RESEARCHING ECUADORIAN PUBLIC FINANCES

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The task of scholars examining public finances in Ecuador is particularly challenging because of extreme fragmentation and lack of central control of public revenue and expenditures. The nation inherited a decentralized fiscal system from Spain that allocated specific revenues to fund individual projects or activities. After independence, regionalists sought to preserve and expand the old system, preferring that special agencies, local autonomous juntas created to fulfill specific functions, collect and disburse most government revenues. The income of these entities consisted of special taxes and fees as well as subventions from the gobierno central. Earmarking —sequestering from general government revenues a portion for a specific function, usually outside of budget scrutiny, or mandating by law certain expenditures within the budget—has been a characteristic of Ecuadorian public finances since 1830.¹ After independence in 1830, nationalists sought to extend the power of the State through centralized control of government revenues and expenditures. The nation’s geographic, ethnic, economic, and political diversity made this task extremely difficult. The conflict between regionalists and nationalists intensified in the second half of the 19th century when the growth of the cacao export economy engendered new expectations concerning the role of the national government. Neither side achieved a lasting victory in the struggle that encompassed all aspects of government finances, including accounting, taxation, budgeting, and the formation of policy. Finance ministry reports portray these conflicts. For example, in 1831, the finance minister complained that the

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¹ For a compilation of materials relating to these issues see Linda Alexander Rodríguez (coord.), Pensamiento fiscal ecuatoriano, 1830-1930, Corporación Editora Nacional/Banco Central, Quito, 1997.
decentralized system precluded the standardization of bookkeeping procedures and auditing of public accounts. Subsequent efforts of succeeding administrations to introduce a single accounting and auditing system failed as did attempts to reform the tax and budgeting system.

The struggle to achieve standardization and control of government finances as well as the battle to centralize public finances continued in the twentieth century. The Isidro Ayora administration initiated the reform of public finances by enacting a new law in November 1927 regulating public finances, the Ley Orgánica de Hacienda, and creating a Comptroller’s Office to oversee government accounts and disbursement of funds. The administration made a concerted attempt to produce a centralized budget that accurately projected income and expenditures for the 1928. The centralized budget introduced by the Ayora government appeared bloated to Ecuadorians accustomed to seeing it reflect only a portion of total revenues and expenditures. Domestic political pressures soon overwhelmed efforts to maintain centralized budgetary control. Subsequent efforts to reform the budgetary process in the 1930’s and 1940’s failed. By the early 1950’s, in addition to the gobierno central there were about 200 autonomous entities, 78 municipalities, and 18 consejos provinciales participating in the collection and/or expenditure of public funds. During these years, autonomous agencies controlled the largest segment of public resources. Many of these bodies lacked adequate accounting and auditing systems.

Despite numerous efforts to centralize budgeting and bring order to public finances, in the 1970’s Ecuador’s public financial structures and procedures remained fragmented, inefficient, uncoordinated, and not equipped to manage the unprecedented economic expansion that began in the early years of the decade. The earmarking of revenues and expenditures continued to characterize Ecuadorian public expenditures. A number of publications by public and private entities and multinational financial institutions, which analyzed Ecuadorian public finances, underscored the country’s need to centralize public finances, to restructure the budgetary process, and end earmarking of revenues and expenditures. In the 1970’s Ecuador had a budgetary process characterized by inflexibility, earmarked funds could only be used for the purposed designated, and lack of control by the finance ministry over those special earmarked accounts. This situation made it impossible to gather the comprehensive data

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2 Memoria, Ministro de Estado, Ecuador, 1831.
3 El Comercio, 8 de febrero de 1927; ibid., 16 de julio de 1927; ibid., 9 de noviembre de 1927; ibid., 10 de noviembre de 1927.
4 In the second half of the 1960’s economic growth averaged 5.5%/year. During 1970-1977 economic growth accelerated to 9%/year.
required for precise analysis and planning, and restricted the government’s ability to utilize the budget to implement its goals. For example, the existing data on capital expenditures did not permit a separate analysis of current expenditures by sector. Total consolidated expenditures by sector were also unavailable. Some analysts have used the national government data that combines expenditures of the central government, Fondo Nacional de Desarrollo (FONADE) and Fondo Nacional de Participación (FONAPAR) which accounted for approximately 66% of total consolidated expenditures, to discern patterns of sectoral expenditures and assess the effectiveness of public investment.

Governments made little progress in their struggle to reform public finances during the 1980’s. At the end of the decade the budgetary process remained fragmented. The inefficiencies of the budgeting process continued to be both a cause and effect of the widespread recourse to earmarking of revenues and expenditures. At the end of the decade between 50% and 60% of general government revenues were earmarked, including 100% of public oil revenues. In the 1990’s, the struggle to implement a comprehensive public sector financial reform continued to be blocked by formidable political obstacles. The nation’s deep regional, class, and ethnic differences make comprehensive structural reform difficult.

FOREIGN EXPERTS AND REFORMS OF THE PUBLIC FINANCIAL SECTOR

The first significant transformation of Ecuador’s public financial sector occurred in the 1920’s. In 1927 and 1928, the Isidro Ayora administration restructured public finances on the recommendations of a team of advisors led by Princeton economist Edwin W. Kemmerer. The group examined the banking, monetary, and tax systems, fiscal policy and control, public debt, customs, and public works, including the railroad system. The Kemmerer Mission produced a series of reports and drafts of laws designed to eliminate budget deficits and to modernize and strengthen Ecuadorian financial institutions and procedures. Their reports provide the researcher with a critique of Ecuador’s public finances at the end of the first quarter of the 20th century and summarize the measures required to address existing problems in a comprehensive manner.

6 The Kemmerer Mission submitted the following drafts of laws to the Ecuadorian government: a central bank law, a monetary law, a general banking law, a law regulating loan contracts secured by land, a budget law, a law restructuring government accounting and creating a comptroller’s office, a law revising rural property taxes, a law revising the income tax, a law regulating customs administration, a law revising export duties on tagua, a new tariff, a law amending the penal code to make the forging and passing of fraudulent checks a serious crime, amendments to articles of the Constitution in conflict with the project laws, and amendments to the Code of Civil Procedures and the Organic Law of the Judiciary.

7 For a discussion of public finances in the period 1830-40 and the Kemmerer Mission see Linda Alexander Rodríguez, Las finanzas públicas en el Ecuador, 1830-1940, Banco Central, Ecuador, 1992.
The Ayora administration began implementing the ambitious reform program in 1927. It entailed the creation of the Banco Central del Ecuador (BCE), the Banco Hipotecario, and the Superintendencia de Bancos. It also resulted in the development of new regulatory mechanisms and banking, currency, budgetary, juridical, and tax reforms. One of the important contributions of the reform program was the inauguration of a publications program by the Banco Central del Ecuador. For the first time, monthly, quarterly, and annual statistical data relating to a broad range of public financial matters, such as banking, the exchange rate, public debt, international trade, the budget, and information on financial legislation and policy, was available to the public. Despite problems with the statistical data resulting from incomplete data and inappropriate methodology in the early years, the appearance of the Boletín Mensual del Banco Central and the Memoria del Banco Central in 1927 was a watershed event that facilitated subsequent efforts to understand the nation's public finances.

The structures and institutions established by the Kemmerer reforms and the Ayora government proved unable to withstand the extraordinary economic and political stresses of the Great Depression. Although many of the reforms were abandoned and the new institutions politicized in the 1930's, for the first time the nation had important components of a modern financial system that could be perfected by subsequent governments in the second half of the 20th century.

The first effort to restore the autonomy to the Banco Central del Ecuador occurred in 1937 when the regime of general G. Alberto Enríquez employed a foreign expert to restructure the BCE. As in the past, the government selected an expert who would make recommendations in accord with the administration's goals. The noted Mexican economist Manuel Gómez Morín wrote the new statute governing the organization and operation of the BCE. The law, which went into effect on January 1, 1938, reduced the influence of the central government on the BCE, limited bank's loans to the central government, and reduced the bank's operations with the public. The new BCE structure was the subject of much public criticism, particularly the limitation on the bank’s activities with the public. As in the case of the original legislation drafted by the Kemmerer Mission, subsequent administrations quickly asserted political control over the reformed institution.

After world war II, Ecuador was one of the first nations to seek assistance from the Fondo Monetario Internacional (FMI) to reorder its public financial sector. Early in 1947 a technical mission of the IMF headed by Robert Triffin traveled to Ecuador to advise the government about monetary reform and restructuring the BCE. In 1948, acting on the recommendations of the advisory commission and the revised Banco Central legislation see Boletín, Banco Central, año xi, núm. 125, 1937, Ecuador.
mission, the Ecuadorian government adopted the Ley de Régimen Monetario that created the Junta Monetaria and expanded the BCE’s power to intervene in the financial market, thereby transforming it into a monetary institution. In addition to advisory missions, multinational agencies and foreign governments sent a number of individuals to assess particular development projects, frequently associated with a specific loan request from the Ecuadorian government. The reports of those advisors provide important information about public finances and policy formation.9

During the second half of the 20th century, Ecuador continued to request assistance from international agencies, particularly the FMI, the World Bank, and the United Nations, and foreign governments. In the 1950’s, foreign advisers employed by the United Nations provided technical help to the Ecuadorian government on fiscal matters, and a group of advisers from the UN Economic Commission for Latin America and the Caribbean (CEPAL) cooperated with Ecuadorians over a two year period in evaluating the nation’s economy, public finances, and development potential. As a result of the CEPAL mission, Ecuador formed the Junta Nacional de Planificación (JUNAPLA) in 1954. A year later the FMI sent a two-member advisory mission to Ecuador to assist the BCE establish a section within its Departamento de Investigaciones Económicas to study fiscal problems. During the 1960’s and 1970’s, FMI and other missions came to assess Ecuador’s ability to complete proposed projects, to repay proposed loans, or to provide technical expertise. At the end of the 1970’s, Ecuador sought the help of the World Bank in developing a plan to restructure the public financial sector. The study identified the longstanding problems, such as fragmented budgeting and lack of central control, which previous advisory missions had enumerated since the 1920’s, and recommended measures to address them. One of the principal recommendations was the strengthening of the planning process. Although JUNAPLA had performed effectively in the area of designing development strategy, the nation did not complete the equally necessary steps of designing key macroeconomic policies to achieve its goals nor did it prioritize projects. Therefore, JUNAPA’s impact on national financial decision-making has been limited.

The 1980’s and 1990’s have been periods of considerable economic and financial instability. During these years, Ecuador frequently sought the advise of foreign governments and multinational institutions, such as the World Bank and the FMI, in addressing the country’s economic disequilibria and development problems. Because of these consultations, Ecuador has improved the technical capacity of many of its public financial institutions. However, domestic political and social divisions have prevented the nation from reaping the benefits of its increasingly capable public financial institutions.

9 Many of these studies may be consulted at the Biblioteca del BCE and the libraries and archives of the institutions and governments that evaluated the project.
FOREIGN DEBT

The debt is an important and perennial theme in Ecuador. The nation has had one of the longest histories of default on external loans in Latin America. In 1838 Ecuador assumed a £ 1 424 579 debt (21.5% of the Gran Colombian debt acquired during the war of independence). Between 1834 and 1898, Ecuador was in default for 53 years, yet it repeatedly renegotiated the debt. Each new agreement involved major reductions in the claims of bondholders. Nevertheless, all 19th century agreements (1831, 1854, 1890, 1895, and 1898) between Ecuador and her foreign creditors became the target of severe domestic criticism for being onerous and detrimental to the national interest.

The foreign debt was restructured at the end of the 19th century so that the nation could secure new funds to complete a railway linking Quito and Guayaquil. The Guayaquil and Quito Railway Company issued US$ 12.3 million in bonds backed by the Ecuadorian government. In 1906, debt service was suspended. Two years later the government, railway, and bondholders reached a new agreement, which provided for the resumption of payments and the refunding of back interest as part of a new bond issue to provide working capital for the company. In the negotiations, the bondholders accepted a reduction of interest. The government, however, failed to adhere to the terms of the agreement and only a few payments were made between 1909 and 1925. In that year the nation's foreign debt was US$ 19.6 million, including US$ 7.1 in interest arrears. Ecuador resumed debt payments during the Isidro Ayora administration but was forced to suspend debt service because of the world economic depression. Although debt payments were briefly resumed in the mid-1930's, by 1936 the nation had again suspended debt service and would remain in default until the mid-1950's.

Ecuador's growing prosperity, based on the export of bananas, allowed the nation to restructure the foreign debt in the 1950's. As in the past, the negotiations were prompted by the desire of the Ecuadorian government to secure a new loan, this time from the Banco Internacional de Reconstrucción y Fomento. During the decade Ecuador was successful in securing additional loans, primarily from the US Export-Import Bank (Eximbank) and the US government. By the end of the 1950's the foreign debt had grown to US$ 68.3 million. When the economy faltered at the end of the decade, the government turned to the FMI. In 1961 that institution provided a US$ 10 million contingency

10 For a discussion of the source of the original debt see Emilio M. Terán, Informe al Jefe Supremo General Eloy Alfaro sobre la deuda anglo-ecuatoriana, Imprenta Nacional, Quito, 1896.
11 Alexander Rodríguez, Las finanzas, op. cit.
12 The most important published sources on the 19th century external debt are the Informes for the Ministerio de Hacienda for the years 1831-1894; Emilio M. Terán, Informe, op. cit.; and the Corporation of Foreign Bondholder, Annual Reports for the years 1897-1901.
loan. It became the first of eight standby agreements during the decade. The nation entered a cycle in which a decline in export earnings was followed by economic crisis, an FMI standby agreement, and an adjustment program. At the end of 1969, the foreign debt had increased to US$ 213.1 million. The old railway debt, which represented US$ 3.2 million of the amount, would finally be paid in 1976.

In the 1970's, Ecuador's debt profile changed dramatically. The discovery of petroleum allowed the country to borrow extensively from foreign private sources. This practice was in sharp contrast to the 1960's when the Banco Mundial, the BID, the Asociación Internacional de Fomento (AIF), the US government, and the Agencia Internacional de Desarrollo (AID) were the most important sources of development loans. Between 1971 and 1975 the external debt grew from US$260.8 to US$512.7. During this period, the net flow of financial resources into Ecuador was positive. After 1975, the permissive international financial climate allowed the Ecuadorian government and private sector to aggressively contract foreign loans so that by the end of 1979 the public sector foreign debt was US$2.85 billion and the private sector external debt was US$706.3 million.

The 1980's and 1990's were decades of recurring financial crisis. When the price of oil declined in the early 1980's, neither the public nor the private sectors were able to service the external debt. Once again, as it had in the 1940's and 1960's, Ecuador turned to the FMI for support. During the next two decades, no Ecuadorian government was able to develop and implement a clear and disciplined fiscal policy that would prevent budget deficits, avoid unsustainable levels of debt, and balance current and investment expenditures. Administrations spanning the entire political spectrum signed nine letters of intention with the FMI in 1983, 1984, 1985, 1986, 1987, 1989, 1990, 1994, and 2000. Throughout the period the FMI recommended that the nation reduce the fiscal deficit, control government expenditures, reform the exchange system, modernize the state and tax system, restrict monetary expansion, free interest rates, and adopt policies to promote productivity, international competitiveness, and economic growth. In each case, exogenous shocks and political intransigence by opponents of the government made it impossible to implement the agreed upon structural reforms. Thus at the beginning of the 21st century the nation has a US$ 13 billion debt and is again confronting a deep economic, banking, and financial crisis whose long term solution requires fundamental economic, political and social change.

13 The letters of intention between Ecuador and the FMI provide information on these agreements.
Ecuadorian governments have attempted to make the tax system more productive and equitable since the 1830's. Repeated efforts to centralize tax collection, increase direct taxes, reduce tax evasion, simplify the tax code, and make the tax system more progressive have been ineffectual. Ecuadorians, although divided by ethnicity, class, and regional loyalty, shared an unwillingness to pay taxes. In the face of public intransigence, governments invariably turned to easily collected indirect taxes. The most important indirect taxes in the period 1830-1927 were customs duties. Upon the recommendation of the Kemmerer Mission, in 1927-28 president Ayora implemented a tax reform program designed to increase direct taxes, simplify the tax code, and expand government revenues. These reforms generated growing resistance. In November 1931, pressure to end the sales and income taxes mounted, culminating in a general strike in November. Congress repealed both taxes and authorized the executive to raise customs duties up to 50%. Indirect taxes continued to be the principal source of government revenue until the 1970's.

The Ecuadorian government sought advice on the nation's enduring fiscal problems from the United Nations under the Technical Assistant Program in 1949. A team of experts studied the situation over and presented reports detailing the problems and proposed solutions, including drafts of laws to simplify income and licensing taxes and customs duties. In 1953, the minister of Treasury recommended that the reforms proposed by the United Nations experts who had been studying Ecuador during the previous three years be implemented. The advisors indicated that it was impossible to adequately control public revenues because such a large segment was outside the control of the government; over 60% of income was distributed among a multitude of autonomous and semi-autonomous agencies. The volume and complexity of existing tax laws also hampered efficient revenue collection and oversight. In 1953 the Directorate of Internal Revenue collected 74 separate taxes. The nation remained too dependent on indirect taxes, which provided 85% of the total, and the tax structure was regressive. The government adopted the proposed custom law and new tariff in 1953. Despite these and subsequent reforms, historical patterns continued to reemerge. Ecuador's non-oil tax system suffered a progressive deterioration during the late 1970's and 1980's. Ministerial reports, World Bank studies, and numerous letters of intention signed with the FMI chronicle the nation's fiscal problems. At the end of the 1990s, administrations continued to...

struggle with a population, which refused to comply with tax laws despite the fact that Ecuador had one of the lowest tax rates in Latin America.16

PUBLISHED SOURCES

Scholars researching the public finances of Ecuador must rely principally on government publications because archival materials are scattered and disorganized.17 Published nineteenth and early twentieth-century data is incomplete and the researcher must use statistical materials cautiously. As the 20th century progressed, Ecuadorian statistical data and information on public policy formation increased in volume and quality. However, statistical sources continued to be dispersed. The existence of large numbers of autonomous agencies with authority to collect and/or disburse public funds exacerbated the problem of data collection and audit, and increased the difficulty of developing statistical series on public finances and interpreting data. Institutional and political instability also contributed to the problem of incomplete and/or non-comparable data sets. The small Andean nation has had one of the more unstable political histories in the region. Transformations in government have frequently entailed wholesale changes in personnel, the loss of technically competent public officials, the politicization of public finances, and interruptions in data collection.

To locate appropriate information, the researcher must understand the evolution of Ecuadorian financial institutions and their publications. On numerous occasions after 1830, governments changed the structure of the ministries and other institutions responsible for public finances, created new ministries or subdivisions within existing entities, and/or restructured reporting relationships within and among the various organisms with responsibilities in this area.18 The ministry presently known as Finanzas y Crédito Público is a principal source of information on public finance in the period 1830-2000. The

16 Among the principal published sources of information on fiscal issues are reports of the Ministerio de Finanzas, which include: Ministerio de Finanzas, Informes o Memorias published annually; Subsecretaría de Presupuestos, Boletín de Estadísticas Fiscales, Justificativo de los Ingresos del Presupuesto del Gobierno Central y FODESEC, and Informativo de los Ingresos Corrientes del Presupuesto del Estado FODESEC.


18 For these changes see the Registro Oficial (title varies); Juan Larrea Holguín, 145 años de legislación ecuatoriana 1830-1975, Banco Central del Ecuador/Corporación de Estudios y Publicaciones, Quito, 1977; Julio Oleas Montalvo y Bruno Andrade Andrade, Índices de debates económicos del Parlamento ecuatoriano 1830-1950, Banco Central del Ecuador, Quito, 1985.
ministry has undergone numerous changes over the years. In 1830, the first year of the nation’s existence, the Sección Hacienda of the Ministerio de Estado handled public finances.\textsuperscript{19} The following year the government of Juan José Flores created the Ministerio de Hacienda as a separate entity. The Ministerio de Hacienda assumed responsibility for a broad range of activities: public income, treasury expenses, the collection and investment of ordinary contributions and the income tax, income and expenditures of the postal service, national patrimony, national credit, loans, banks, control of the administration of public finances, maritime trade, and a number of auxiliary functions.\textsuperscript{20} Over the century, various governments transferred some of these activities to new institutions and ministries. The trend accelerated in the 20\textsuperscript{th} century.

More than a century after its creation, on July 31, 1944, the José María Velasco Ibarra administration abolished the Ministerio de Hacienda and created the Ministerio del Tesoro. The decree founding the new body stated that the principal object of the change was centralizing the management and control of all activities relating to the national finances in a single entity. The Ministerio del Tesoro was given responsibility for managing public credit, loans, and obligations; administering public income; collecting taxes, fees, and other revenue; administering customs and state monopolies; developing the public budget; setting the rates for public services; investing public funds; acquiring materials and supplies for public entities; and negotiating international agreements relating to public finances.\textsuperscript{21} On January 24, 1966, the plural military government of contralmirante Ramón Castro Jijón, general de división Luis Cabrera Sevilla, general de división Marco Gándara Enríquez, and coronel de Estado Mayor Guillermo Freire Posso abolished the Ministerio del Tesoro and created the Ministerio de Economía.\textsuperscript{22} Subsequently, the administration of José María Velasco Ibarra formed the Ministerio de Finanzas on December 14, 1971. The portfolio of the organization included: establishing directives for the application of central government fiscal and tributary policy; setting policy for the ministry and associated decentralized entities; advising the president on fiscal and tributary issues; regulating and monitoring public credit; approving agreements, decrees, regulations and resolutions relating to central government finances; administering payments for public expenses; informing the ministry about the status of public finances, the public treasury, and the measures adopted to finance public expenditures; negotiating public financial contracts not delegated by law to another ministry; and approving inter-ministerial agreements issued under the laws of industrial and artesanal development and tourism.\textsuperscript{23}

\textsuperscript{19} \textit{Registro Auténtico}, vol. 1, p. 19, Ecuador, 1830.
\textsuperscript{20} \textit{Ibid.}, vol. 1, p. 175, Ecuador, 1831.
\textsuperscript{21} \textit{Registro Oficial}, núm. 50, 31 de julio de 1944, Ecuador.
\textsuperscript{22} \textit{Ibid.}, núm. 168, 20 de marzo de 1966, Ecuador.
\textsuperscript{23} \textit{Ibid.}, núm. 370, 14 de diciembre de 1971, Ecuador.
Depending on the period being studied, researchers working on public finances must consult a variety of government publications. Since independence the Registro Oficial and the Informes or Memorias of the ministros de Hacienda, del Tesoro, de Economía, and de Finanzas and have been important sources of information on public finances. In the 1920's the Isidro Ayora administration created a number of institutions that became important sources of statistical and other data relating to public finances. The Banco Central del Ecuador created in 1927 was the most important new body.\(^2^4\) The BCE, which served as the fiscal agent of the national government, had the exclusive right to issue currency and to set the discount rate. A primary goal of the new central bank was maintaining the stability and convertibility of the currency. The Superintendencia de Bancos and the Contraloría General de la Nación were also founded in 1927, and the Banco Hipotecario the following year. The Contraloría General de la Nación designed monitoring and auditing procedures for public financial activities in all the provinces and within public institutions, evaluated foreign debt transactions, managed the public accounting and payment systems, audited the accounts of the treasury, municipalities, and decentralized agencies, and managed the accounts of the central government's budget and foreign and domestic debt.\(^2^5\) The Superintendencia de Bancos supervised private banks and other financial intermediaries, such as finance and insurance companies, and collected and published banking statistics. The Banco Hipotecario and its successor the Banco de Fomento (BNF) channeled credit to priority agricultural and industrial areas.\(^2^6\) Other executive branch institutions, which are important sources of information relating to public finances before the 1940's, are: the Departamento Central de Estadística, the Dirección General de Aduanas, the Dirección General del Crédito Público, the Dirección General de Ingresos, the Caja de Pensiones and its successor the Instituto Ecuatoriano de Seguridad Social (IESS); and the Dirección General de Obras Públicas.

After world war II, statistical data on public finances proliferated with the formation of new entities. The Instituto Nacional de Estadística y Censo (INEC) was created in 1944 to plan, coordinate, and supervise statistical studies. Later, in 1948, the Comisión de Valores-Corporación Financiera Nacional (CV-CFN) became a department within the Banco Central responsible for stimulating national and regional economic development by financing basic public development projects and by providing capital to private sector industrial projects. The State owned development bank, the CFN, became a separate entity in 1955. The most important institution created in those years was the Junta Monetaria.\(^2^7\) Established in 1948, it had broad power to direct monetary,

\(^{2^4}\) Decreto, 12 de marzo de 1927, Registro Oficial, año 1, núm. 283, pp. 2437-2491, Ecuador.


\(^{2^6}\) Decreto, 27 de enero de 1928; Decreto núm. 327, 14 de marzo de 1944.

\(^{2^7}\) Decreto núm. 434, 12 de marzo de 1948. Registro Oficial, núm. 149, 13 de marzo de 1948.
exchange rate, and interest rate policy. It’s responsibilities included naming
the general manager of the BCE; determining BCE credit, minimum reserve
requirements, import deposits, interest rate, exchange rate and other factors
affecting the balance sheets of financial intermediaries. The Junta Monetaria
had a significant amount of autonomy and its decisions were equivalent to
laws passed by congress. The Junta Monetaria’s decisions are enforced by the
BCE and the Superintendencia de Bancos.28

In the 1950’s Ecuador created a national planning entity. The Junta Nacio­
nal de Planificación y Coordinación Económica (JUNAPLA), formed in 1954
with the encouragement of the United Nations Economic Commission for Latin
America and the World Bank, had little immediate impact. It became
increasingly important in the 1970’s when it also became the principal source
of data on the consolidated public sector.29 The Constitution of 1978 created
the Consejo Nacional de Desarrollo (CONADE), which replaced the Junta Na­
cional de Planificación y Coordinación Económica (JUNAPLA) as the body
authorized to prioritize public sector investment programs and coordinate the
government’s investment plans with public and private institutions CONADE
produced the Plan Nacional de Desarrollo, 1980-1984.30 Two institutions created
in the 1960’s are important sources of information on public finances. The
Banco Ecuatoriano de la Vivienda (BEV), created in 1961 as a dependency of
the Junta Nacional de Vivienda, funded low cost urban and rural housing and
stimulated the development of savings and loan associations focusing on housing
construction.31 The growing emphasis on industrial development in the 1960’s
prompted the formation of the Centro de Desarrollo (CENDES) in 1962 to plan
industrial strategy, promote industrial development, and provide technical
assistance to existing and new industries.

Although the nation had expanded and improved its public financial
infrastructure in the first six decades of the 20th century, the existing organiza­
tions were unprepared for the dramatic economic expansion of the 1970’s. The
military governments of 1972-1979 created new institutions to channel the
nation’s petroleum revenue. Among the most significant new entities were the
Fondo Nacional de Participación (FONAPAR), created in 1971 to direct funds
from the central government to provincial councils and municipalities and its

28 For information on the various reorganizations of the Junta Monetaria see Gonzalo Muirragui
Villagómez, Política monetaria y derecho, Banco Central del Ecuador, Quito, 1986.
29 The consolidated public sector includes the Central Government presupuesto and Fondo Nacional de Participación (FONAPAR), State enterprises, semiautonomous entities known as entidades adscritas, and other miscellaneous fiscal accounts utilized by agencies with a national scope, e.g. cuentas especiales and colegios fiscales. Public financial institutions as well as special funds such as the Fondo Nacional de Desarrollo (FONADE) are not part of the consolidated public sector although their financial transactions with the public sector are frequently included in the data.
30 Constitución, título iv, sección iv, artículos 89-90.
successor the Fondo de Desarrollo Seccional (FODESEC), and the Fondo Nacional de Desarrollo (FONADE) established in 1973 to channel petroleum revenues to priority investment projects. The Banco Ecuatoriano de Desarrollo (BEDE) was founded in 1979 to direct funds into public sector capital projects.

During the petroleum-exporting boom of the 1970's, Ecuador experienced an explosion in the role and importance of public enterprises. Throughout the decade, public enterprise expenditures grew very rapidly compared to those of the government. It is important to examine the records of public enterprises because the fragmented character of the budgeting process limited the Ministry of Finance's centralized budgetary control. Some public enterprises are required to submit their budgets to the finance ministry in advance and negotiate revisions before submitting the budget to congress. Others submit their budgets directly to congress without review by the Ministry of Finance.

During the 1970's and 1980's the Ministry of Finance did not control the finances of most public enterprises. Although it had representation on the board of directors of public enterprises, the ministry did not receive sufficient data to assert control even in the area of assumption of external debt by these entities. At the beginning of the 1990's there were 57 non-financial public enterprises in Ecuador. The number of enterprises makes comprehensive analysis of the sector difficult; statistical data is readily available only on the ten largest. Four public enterprises are particularly significant. The Instituto Nacional de Electrificación (INECEL), created in 1960 as a dependency of the Ministerio de Recursos Naturales y Turismo, develops and executes the Plan Nacional de Electrificación to increase the nation's electrical capacity, promotes the formation of private electric companies, and contributes to the training of personnel required by the industry. The Corporación Estatal Petrolera Ecuatoriana (CEPE), formed in 1971 and its successor the Empresa Estatal Petroleos del Ecuador (PETROECUADOR) created in 1989, were responsible for petroleum exploration, production, and distribution. CEPE was also authorized to participate in mixed ventures with domestic and foreign companies in the discovery, production, and commercialization of petroleum. The Instituto Ecuatoriano de

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32 FONAPAR was created in 1971 to simplify the complicated tax system and reorganize the system of resource transfers to local governments. All the extra-budgetary tax revenues allocated to several agencies were to be channeled through FONAPAR. The goal was not met; shortly after it began operating, other channels evolved. On May 8, 1990 Congress passed a law reforming the municipal and provincial transfer system. Under the law, FODESEC replaced FONAPAR and was assigned specific resources.

33 According to the original legislation, FONADE was to receive the increment in public revenues resulting from increases over its November 1973 level of U.S.$7.30/barrel. However, traditional patterns of earmarking revenues had by 1978 given 15 other public entities a share in petroleum related taxes and fees.

34 ENAC, ENPROVIT, ENDES, and IETEL are among this group.

35 FLOPEC, TRANSNAVE, ECUATORIANA, TAME and PETROECUADOR submit budgets directly to Congress without review.
Telecomunicaciones (IETEL), formed in 1972, was responsible for the elaboration of plans and projects to develop domestic and international telecommunications. Ecuatoriana de Aviación (ECUATORIANA) was established in 1974, through the nationalization of the Compañía Ecuatoriana de Aviación, as the nation's principal State owned airline. These public enterprises accounted for about 85% of total public enterprise expenditures in the 1970's and 1980's. The first three were also responsible for the bulk of the public enterprise deficit.

**Banco Central del Ecuador Publications**

Since their founding in 1927 and 1948, the Banco Central del Ecuador (BCE) and the Junta Monetaria del Banco Central, charged with formulating monetary policy, have been principal sources of statistical data and analysis on the nation's public finances and economy. \(^{36}\) Central bank publications, including the Boletín Mensual, the first issue of which appeared in August 1927, and the annual Memoria del Gerente General, provide the researcher extensive data on the bank's activities and government finances. These publications demonstrate the gradual maturation and expansion of the BCE's technical competence and the growth of its research activities.

Starting in 1946, BCE officials sought technical assistance from the Fondo Monetario Internacional, and the United Nations to strengthen and expand the capacity of the central bank to collect and analyze financial and economic information. By the early 1950's the BCE's Departamento de Investigaciones Económicas had developed a program of investigation that produced works on banking, the balance of payments, national income and other economic activities, and had begun to examine questions dealing with the coordination of fiscal, monetary, and credit policy. The broader research agenda was a response to both domestic and international developments that increased the need for better data about the economy and public finances. Post-world war II Ecuadorian governments began to emphasize economic development. In addition, nations wishing to secure funding from multilateral agencies for development projects needed to demonstrate the efficacy of their proposals. Thus, the broader research agenda also was a response to the loan policy of the Banco Internacional de Reconstrucción y Fomento and the work of the Comisión Económica para América Latina (CEPAL). In 1954 the Ecuadorian government created a new institution the Junta Nacional de Planificación that worked closely with the BCE.

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\(^{36}\) Junta Monetaria responsibilities included establishing the level of interest rates, Banco Central credit, minimum reserve requirements, import deposits, and until 2000 the exchange rate, and other factors affecting the balance sheet of financial intermediaries. The Banco Central del Ecuador executes the policies of the Junta Monetaria.
The BCE also initiated studies of the tax system and fiscal policy to support the efforts of policy makers and planners to design public development policies that would not destabilize the economy. In 1955, a Misión del Fondo Monetario Internacional collaborated with BCE technical personnel to organize a special Sección de Finanzas Públicas within the bank’s Departmento de Investigaciones Económicas dedicated to studying fiscal problems. Among the responsibilities of this section was to provide BCE officials information about fiscal issues, to analyze fiscal data, to prepare material for publication in the Boletín Mensual, to collaborate with other BCE economists in the elaboration of data for the calculation of national income and statistics on the public debt, and to work with the technical staff of the Junta de Planificación, the Ministerio de Hacienda, and other government agencies in the preparation of budget recommendations and fiscal legislation. To fulfill this charge, the new section required information that previously had not been available or that had been collected and/or published in an uncoordinated sporadic manner. The database had to be expanded and systematized, as did the analysis of the fiscal system.

The Centro de Investigación y Cultura was established within the bank in 1978 to locate and systematize statistical documentation on the economy and public finances, to stimulate studies of the nation’s economic history, to provide information to the BCE’s technical personnel, and to foster a nuanced understanding of the nation. The Centro developed the Proyecto de Estadísticas Históricas to fill the gap in Ecuador’s statistical history. Its purpose was to locate the best quantitative data on the nation since independence and to develop statistical series. Given the broad scope of the project, the work was divided into three parts. The first consisted of material covering the period 1948-1983, the second encompassed the period 1914 through 1947, and the third compiled statistics covering the years 1830 through 1913. The most recent period was analyzed first in an effort to resolve methodological issues and to establish the format to be used to systematize earlier data. The Banco Central del Ecuador published Estadísticas económicas históricas 1948-1983 by Patricio Almedia Guzmán and Rebeca Almeida Arroba in 1988. The volume utilized 293 sources, produced principally by government agencies and multinational organizations, to construct 195 statistical tables. Since the amount of data for the most recent period was extensive and a variety of institutions had published information on each area using different categories and methodologies, the project staff had to resolve a number of discrepancies. The publication is indispensable for economic historians, government planners and policymakers. It provides information on population, land tenure, production, services, money and finance, prices, salaries, employment, investment, the public sector, and the external sector. Other volumes of historical statistics include Setenta años de información estadística: 1927-1996, Quito, 1997.

Over the years the bank’s División Técnica and Dirección General de Estudios have published a broad range of studies, such as the Cuentas nacionales (formerly Cuentas nacionales del Ecuador), which cover the period since 1950. Other important publications include: Información estadística mensual (replaced Información estadística quincenal in 1992), Boletín de cuentas nacionales trimestrales, Informe, Índice de las principales disposiciones económicas ecuatorianas, Notas técnicas, Boletín de noticias, Índices de precios al consumidor, Cuadernos de divulgación, Serie Integración, Cuestiones económicas, Realidad: revista de la Asociación de Economistas del Banco Central del Ecuador, Boletín de precios, salarios y empleo, La inversión extranjera en el Ecuador, Balance of payments of Ecuador, and Comercio exterior ecuatoriano. In addition, much of the statistical information published by the BCE is currently available at the bank’s website.

OTHER SOURCES ON ECUADORIAN PUBLIC FINANCES

Other public institutions and ministries including those with responsibilities in the areas of agriculture, commerce, industry, provision of basic foodstuffs, energy, public works, education, public health, population, social welfare, labor, and defense publish statistical and other material required to interpret public finances. Of particular interest are the publications of the Ministerio de Obras Públicas created in 1929, the Instituto Ecuatoriano de Seguridad Social created in 1928, and CEPE and its successor PETROECUADOR. See for example: Petroecuador: gerencia de economía y finanzas. Actividad hidrocarburífera del país periodo 1972-1995, Quito, n.d.

Since the 1970’s a number of non-government institutions and individuals have published analyses of Ecuadorian public finances. The Corporación de
Estudios para el Desarrollo (CORDES) founded in 1984 by former president Oswaldo Hurtado, has produced a broad range of publications on Ecuador’s economy and political system. Among the CORDES publications of interest to scholars in the area of public finances are: the Apunte Técnico series, which consists of short and medium term analyses of the country’s economic performance and various aspects of contemporary political economy; the Documentos de Trabajo, which provide technical analysis focusing on specific issues, and a series of research projects and conference volumes that address a broad range of issues relating to the political economy. The Centro de Planificación y Estudios Sociales (CEPLAES) produced a series, Estudios de Coyuntura, which was published in cooperation with the Instituto Latinoamericano de Investigación Sociales (ILDIS). The first volume, Ecuador: análisis de coyuntura: primer semestre 1990, appeared in 1990. ILDIS also publishes a series Estadísticas del Ecuador. The first volume in this series was Estadísticas del Ecuador 1970-1985. Among the noteworthy publications by individual authors, two warrant special mention: Alberto Carbo, Historia monetaria y cambiaria del Ecuador desde la época colonial, Banco Central, Quito, 1978, and Jaime Morillo Batlle, Economía monetaria del Ecuador, Imprenta Mariscal, Quito, 1996, covering the period 1927-1995.

The amount of information on Ecuadorian public finances has expanded dramatically in the last few decades. The access to historical documents and contemporary information has been facilitated by improved cataloging of materials in the various libraries and archives, the publication of guides and catalogs of documentary materials, and a growing commitment to collect and maintain public and private archival and library collections. With the increasing use of technology to preserve materials and provide access to statistical and other information, scholars will have greater opportunity to advance our understanding of the Ecuador’s public finances.