail between the Ecuadorian Consultant Group and the CLADS Director during his subsequent visit to Quito during the first days of March, making it possible to define the corresponding contract through UNIDO, a procedure that was officially accepted by the World Bank.

CLADS, as part of the execution of the contract signed, has made the calculations of the rates of effective protection and domestic cost of the foreign currency for a sampling of 218 companies and 51 branches of industrial activity, and the report has been presented containing these calculations.

During the last several weeks, emphasis has been placed on the analysis of the work presented by Boston, with the participation of the group of consultants and the Director of the Study.

In summary, it must be recognised that significant experience

has been achieved with this work, the complexity and difficulties of which are due to the scattered and even contradictory information and the lack of antecedents in our country in this type of research. The steps that have been taken however, allow us to foresee that the goals have been safely passed and, with the important institutional and professional co-operation that has been attained, it has been feasible to obtain an over-all and sectorial diagnosis of the incentive policy during the seventies. This approximation is complemented by the contribution of analyses and recommendations obtained from the work of the CIARE experts from the University of Boston, with which the report is formulated with the final conclusions and recommendations.

- F. The Continuity of this Work: Given the availability of all the information on the delay of calculating the effective protection, the domestic cost of the foreign currency, and the shadow prices of the different factors that intervene in the industrial production, and of the complete manuals on the SIM language used by UNIC for data processing, as well as the tapes that contain the entire computer program, it is viable to immediately undertake the follow-up on the work that has been done.

A mathematical model has been designed to be used,

through simulation games, as an instrument of orientation for the Government's industrial strategy and to test the possible effects of the measures adopted or to be adopted on the short and medium terms.

With these tools it is feasible to perform a replica of the work done with information from 1981, for other years or any other year that may be chosen for comparison. To this end, it would be advisable and useful to hire on the short range an Advisor with sufficient experience in this field of specialty, to collaborate in the initial phase of this program, together with the technical staff assigned for this purpose.

It is known at this moment that the INEC computer would be viable for implementing this program, applying the SAS language used by CIADS from the University of Boston. From the contacts maintained by the Technical Director of this study and by Professors Daniel Shydrowsky and Shane Hunt, the officials of the Ecuadorian Government, such as the Minister and Under-Secretary of Industry, Technical Director and Assistant Director of the CONADE, and officials of MICRI, the Central Bank of Ecuador, the National Financial Corporation, and CENDES, among others, have shown themselves to

be open to taking advantage of this experience and carrying on with the follow-up thereon, intending to obtain the maximum benefit from the technology and method that have been used.

In addition, there would be the opportunity to train Ecuadorian technical personnel, duly selected, at the University of Boston, where the authorities have expressed their willingness to co-operate with this purpose.

We feel that this would be one of the most tangible and practical fruits of this effort, for which it is advisable to take into consideration the interest of UNDP, UNIDO, the World Bank, the IBB, and the ADC in supporting this plan. Now the terms and conditions must be concretised on the part of the Ecuadorian Government.

It is the hope of the Technical Director and the members of the Ecuadorian Consultant Group who have taken part in this important research that the work completed will be continued, incorporating into the institutional schema of the public sector these modern procedures of programming and evaluation, which have been used with positive results in many other countries for some time.

