

SECOND GLOBAL SAPRI FORUM

COUNTRY REPORT: ECUADOR

**NATIONAL COMMITTEE FOR THE SAPRI ECUADOR
PROJECT: CIVIL NETWORK, GOVERNMENT OF ECUADOR,
WORLD BANK**

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Washington, July 30, 2001

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- I. Executive Summary of research findings under the SAPRI Project in Ecuador

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National Committee of SAPRI in Ecuador
(Structural Adjustment Participatory Review Initiative)

Civil Society Network (SAPRIN)
Government of Ecuador
World Bank

**THE SOCIAL AND ECONOMIC IMPACTS OF STRUCTURAL
ADJUSTMENT POLICIES
IN ECUADOR 1982-1999**

Executive Summary

Center for Latin American Studies (CELA)
of the Catholic University of Ecuador (PUCE)

Quito, Ecuador
January 2001

A NOTE ON METHODOLOGY

Often socioeconomic studies make constructions of reality that are implicitly presented as the one and only possible understanding of what is actually going on. In pursuing the unreachable goal of objectivity, such studies tend to forget that what is posed as the "real" encompasses the technicians and experts' theories and own visions. Furthermore, they leave aside the social actors' views, explanations, and perceptions, which are grounded in the everyday experience of what is being analyzed. In assessing the impact of structural adjustment policies, however, the voice of the affected must be taken into account.

The research conducted by CELA was focused on participatory workshops carried out with different social actors, all of which were selected based upon the kind of policies under study, and the productive characteristics of each geographical area. The causality linkages coming from participatory workshops, which display the explanations given by social actors to their experience of structural adjustment, were tested, contrasted, and complemented with the views that stem from the work of economists and representatives of the productive sectors.

Thanks to this procedure, our research team was capable of identifying sound interrelations among those variables and indicators that, besides being in fact involved with structural adjustment processes, are meaningful from a theoretical perspective as well as coherent with real social experiences. The whole research process was permanently driven and informed by the social actors' perceptions of socioeconomic trends, which generally coincide with the available statistical evidences.

I. THE IMPACTS OF STRUCTURAL ADJUSTMENT POLICIES ON THE NATIONAL PRODUCTION SYSTEM.

TURNING THE MODEL OF GROWTH TOWARDS A NEW DIRECTION THROUGH TRADE LIBERALIZATION

Trade liberalization policies were introduced for the first time in Ecuador at the beginning of the 1980s. Basically acting in response to global economic processes, as well as to the domestic crisis, the government began to implement several measures that were aimed at changing the style of development through fostering export-oriented activities. For that purpose the government proceeded to devalue exchange rates on several occasions, all of which attempted to put in place a new source of surplus in favor of export-related enterprises. In addition to monetary policies, the government began to lower tariffs in order to eliminate the protection of some domestic economic activities.

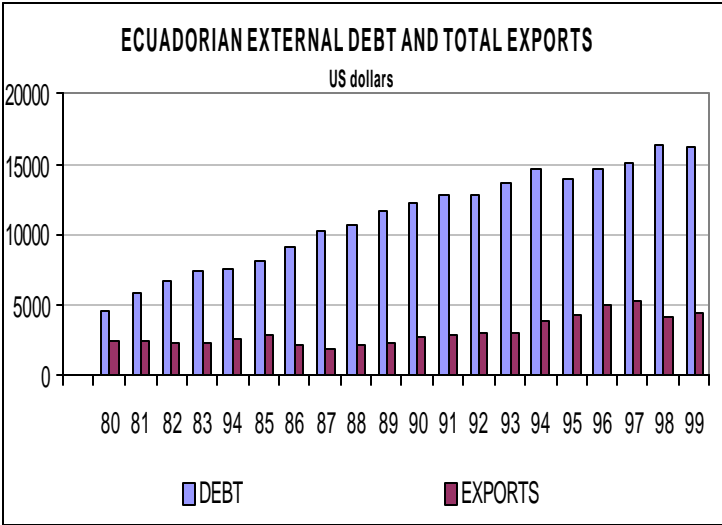
As the participants in our workshops said, trade liberalization policies might have had some positive impacts on a few, very specific export-related activities. However, when assessed from a broader perspective, such policies brought about serious problems to enterprises oriented towards domestic-markets, i.e., small and medium-scale firms. The latter cannot easily sell their goods on foreign markets or remain competitive with

respect to imported goods. Our main findings regarding trade liberalization in Ecuador are summarized as follows.

1) While trade liberalization policies were supposedly aimed at expanding the growth rates of exports, Ecuadorian exports did not grow as expected during the 1980s. The total value of exports was US\$ 2.4 billion at the end of the 1980s, a figure which was below the value reached in 1980 (US\$ 2.5 billion).

Nevertheless, total exports rose from 21.5% of GDP in 1980 to 25.8% of GDP in 1990. This increase can be accounted for more by an absolute fall of GDP rather than by a better performance of the exporting sector. It is important to note that exports of agricultural commodities (i.e. banana, cacao, etc.) grew at an annual average rate of 2.7%, increasing from US\$ 1.8 billion in 1980 to US\$ 2.3 million in 1990. Exports of manufactured goods, however, declined from US\$ 626 million in 1980 to US\$ 367 million in 1990. As can be inferred from this data, the fall of exports of manufactured goods, which have plunged more than 40% between 1980 and 1990, is undoubtedly one of the biggest impacts stemming from structural adjustment policies.

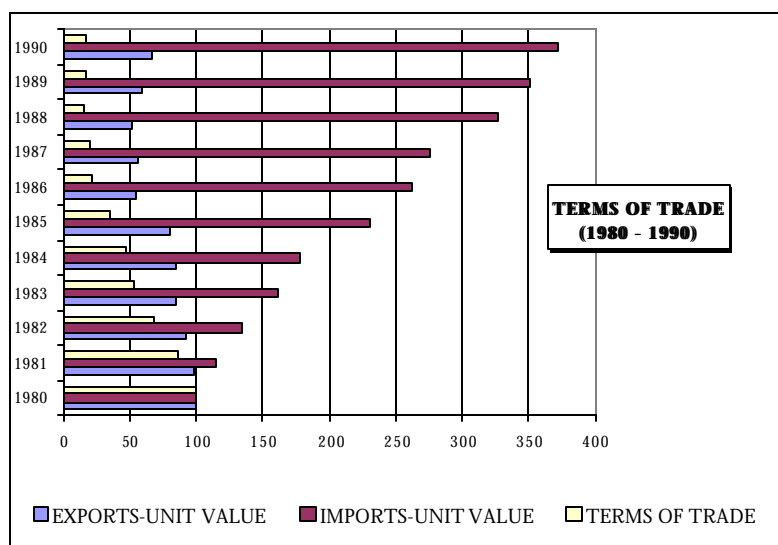
This impressive drop of Ecuadorian manufactured export goods occurred within a period in which the world trade of manufactured goods was growing at twice the pace of the world production of manufactured goods. Such a drop occurred also while Latin American exports of manufactured goods were increasing notoriously. Instead of relieving the burden of the Ecuadorian external debt, these patterns of trade had the opposite effect. Thus, the external debt ratio to total exports rose from 183% in 1980 to 490% in 1990.



2) By taking into account the external trade indices, it is possible to draw a relation between the indices of export- and import-unit values. The resulting figures are quite discouraging. By using 1980 as a base year for the calculations, it is possible to see that terms of trade were falling steadily during most of the 1980s, shifting from 100 in 1980

to 15.7 in 1998. Afterwards, the terms of trade index improved slightly, for it increased from 16.9 in 1989 to 17.8 in 1990. As a consequence of the deterioration of the terms of trade, Ecuador was compelled in 1990 to export five times the value of 1980 exports so as to obtain just as much as the total volume of 1980 imports.

The prior analysis, which is based on data provided by the Central Bank of Ecuador, points to an uncontested conclusion: any macroeconomic policy that is focused almost exclusively on promoting exports is an unsustainable one. Such is particularly the case when the promotion of exports depends on traditional comparative advantages, i.e. those stemming basically from both low salaries and intensive exploitation of natural resources.



3) Ecuadorian total exports performed better in the 1990s. The value of total exports increased from US\$ 2.7 billion in 1990 to US\$ 5.2 billion in 1997. This was partially due to the fact that exports coming from legally registered firms increased from US\$ 811 million in 1990 to US\$ 3 billion in 1998. In addition to this, exports as a share of total sales shifted from 11.2% in 1990 to 15% in 1995, dropping afterwards to 14.2% in 1998. It is also worth mentioning that while the value of exports coming from legally registered firms tripled from 1990 to 1995, the value of domestic sales only doubled in the same period. These trends depict a clear turn in the strategies adopted by businesses, a turn which was made possible at the expense of domestic markets.

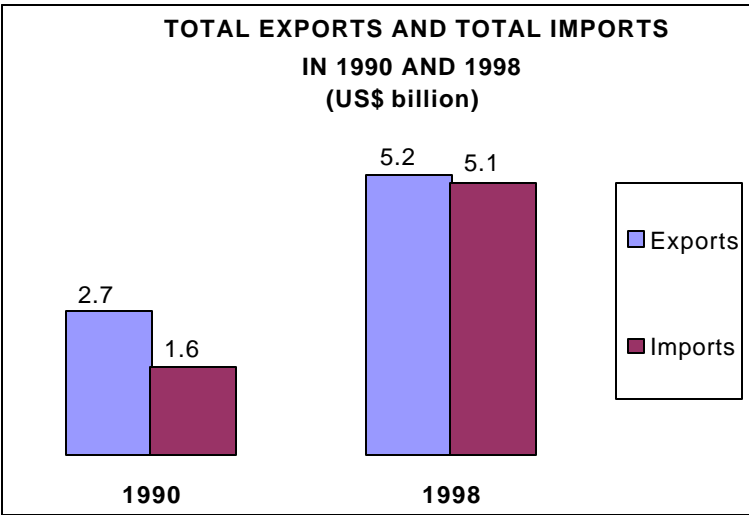
4) The manufacturing sector performed even better: its exports increased from US\$ 227 million in 1990 to US\$ 1 billion in 1998. Stated differently, exports of manufactured goods in 1998 were almost five times bigger than they had been in 1990. In contrast to this, domestic sales of manufactured goods hardly doubled in the same period. This demonstrates that the growth of the external sector relies on a simultaneous movement towards the contraction of internal markets, which are less attractive due to Ecuador's low-income levels and high poverty levels.

5) Simultaneously, imports grew impressively from US\$ 1.6 billion in 1990 to US\$ 5.1 billion in 1998. Stated differently, imports grew at an annual average rate of 15%, which was far superior than the annual average rate of exports (5.6%). Regarding the composition of imports, it is worth highlighting that imports of consumer goods shifted from US\$ 229 million in 1990 to 1.3 billion in 1998, i.e. they multiplied by 6. The imports of non-durable goods increased from US\$ 97 million in 1990 to US\$ 660 million in 1998. These trends in the import sector are completely opposed to what the trade liberalization program, which was designed at the beginning of the 1980s, was meant to bring about, namely, an improvement in the trade balance.

It is worth mentioning that the data provided by the Superintendency of Companies show that firms increased their imports of final goods – excluding raw materials. Thus, the total value of these goods reached US\$ 2 billion in 1998. This figure is

Shocking in so far as a large share of total imports of final products includes consumer goods, which could easily have been produced locally - if there were adequate conditions for doing so. For example, the total expenditure on imported consumer goods increased from US\$ 160 million in 1990 to US\$ 738 million in 1995. In other words, while the growth of exports hardly doubled between 1990 and 1995, imports of imported consumer goods increased five times. The growth of imports has been far greater than the growth of exports.

It is worth highlighting that the greater the growth of such imports as food, clothing, and shoes, the harder it is for local firms producing similar goods to cope with external competition. This can be seen clearly by the high levels of bankruptcy of small and medium-scale firms, a phenomenon that has in turn increased unemployment and poverty levels.



THE RESTRUCTURING OF THE NATIONAL PRODUCTION SYSTEM

1) Between 1985 and 1998, the number of legally registered firms increased from 11,737 to 23,761. Rather than being an indicator of economic progress, such an increment reflects a non-balanced, heterogeneous growth, which is associated with a significant restructuring of the production system as well as the differentiated impacts of the structural adjustment policies being implemented during the past 20 years.

The restructuring of the Ecuadorian national production system has benefited firms related to such activities as international and domestic trade, transport and communications, and services. As a result of this phenomenon, the number of industrial and construction companies has diminished notably, and the number of agricultural businesses has remained steady.

With respect to the total amount of companies, the share of industrial firms decreased from 20.4% in 1985 to 11.6% in 1998. In the same period, the share of construction companies decreased from 6.8% to 5%. On the other hand, the share of commercial, transport and communications, and service companies increased from 61.6% to 73.3%. This indicates that the service sector is in the process of replacing the production of goods.

2) It could be said that the reduction of the share of industrial firms in the total number of companies does not imply *per se* a proportional drop in the overall industrial production. However, if one looks at the share of the industrial sector in total national assets and sales, one can see a decline in the industrial sector's importance. While the industrial sector owned 40% of the total assets in 1985, it controlled only 24% of the total assets in 1998. Industrial sales as a part of total sales declined from 40.4% to 31.4% in 1998, thus showing that overall industrial production has in fact dropped.

PROFITABILITY DIFFERENTIALS BETWEEN FIRMS.

1) Given that structural adjustment policies affect economic activities unequally, there is currently a deepening of profitability differentials between firms. This process is coupled with higher levels of economic concentration in favor of the largest corporations. In 1996, the 1000 largest companies declared net profits of only 35.4 billion sucres, a figure that indicates a low average of profits. According to a ranking made by Gestión, an Ecuadorian economic journal, the 36 largest companies' net profits were greater than 541,000 million sucres, and their sales were over 9.7 billion sucres. Among the 1,000 largest companies, these 36 firms owned more than 13% of the total assets and their sales accounted for 23.5% of the total sales.

2) The above-mentioned trends are confirmed through data provided by the Superintendency of Companies. If one looks at the levels of assets and income concentration of the 1,000 largest companies between 1992 and 1996, one can see that the concentration of assets and income of the 100 largest companies increased sharply. As a result, the latter companies' assets and incomes came to represent 50% of the total assets and incomes. With respect to the 17,352 legally registered firms in 1996,

the 1,000 largest companies controlled 75% of the total assets and sales. On the other hand, the 100 largest companies, which represented only 0.6% of the total number of firms, controlled 37.5% of the total assets and sales.

**CONCENTRATION LEVELS OF THE 1000
LARGEST COMPANIES**

	INCOME		ASSETS	
	1992	1996	1992	1996
The 50 largest	31	32	29	35
The 100 largest	44	47	44	51
The 200 largest	59	64	62	66
The 300 largest	71	74	71	75
The 400 largest	78	80	79	81
The 500 largest	84	86	84	86
The 1000 largest	100	100	100	100

Source: Superintendency of Companies

THE ROLE PLAYED BY FINANCIAL LIBERALIZATION

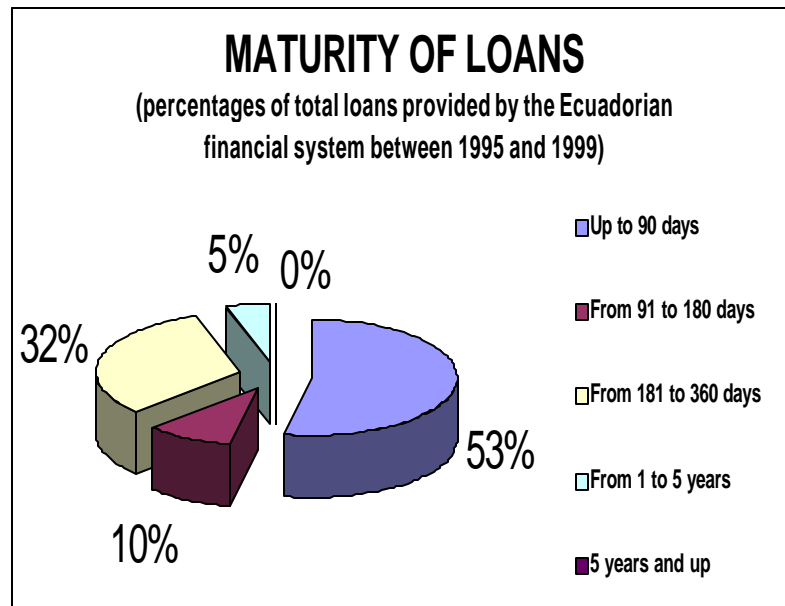
From 1990 to 1995 the Ecuadorian government was devoted to implementing financial liberalization policies through a package of economic, legal and institutional reforms, all of which were aimed at either weakening or dismantling prior public regulations and controls. According to the orthodox economic wisdom, the main goal was to allow market forces to both manage and allocate efficiently the country's scarce resources. In order to do so, the Ecuadorian government authorized interest rate liberalization and limited the traditional capabilities of the Office of the Superintendent of Banks to oversee financial institutions. In addition to this, they proceeded to gradually expand capital account liberalization, a measure that was supposedly aimed at fostering both capital inflows and helping national businessmen obtain higher profits from their offshore investments.

According to the participants in our workshops such financial sector liberalization led to several problems. First, most of the credit provided by financial intermediaries to firms became increasingly more concentrated among few, powerful economic agents, which made it even more difficult for small and medium-scale businessmen to obtain loans. Furthermore, the continual increases in interest rates became a regular means of diverting resources away from productive sectors. Since the private financial system became more interested in short-run operations, most productive agents had virtually no permanent, formal sources for obtaining support for their activities. In short, speculative behavior by the private financial system severely damaged most Ecuadorian producers.

Both the government's financial reform policies and the financial intermediaries' behavior enhanced the structural crisis that had been experienced by productive sectors for a long time. Artisans, peasants, and small-scale producers either had no chance to obtain any kind of loans or were forced to pay such high interest rates that their profits were wiped out. As a consequence, the number of enterprises that went bankrupt increased sharply, which led to an increase in the unemployment rate and in poverty levels. The information from participants coincides with our findings, which can be summarized as follows.

Beginning in 1990, deposits in the financial system were increasingly short term and made in dollars. Both trends became strong beginning in 1993. Between 1993 and 1994, bank deposits increased by 28%, a figure which set the second highest rate of change since 1970. By the time this extraordinary growth of short-term deposits ended in 1996, there had been a severe process of disinvestment in productive activities. Ecuadorian society's scarce capital was diverted from productive sectors, such as agriculture and industry, in search of higher rates of return achievable through interest rates.

2) The lending policies of financial intermediaries were also characterized by short-term preferences. Between 1995 and 1999, 95% of loans had a maturity of less than one year. Only 5% of the total loans provided by the financial system had maturities ranging from one to five years. This pattern of financing was seriously damaging to those productive enterprises that required more than one year to recover their investments.



3) Financial-sector liberalization made a major contribution to the growth of non-productive activities. Between 1987 and 1999, nearly 34% of the loans were extended to the trade and service sectors as well as to non-productive activities. Furthermore, 28% of total loans were destined for consumption.

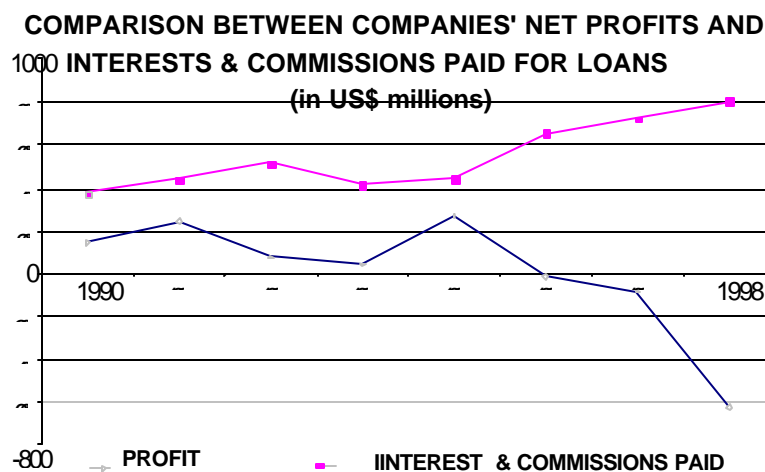
4) Financial resources were concentrated on a few, influential clients. Since 1995, 63% of loans have been monopolized by only 1% of the financial system's clients. This concentration of resources also had a regional dimension: the loans' final destiny was closely related to those geographic regions where the most wealthy and powerful elite reside. About 90% of loans were made in the provinces of Guayas and Pichincha. This indicates that small and medium-scale firms located outside such provinces had nearly no real opportunity of accessing loans. This is another clear demonstration that structural adjustment policies bring about differentiated impacts, as they create regional winners and losers.

5) During the administration of Sixto Durán Ballen (1992-1996), the interest rate and trade liberalization policies went hand in hand with a massive amount of bankruptcies of small and medium-scale firms. From 1993 to 1995, 2,849 enterprises went out of business, 1,675 of which were dissolved just in one year (1995). Structural adjustment thus encouraged a new record in the Ecuadorian economy: from 1990 to 1996, almost 4,600 firms went out of business. The massive resource transfers from productive sectors to financial intermediaries explain this massive bankruptcy.

According to the records of the Office of the Superintendent of Businesses, there were 20,423 legally registered firms in 1995, 4,622 of which declared losses of US\$ 418 million (1,221,448 million sucres). In spite of this, these very companies transferred resources to the financial system of more than 718,200 million sucres, which were paid in interest and commissions for previous loans. But the whole picture is even more

dramatic: these 20,423 legally registered companies transferred almost US\$ 556 million (1,700,000 million sucres) to financial intermediaries in 1995.

While domestic interest rates fell slightly in 1996, the story repeated itself over and over again. The 17,352 legally registered companies declared losses of 269,629 million sucres. Nevertheless, these companies transferred nearly US\$ 722 million (2.3 billion sucres) to the financial system. This amount was equivalent to five times the income tax revenue that the Ecuadorian State received from all the registered companies. Such an amount was far beyond the total sum paid by those companies as salaries to their working force. The same pattern developed again in 1998: the legally registered firms paid US\$ 800 million in interest and commissions for loans. From 1990 to 1998 -- but not including 1997-- the private financial system collected US\$ 4.3 billion from productive sectors.

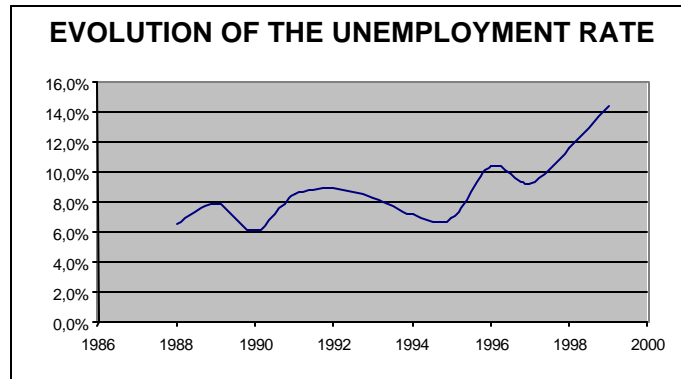


In short, since 1990, the financial system has been diverting resources from productive sectors (such as agriculture and industry) through high interest rates that value speculative capital. These resources could have been used by Ecuadorian society for enhancing national production and, thereby, for generating more and better employment. Due to the financial liberalization policies implemented during the 1990s, domestic savings were increasingly diverted towards non-productive activities, with the greatest negative impacts felt by small and medium-scale enterprises. These policies also created concrete ways of transferring the society's savings to those national and international economic actors involved in speculative activities. This structural pattern has led to the current crisis of the Ecuadorian productive system and the resulting increase in poverty and unemployment.

II. THE IMPACTS OF LABOR FLEXIBILIZATION ON EMPLOYMENT

The deregulation policies applied to labor markets are based upon the idea that labor relations are, first and foremost, agreements made just between the employer and

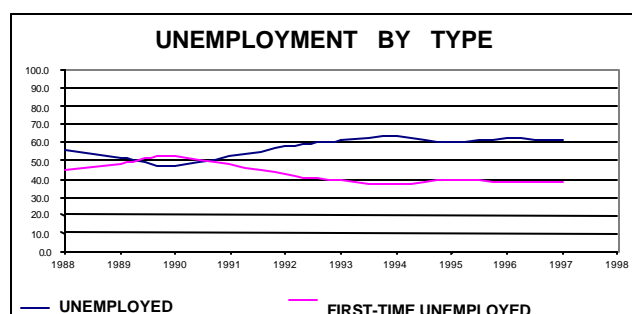
employee. Accordingly, they ought to be ruled only through market forces, for public intervention should limit itself to the preservation of the overall market conditions.



Labor flexibilization policies have fostered reforms within the legal framework, which are intended to end public regulations of employee-employer relations. One of such reforms refers to the creation of new ways of hiring, which are focused on both hourly wages and temporary work. These kinds of reforms have modified the workers' stability, access to social security and collective organization.

The social actors who were involved in our workshops pointed out that the impacts of labor flexibilization are evident in several aspects. First, labor flexibilization policies have increased unemployment rates, especially among those workers who were previously employed. Second, these policies have deteriorated the labor conditions through the adoption of new hiring practices. Third, legal framework reforms have made it even easier for the firms to decrease real salaries and to increase the intensity and duration of work hours. Finally, labor flexibilization policies have weakened the workers' ability to organize, for "everybody fears to loose his/her job". The main findings from our research are the following.

Broadly speaking, labor flexibilization has not helped to improve employment conditions in Ecuador. The urban unemployment rate was 6% in 1990, 9% in 1992, 10% in 1996, and 14.4% in 1999. The highest increases in unemployment rates took place in the lower income population groups. At the bottom quintile, which comprises the poorest population, unemployment rates shifted from 10% in 1989 to 15% in 1992, and from 17.7% in 1996 to 24% in 1999. At the higher end of the income-distribution scale, which comprises the top quintile, the average unemployment rate remained below 5% during the 1990s. In addition to this, with respect to the total number of unemployed people, the share of those who permanently lost their job is higher than the share of those who are unemployed for the first time. This pattern was particularly notable from 1991 on, which marked the beginning of labor flexibilization policies.

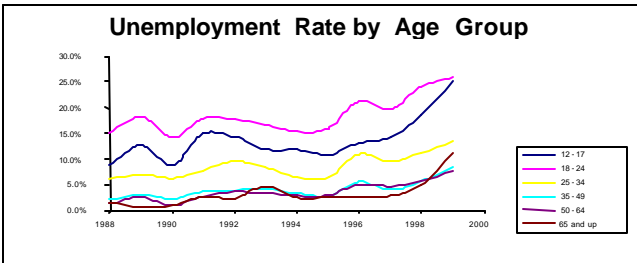


Reforms to labor laws and regulations have increased the extent of precarious employment in Ecuador, which is a situation where there are fewer employment guaranties and benefits, lack of social security, delays in payments, and an increasing number of informal activities. According to our survey, in the last two years, practices such as temporary hiring or hourly wages were used by 72% of medium and large-scale firms, and by only 16% of small-scale firms. This means that an important share of the workers hired by those firms do not have social security, union rights, or job stability.

When asked if they have fired workers as a way to cope with the economic crisis of the past five years, 37.8% of the firms admitted to having done so. The reduction of benefits and the hiring of temporary workers have become practices used by firms so as to deal either with their own internal administrative deficiencies or with the national economic crisis. In both cases, the firms' main survival strategy is to transfer the costs associated with the crisis or their deficiencies onto the workers.

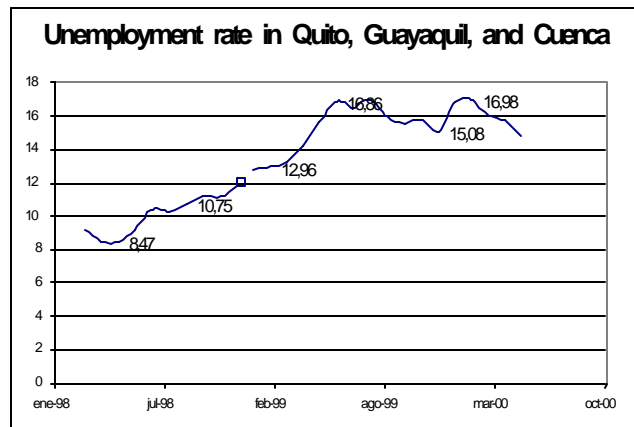
Labor reforms have brought about conditions for increasing the over-exploitation of the workforce. From 1980 to 1999, household real incomes deteriorated, except between 1993 and 1996. From 1998 on, the number of workers per household increased as a response to the decrease of real incomes. With the exception of the top decile, all the income groups were forced to increase their average number of working hours per week between March 1998 and July 2000. While the poorest households' working hours per week increased from 51 to 59 at the bottom decile, the richest households' working hours per week decreased from 114 to 100. Hourly wages have fallen dramatically since 1998. While such a fall affects all income groups, it is worth noticing a severe reduction within the lower deciles. The average total salary paid is only US\$ 0.12 per hour for the bottom decile and US\$ 0.34 per hour for the sixth decile. This means that there is a severe constraint on social reproduction possibilities.

The expansion of precarious work has been one of the most noticeable socioeconomic phenomena during the past years. The informal sector has grown 5% between 1998 and 2000. In addition to this, such an expansion has also occurred within the formal sector. According to the data of the total employed labor force, which were gathered through the Urban Labor Markets Project, the percentage of workers having social security and fixed-time contracts falls from 52% to 42%. The percentage of workers lacking social security and hired by occasional contracts increases from 16% to 21%.



Deteriorating working conditions have been a crucial factor in changing workers' behaviors and attitudes towards labor performance inside their workplaces. It has also contributed to modifications in their personal expectations and political behaviors. Participants in our workshops pointed out that they are permanently afraid of losing their jobs. Besides being influenced by the natural growth of population, increases in the labor supply in Ecuador are currently triggered by unemployment that resulted from the adoption of structural adjustment policies. Accordingly, workers share a widespread sense of uncertainty about what is actually going to happen at the workplace. As the labor markets become enhanced by the unemployed, workers increasingly see themselves as "disposable" beings, for anyone could be fired at any moment. The workers' sense of job insecurity leads them to accept worse working conditions and fewer labor rights.

All the above-mentioned processes occurred within a context in which flexibilization policies have created new constraints on the right to unionize and hold strikes. In this respect it is worth highlighting that the number of labor-related conflicts has been decreasing dramatically since 1989, the year in which the first labor reform was implemented. This reduction of conflicts cannot be interpreted as an indicator of higher welfare levels among workers, for no significant improvement of real wages has occurred since 1989. The loss of labor stability works also acts as a disciplinary device which, by keeping alive fears of unemployment, shapes behaviors and attitudes so as to allow different forms of overexploitation.



According to data provided by the Superintendency of Companies, the total number of workers employed by the legally registered firms increased from 227,303 in 1988 to 420,202 in 1998. The number of jobs provided by the industrial sector increased only from 93,361 to 105,491 in the same period, which means that an industrial firm employs an average number of 36 workers. Seen from a broader perspective, the growth of total industrial jobs, which increased only by 10%, was lower than the creation of jobs in the export-oriented manufacturing sector, which multiplied by five during the 1990s. It follows from this that most export-oriented manufacturing firms seek higher levels of competitiveness not only by paying low wages but also by using capital-intensive technologies. As a consequence, employment generated by the industrial sector is not able to keep up with the pace of labor supply.

While the 1,000 largest companies contributed to almost 70% of the GDP in 1998, they employed only 147,147 workers, a figure that was equivalent to 35% of the total number of people employed by all legally registered companies. This figure was also equivalent to only 3.5% of the working-age population. In 1992, however, those very companies employed 150,000 people.

The formal sector firms' low capacity for generating jobs is not the only factor affecting the Ecuadorian working-age population. In order to achieve higher levels of competitiveness and meet the technological conditions required for modern production systems, higher amounts of investments are needed for generating a new job position within firms. By comparing the value of assets and the number of workers employed by all companies, the average capital investment required per worker was US\$ 24,336 in 1990 and US\$ 53,129 in 1995. With respect to the 1,000 largest companies, the ratio of asset investment to worker rose from US\$ 58,916 in 1993 to US\$ 86,686 in 1996.

It should be also taken into account that there are differences in the ratio of asset investment to worker among economic activities. For example, while the average capital investment in the service sector needed per worker was about US\$ 36,876 in 1996, the investment in the mining sector was over the US\$ 880,620. Oil refining enterprises required an investment superior to US\$ 1.1 billion. The investment required in such activities as the production of baked goods, shoes, furniture, and jewelry (and more generally speaking in labor-intensive activities) was lower than US\$ 27,500.

As can be inferred from the above-mentioned data, while unemployment stems from the historical deficiencies within the national production system, the current growth model has fostered exporting activities and the constitution of large enterprises, most of which do not generate an important amount of jobs, as the small and medium-scale firms do.

POVERTY AND SOCIAL INEQUALITY

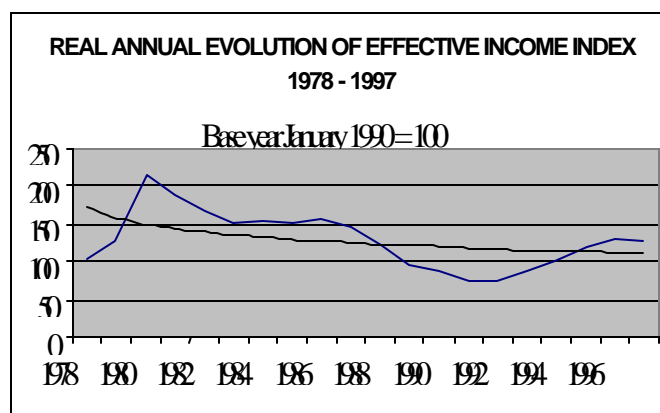
According to studies conducted by the Center for Latin American Studies (CELA), which are based on the unsatisfied basic needs method, Ecuadorian households' living standards improved between 1982 and 1990. The population's living standards, however, have remained practically unchanged since the beginning of the 1990s. In the second half of the 1990s living standards worsened even in rural areas, which were previously less affected by national economic downturns.

Table 1
**HOUSEHOLDS LIVING AT CONDITION OF
UNSATISFYED BASIC NEEDS**

(Percent of Total Households)

		<i>censo 82</i>	<i>Censo 90</i>	<i>ecv95</i>	<i>ecv98</i>	<i>ecv99</i>
<i>Region</i>	<i>Zone</i>	%	%	%	%	%
Costa	Rural	82,2	69,2	56,4	60,1	54,3
	Urban	40,2	29,2	29,6	29,3	28,0
Sierra	Rural	91,7	85,2	81,5	84,2	85,7
	Urban	21,5	24,4	14,5	13,3	14,3
Amazon	Rural	91,2	81,6	68,9	63,5	Nd
	Urban	48,5	32,5	15,6	11,5	Nd
National	Rural	88,0	78,9	69,4	72,5	72,6
	Urban	31,8	26,9	23,1	22,9	21,9

These patterns can be explained by taking into account two situations. First, the improvement in living standards during the 1980s can be seen as a delayed effect stemming from social investment that took place during the 1970s. However, the set of crises affecting Ecuador since 1980 brought about enduring, accumulating consequences, which can account for the stagnation in living standards during the 1990s.



AVERAGE WAGE PAID PER HOUR

(In US Dollars & Income Decils)

decile	Mar-98	Sep-98	Mar-99	Sep-99	Mar-00	Jul-00
1	0.31	0.34	0.25	0.20	0.10	0.12
2	0.61	0.52	0.41	0.31	0.17	0.21
3	0.78	0.68	0.44	0.36	0.21	0.25
4	0.75	0.69	0.52	0.41	0.22	0.29
5	0.82	0.74	0.53	0.42	0.24	0.34
6	0.88	0.82	0.62	0.51	0.25	0.34
7	1.07	0.95	0.71	0.55	0.30	0.42
8	1.35	1.16	0.82	0.67	0.34	0.49
9	1.71	1.49	1.03	0.88	0.44	0.63
10	3.70	3.75	2.47	1.95	1.21	1.86

Source: BCE-PUCE's Project on Urban Labor Market.

The households' employment incomes worsened in the same period. In real terms, household average income declined from US\$ 200 in 1980 to US\$ 80 in 1993. Afterwards, while household income increased up to US\$ 130 in 1996, earnings continued to fall even more dramatically from 1997. According to the Ecuadorian Labor Market Surveys, wages paid per hour in 2000 are just one third of those paid in 1998, a trend which affects particularly to the lowest income decile. Thus, the bottom decile's hourly wage dropped from US\$ 0.31 in 1998 to US\$ 0.12 in 2000. In the case of the fifth decile, the hourly wage shifted from US\$ 0.82 to US\$ 0.34 during the same period.

In July 2000, within the lower eight income deciles hourly wages ranged from US\$ 0.12 to US\$ 0.49. This implies that households located at the bottom decile must work 160 hours a month in order to get US\$ 20. If the same amount of working hours is used for

the calculations, households located at the eighth decile can earn a monthly income of US\$ 78. In both cases households' incomes are far below the cost of an average basket of goods and services.

Due to the deterioration of employment incomes that took place between 1998 and 2000, households were forced to extend their working hours per week in order to either compensate the decline in real earnings or reach slightly higher levels of income. This applies to all the income deciles, except the top one. Thus, for example, the bottom decile's working hours per week increased from 51 in March 1998 to 59 in July 2000. In the top decile, however, the amount of hours worked declined from 114 to 100 in the same period.

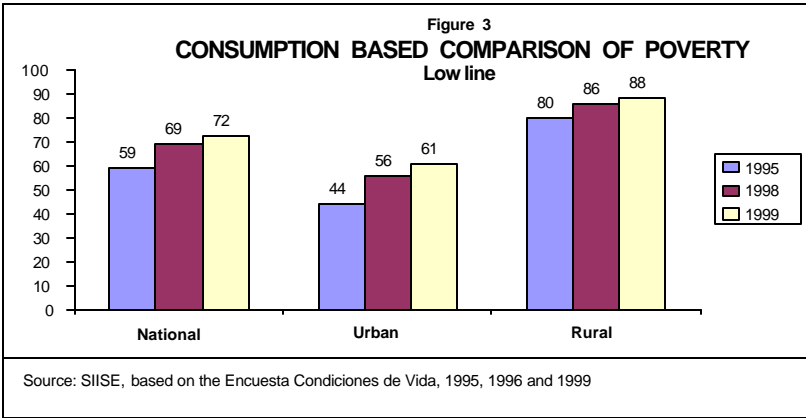
AVERAGE HOURS WORKED PER WEEK PER HOUSEHOLD

(Income Decils)

decile	Mar-98	Sep-98	Mar-99	Sep-99	Mar-00	Jul-00
1	51.4	47.9	45.3	53.2	52.3	58.8
2	55.7	58.2	57.3	60.5	59.3	62.6
3	56.4	57.7	66.4	67.3	64.3	72.5
4	71.5	73.1	68.0	76.5	78.2	79.6
5	81.2	87.3	85.5	91.1	83.9	83.1
6	97.1	96.9	89.8	90.4	93.5	102.3
7	99.5	101.0	95.3	105.7	95.2	101.5
8	102.6	108.7	107.6	109.6	103.9	110.1
9	105.6	118.2	119.7	111.2	110.8	116.5
10	114.1	114.2	120.4	109.7	101.4	100.3

Source: BCE-PUCE's Project on Urban Labor Market.

National poverty levels have increased dramatically since 1995. Data from the Social Indicators Program (SIISE) shows that national poverty increased by 13% from 1995 to 1999. It also shows that urban poverty increased by 17%. Regarding rural poverty, it is envisaged that 9 out of 10 inhabitants are currently poor. While poverty affects both rural and urban inhabitants, urban poverty levels have grown faster than rural ones. This phenomenon is partially explained by peasant migration flows to cities as well as by the economic recession that affects productive firms settled in cities.



According to neural network models used in our research, in explaining unemployment rates the most important variable is related to the formal sector's performance, as its cyclical fluctuations are often associated to employment growth.

What follows from this is that unemployment is closely related to the development model that has been implemented in Ecuador. The reduction of trade barriers, financial liberalization and labor flexibilization, all of which form the core components of structural adjustment, are tied to the formal sector's restructuring, an ongoing process which is also fostered by requirements to increase national competitiveness within a global economy. This restructuring process is coupled with social exclusion, which expresses itself as a sustained growth of the informal sector.

Our research models focused on poverty show that employment is the most important variable (30,22%) accounting for poverty. The precarious employment created by labor markets also contributes to poverty levels as far as 14%.

At our participatory workshops social actors put forward unemployment as the primordial source of poverty. A person's access to goods and services capable of providing worthy living standards is dependent upon real chances of being employed. In this sense, the contraction of labor markets is at the basis of the ongoing poverty problems affecting Ecuadorians.

In conclusion, one of the consequences of structural adjustment policies is the increase of structural heterogeneity within Latin American societies. The current growth model enhances productivity differentials between the largest firms that are leading the modernization process related to global markets, on the one hand, and the rest of low-productivity firms, which generate the vast bulk of jobs. In connection with the enhancement of productivity differentials, there is a widely spread process of exclusion affecting not only Ecuadorian people but also low-productivity firms which are not oriented towards international markets. Domestic markets have continued to shrink significantly, thus creating serious obstacles to the sustainability of the economic model. All of these processes must be taken into account if, as it is usually said, the majority of the population is expected to enjoy the benefits of economic development.

During the period analyzed, the growth of unemployment, self-employment and precarious employment is mostly due to the contraction of production that stems from the implementation of structural adjustment policies. The growth of poverty and the worsening of living conditions have increased sharply as a consequence of the current growth model, which fosters a stronger concentration of wealth and cannot generate enough new jobs. Although unemployment and poverty do stem from long-term historical processes, our research shows clearly that the growth model associated with structural adjustment policies has only deepened them, demonstrating its unfeasibility.

III. CHANGES IN ECUADORIANS' WAYS OF LIFE WITHIN THE CONTEXT OF STRUCTURAL ADJUSTMENT AND MODERNIZATION

By modifying the overall conditions of economic reproduction, the modernization of society achieved through structural adjustment has resulted in deep changes in the way of life of families and population groups. These transformations have to do with material survival strategies as well as symbolic and value structures. In order to analyze changes in Ecuadorians' way of life, we conducted case studies within six different communities, which were selected due to their ethnic characteristics and geographical location. We used such qualitative research techniques as oral histories, in-depth interviews and participatory workshops. Our main findings are summarized as follows.

The changes brought about through structural adjustment policies can be traced in two different dimensions. First, patterns of both economic reproduction and living conditions have changed. Second, individual symbolic behavior and identities have changed, as have those of collective institutions -- such as traditions, values and festivals. In this regard, it is worth emphasizing that economic and social exclusion has sharply increased in recent years. The increasing exclusion works as an overall conditioning factor that lies behind other changes described below.

With regard to changes in patterns of material reproduction, traditional communities that were focused on self-reliance and relations of reciprocity are increasingly transforming themselves into local economies that depend upon market-oriented activities. Some years ago such communities as Pampanal, Cubinche, and El Anegado sustained themselves through a household economy, which was mainly based upon a barter system rather than the use of money as a means of exchange. Within this type of communities, trade relationships and economic activities occurred mostly through such social institutions such as "la minga", "el ayudamanos", "compadrazgo" [collective work efforts] and other sorts of kin relationships. As the household economies were reproduced endogenously, reciprocity cycles gave constant birth to those communal institutions.

Precarious employment is widespread in marginal, urban communities such as Bastion Popular and Itchimbia. Many inhabitants who previously enjoyed stable jobs in the formal sector are currently facing either self-employment or unemployment. As a result, households have modified their survival strategies. In order to increase the household's overall income, for example, more adult members, as well as more children, are forced into the labor force.

Regarding the symbolic reproduction of communal life, solidarity networks and collective organizational forms are being dismantled. In most cases, there is a notorious process of individualization leading towards a crisis of traditional institutions. However, Saraguro and Itchimbia inhabitants showed a rather different process: they have been able to cope with problems derived from economic crises, as they have strengthened their collective organizational forms. Urban, marginal populations, as well as the youth, are experiencing an increasingly pervasive sense of hopelessness. Such a feeling often results in either violent behavior or criminal activities. It also leads to migration.

SOCIAL IMPACT OF BASIC SOCIAL SUBSIDIES POLICY (1982-1999)

EXECUTIVE SUMMARY OF THE REPORT (UNIVERSITY OF CUENCA)

1. INTRODUCTION

The redefinition of policies regarding basic social subsidies during the period 1982-1999 is part of the structural adjustment being researched by SAPRI-Ecuador through CELA-PUCE and the Universidad de Cuenca. The latter is responsible for studying the subsidies issue in particular, an executive summary of which is contained in this report.

The objectives envisaged in the terms of reference—the starting point for establishing the methodology—were:

1. To identify the main subsidies that existed and that are still in place, as well as the delivery mechanism used for each.
2. To quantify the level and structure of basic social subsidies at the onset (1982) and of those currently in effect (1999); and assess the magnitude and composition of the impact they made.
3. Find indicators to help locate and filter those subsidies, and other indicators to help identify the spread, efficiency and effectiveness of basic social subsidies.
4. Identify the perception and concerns of the three actors involved in the process (government, community, the World Bank).
5. Examine the decision-making process involved in the definition of subsidy policies and the actors behind those decisions.
6. Recommend alternate policies for subsidies that are viable in the short and intermediate terms.
7. Carry into effect a review of past and future policies regarding subsidies, through concerted participation.

Within this framework, the methodology applied by the Universidad de Cuenca comprised the following aspects:

- Review of documentation and theories
- Historical analysis
- Qualitative analysis of actors and their perceptions
- Decision-making behind the definition of subsidies policies and the actors involved
- Definition of scenarios
- Involvement of the actors in the process

2. METHODOLOGY

The analysis of *subsidies policies* must respond to two types of research: *statistical* and *theoretical*. The *theoretical analysis* included the review of economic theories currently in effect along with the various dates on which subsidies have been adopted.

For the *statistical analysis*, the need for a historical approach was ascertained. Historical series (82-99) were gathered to identify indicators for the several subsidies. Those indicators were based on the data found in official sources, national institutions and validated international institutions.

Measurement of the quantitative impact that *policies for basic social subsidies* have had on the living standards was achieved by carrying into effect a statistical analysis that confronted the actual situation as opposed to the proposed aim. For this purpose, an economic measurement (econometric measurement) was used as a working tool. The econometric model statistically quantified the impact which the various *social subsidies* had had on the living standards of the Ecuadorian people.

The study of the actors involved and their perceptions took into account aspects such as: gender, ethnic backgrounds, age groups and socio-economic stratification. In addition to these objective criteria, a subjective dimension was included as to how these actors and the pertinent sub-groups fitted into the actual situation (Berger and Luckmann) through the perceptions of the various groups. These are the elements that effectively interrelate in the social and political scenarios. They are mental maps that help in the interpretation of a social context and later in the preparation of proposed policies that modify such social reality and that are securely grounded on past experience.

Regarding perceptions (e.g., type and impact of policies, their origin, target population and the intention of “other” actors) special attention was given to the interests and concerns identified by the actors vis-à-vis the present and the future, and vis-à-vis the aims of the other.

In this way, the perceptions of the various actors were classified according to the use of qualitative information originating in specific groups, workshops, by interviewing qualified providers of information and through an exhaustive review of newspapers.

The processing and analysis of this information was basically qualitative. A moderated variation of the “grounded theory” methodology by Strauss and Glazer was used for this purpose (moderated in terms of inductive and empirical extremes).

The logical deductive-inductive conventional method was used for studying the decision-making process. Alternate methods included the qualitative analysis methodology and techniques for analysing the information gathered from interviews and focalised groups, with a historical analysis of subsidies policies applied since 1982 to 1999, as a starting point.

This process examined the variables that were considered applicable for this purpose: social actors, kinds of subsidies, target beneficiaries by area of residence, age, gender, economic activity and level of income; goals and roles of the State, of the community, and of the international lending organisations.

The analysis unit comprised the various social actors, organisations, homes and individuals. Several sources of information were taken into account during the data gathering exercise: bibliography, newspapers and journals, videos, interviews with government officials and representatives of the community, group approach and workshops. Content analysis was applied for analysing and interpreting variables regarding the results of qualitative techniques.

The terms of reference for this research work envisaged the concerted participation in the review of subsidies being applied, and of future subsidies proposals by representatives of the three areas involved in the study.

Target groups for the research and policies have participated in the data-gathering effort and in the identification of a modus operandi that would lead to improved quality of the data being collected, in order to incorporate the views expressed during the course of dialogue and concerted analysis, and also in order to elicit their commitment in the definition of a way ahead.

With this aim in mind, an effort has been made to identify what the interests of these actors are vis-à-vis current subsidies policies and their potential modification. This will allow the introduction of mechanisms that will ensure concerted action and participation in identifying the subsidies first and do a follow-up in the social context later.

3. CONTEXT

Since the 80's, Ecuador has experienced a series of economic, social, cultural and political changes that have implied a shift of paradigms. Due to the philosophical and ideological scope, this change has left behind little or no room for the discussion of "failings" in this neo-liberal model or to question it in its entirety.

The central argumentation of neo-liberalism is that the market mechanisms to achieve balance and economic growth are always better than those used by the State. The latter must only guarantee the appropriate context for a free economy in order to ensure the optimal use of resources. Structural adjustment programs have been designed toward attaining this goal, notwithstanding the fact that the latest Political Constitution has guaranteed a State having important duties in the provision of education and health services—i.e., not a classically liberal State.

The past 18 years of economic adjustment have been oriented toward the state sector, by downsizing and by increasing revenues; notwithstanding, fiscal deficit has prevailed. In the monetary field, the independence of the Central Bank failed vis-à-vis the pressure exerted by the executive and the fact that the issuance of currency constantly fuelled inflation. Monetary adjustments devalued the internal currency until it ceased to exist.

Adjustments to the labour market deprived workers from stability and failed to protect the buying power of their salaries. Sector adjustments to the economy, especially in the agricultural, industrial and energy sectors, modified the prices of goods and services at the point that consumers were forced into leaving these markets due to their impossibility to buy.

The results of the adjustment in the economic sector are meagre. The economy has not experienced important growth rates; high percentages of inflation prevail; unemployment is rapidly growing; income is increasingly concentrated in the hands of a few; the financial system continues to face a critical situation; investment is insufficient to maintain broad production levels in the economy; international markets continue to evade Ecuadorian products. In the end, no reactivation is apparent, at least not in the short or intermediate terms.

All in all, the structural adjustment of Ecuador is a very slow and tortuous process, especially for the larger part of the Ecuadorian households. It is the households who continuously absorb the shocks caused to their economies, with a marked major negative impact concentrated on women, the elderly, and the children. In this sense, it is important to highlight that the adjustment is not socially or politically neutral. It has a distinctive impact depending on the social strata, the gender, age groups and the ethnic context. Unemployment, hunger, malnutrition, illiteracy, illnesses, crowded housing. This means that poverty has names and surnames for which gender, age, ethnic background and location can be pinpointed. Poverty and misery are increasingly becoming more marked and affect a broader segment of the population. Meanwhile, ill-oriented subsidies only reach small groups of the population who, in some cases, are above the poverty line.

4. SUBSIDIES

As a concept, a subsidy is the expense or exemption granted by a government, either in cash or in kind, to the benefit of entrepreneurs or consumers, without the government receiving in parallel a similar compensation. From a critical standpoint of political economy, the State, through these subsidies assumes part of the production cost implying labour, thus improving the appropriation conditions of added value.

Several general or universal subsidies exist that apply to all Ecuadorians; these are currently being eliminated. On the other hand, certain subsidies exist, which are directed toward certain segments of the population – these are the so-called focalised subsidies.

The appraisal of a subsidy takes several criteria into consideration. One of the alternatives is to identify the subsidies contained in social expense under the government's budget. But some subsidies exist that have not been budgeted and several operations that generate subsidies have been omitted. For instance, control of prices for consumer goods, tax exemption to firms and direct transference to certain companies in order to cover a deficit; these have not been identified as subsidies.

Subsidies have prevailed throughout Ecuador's recent history: during the seventies when the State promoted the import substitution process, and during the eighties, when the

government chose another concept of development, thus implementing neo-liberal policies.

5. PERCEPTIONS BY THE ACTORS

A major concept of subsidies prevails from the standpoint of social actors involved, being considered as a contribution of the State to cover the difference between the production cost of an asset or service, and the price paid by consumers or producers. But, in addition, the last governments and international organizations perceive it as a difference between the local price and the cost of opportunity (i.e., international costs).

Social actors of civil society empirically differentiate between the notion of a subsidy and that of a social expense. In all events, they agree in saying that it is a duty of the State to assume responsibility for social expense in areas such as health, education and social security. On the contrary, governments, international organizations and businessmen tend to broaden the notion of a subsidy, including many other items that were traditionally part of the social expense of the State.

Those sectors who directly benefit from a subsidy are the firmest supporters, especially in the case of focalized subsidies (i.e., the Solidarity Bonus). But several actors exist who reject or criticize them from their political and ethical position, even when they are not the direct beneficiaries of such subsidies. Subsidies on gasoline, electricity and gas (in that order) are considered immovable by the greatest part of actors in the civil community.

For the largest portion of the population, subsidies are justified as long as the State and the economy as a whole do not generate enough sources of work. If more work opportunities exist, or more support to production is given and high incomes earned, subsidies would not be necessary.

In the imaginary social component, an apocalyptic hypothesis exists on the social and political future of the country in the event subsidies were to be eliminated. Therefore, the degree of potential rejection to increased prices for subsidized goods and services is very high.

6. ACTORS AND THE DECISION-MAKING PROCESS

The analysis of the decision-making process in the matter of social policies and specifically of subsidies, shows a unbalanced and inarticulate participation of the social actors: State, Civil Society and the World Bank. The inequality is present in the various levels of control and access to power that each actor has regarding its capacity to organize and negotiation and in the influence of the overall international context.

In Ecuador, the civil society cannot become an integrated unit to consolidate its civil rights and to demand from the State the respect and effect of their fundamental political and social rights. Rather, its development is partial and the exercise of citizenship has also been limited. This can be explained at the time the historical context is analyzed from the emergence of the Ecuadorian State to this day, which has limited the social and political

participation of the population, generating a broad social and ethnic exclusion. In fact, the Indians, women and popular segments have been excluded.

The implementation of Structural Adjustment Policies (SAP) throughout the period between 82 and 99 took place within a social and political context. The country's political system had initiated a reconversion process, changing from a redistributive State to a more restrictive State in economic and social policies, but at the same time more vulnerable to the demands of the international credit organizations.

New actors came to the political scene: middle classes and the political parties. The latter meet a mediation role to regulate the political participation of civil society and the access to the decision-making system organizing the social demand and preventing that the latter exceeds the institutional capacity of the State.

The State looks for new forms of consensus and legitimation with Civil Society, orienting its social function toward assistance and the market, with social policies and subsidies being focused and put in place as a compensation. Civil society, on the other hand, "apparently" acquired more autonomy and tends to detach itself from a paternalistic role of the State.

Within the framework of the fiscal reforms, the social policies that legitimized the role of the State, and the pact between Social Society and the State, tend to disappear. Poverty is viewed differently under the concept of the SAPs, turning them into a social problem that required the intervention of the State in the economic problem that would be solved in the market with an efficient allotment of resources.

The analysis of the various styles of decision-making adopted by the State at the domestic level (*vis-a-vis* Social Society), is authoritative, concentrating the power of decision on the executive. At the external level (in relation to the credit organizations) and then becomes related and hence consultative. From the World Bank position and that of international organizations, this style is authoritarian in regard to Civil Society and in relation to the State.

It is a State that refuses the participation of Civil Society in the decision-making. As a response, important sectors of Civil Society have been prompted into organizing and mobilizing themselves, especially in regard to excluded groups: Indians, women and peasants.

The greater part of social groups being investigated recognize the existence of problems of different nature that limit their political participation: information, organization, participation mechanisms. All are in agreement in that the decisions are made by the Government under the pressure exerted by international organizations (mainly the IMF) as a condition precedent prior to renegotiating the loans.

These groups make proposals to broaden the participation of Civil Society through greater organization, popular consultation controlled by the social movement, the pressure exerted on the government for decisions to be jointly adopted by local authorities and

representatives of social organizations, as well as the pressure exerted on congressmen in order for them to effectively represent Civil Society in Congress, among other.

7. SOCIAL IMPACT OF SUBSIDIES POLICIES

It is currently estimated that 70% of the Ecuadorians are poor, with poverty being concentrated in the rural sector. Throughout the last few years and through agreements signed with international organizations, have been systematically eliminating universal subsidies and have attached priority to focalization of certain subsidies.

Family income and its direct impact on the homestead's budget, is an indicator as to the living standards of the Ecuadorians. The government policies have heavily levied those living standards. Theoretically, subsidies are a compensation to the family income, when if they reach the target population and have the expected effect. The core question is, then, who have benefitted from such subsidies. In looking for an answer, the information gathered in several provinces, i.e., Azuay, Esmeraldas, Guayas, Loja, Los Rios, Manabi and Pichincha was analyzed, including both urban and rural sectors.

Three different scenarios have been built with this information in order to determine the impact which subsidies have had upon family budget. To this effect, quintiles of total income per home were identified, by area of residence and by heads of household.

In the first scenario the expenditure made by families in health and education was considered to have a negative impact, and subsidies placed on several goods purchased by the family units were regarded as a positive impact of subsidies. Under this consideration, only the first quintile of income—e.g. that corresponding to the lowest levels of income—has a total positive impact. For the remaining strata, the family income is diminished. A larger percentage of benefits derived from subsidies can be appreciated for the urban sectors, and also when the head of household is a male.

In the second scenario, governmental social expense on health and education has been considered as a positive impact on the family budget, along with subsidies placed on the various goods. The results show that a benefit exists for all quintiles of total income of homes, both in the urban and rural sectors and both when heads of households are males or females.

In the third scenario, elimination of universal subsidies has been considered, and focalised subsidies have been attached priority. The elimination of all subsidies shows that they should be considered as part of a decision of this type: simulated circumstances suggest a negative impact. This negative impact is greater in the rural sector and when the head of household is a woman. It has been observed that certain families would be negatively displaced by two quintiles of income.

In the fourth scenario, consideration has been given to the following components: the elimination of universal subsidies, focalisation of subsidies; considering that the government would maintain a given social expenditure (specifically for health and education). According to the findings, the only levels of income that would sustain a

negative impact correspond to the highest (fourth and fifth). Elimination of universal subsidies would work to the detriment of families perceiving higher incomes and who have a high level of consumption.

From an overall perspective, an econometric measurement model has been developed by which it has been detected that those subsidies having greater impact on the household budget within the economy at large, are those represented by the expense directed toward education, electric power and the Solidarity Bonus. It has also been established that a direct relationship exists between subsidies and the area where the family unit lives, on the one hand, and who the head of household is, on the other.

In the opinion of the team responsible for carrying this study into effect, preservation and improvement of conditions to reproduce labour force and the quality of life of the population cannot be resolved in the political field of basic social subsidies. This can rather be achieved at the macroeconomic and overall social policies context. Nevertheless, the subsidies policies constitute an important component of this global design. Hence, it is unthinkable that the elimination of universal subsidies does not drastically affect the quality of life of the poorest segments of the population, if the economic production is not reactivated and sources of employment are not increased thus substantially improving the income of middle classes and of the poorest sectors. The focalisation of social subsidies is not viable if the present trends of impoverishment of the population are maintained. Subsidies cannot be focused on an absolute majority of an increasing population. The social impact of macro-economic policies is doomed to become negative as long as it puts emphasis on servicing the debt (from 18.62% to 46.76% between 1982 and 1999), and reducing social investment, especially in education.

Therefore, this study recommends reaching agreements and alliances that are built around the viability of this fourth scenario. a) Subsidies must be directed toward the poorest and more vulnerable population (while it remains in that condition), and under the World Bank's and the Government's focalised principle; b) but above all, the level of social investment by the State must be reinstated, especially for health and education (which eliminates the need to maintain certain subsidies for those aspects). This can only be achieved by reorienting the government's macroeconomic policy and its priorities; by reactivating production and making it more dynamic, thus generating sources of employment and increasing income. This is in the interest of the largest portion of the population; it is compatible with the principles of the Ecuadorian Constitution and also with the new social approach of the World Bank. It is only within this framework that c) it is possible to eliminate the universal character of certain subsidies without drastically affecting the most vulnerable population (only then and not before).

SECOND GLOBAL SAPRI FORUM

COUNTRY REPORT: ECUADOR

NATIONAL COMMITTEE FOR THE SAPRI
ECUADOR PROJECT: CIVIL NETWORK,
GOVERNMENT OF ECUADOR, WORLD BANK

- II. Narrative Reports on the Second National Forum for SAPRI Ecuador, containing the findings under the research work carried into effect as part of the SAPRI Ecuador.**

NARRATIVE REPORT - GROUP 1

LINE OF RESEARCH:

**THE STATE SOCIAL POLICY REGARDING SUBSIDIES AND THEIR IMPACT
ON THE LIVING STANDARDS FOR FAMILIES BELONGING TO POPULAR AND
LOWER MIDDLE INCOME STRATA**

PARTICIPANTS:

Nearly forty people attended with a more or less balanced participation of women and men from all provinces invited.

PANEL COMPOSITION:

Moderator: Nidia Soliz

Board: Zonia Palán..... *Civil Society*
Marcelo Romero.....*The World Bank*
Margarita Andrade.....*Government. CONAM.*

Narrators: Rodrigo Collahuazo.....

REMARKS:

1. The adjustment policies package incorporates subsidies as a mechanism to compensate the effects of such adjustments, and intends to correct the resulting social and economic distortions.
2. Adjustment policies worsen poverty and the allegedly relief measures have minimum coverage, thus constituting a deficient compensation mechanism.
3. The type and target population for such subsidies must be appropriately identified, making a clear distinction between social policies and the economic responsibility of the State.
 - Direct subsidies, focalised and universal subsidies
 - Social investment via the State General Budget (education, health, social security. . . .)
 - Productive reactivation aimed at intermediate and small producers.
4. Evidence exists showing that subsidies to the financial and business sectors are in place and they involve much higher amounts than those directed to the general public. Elimination of the latter is nevertheless being promoted and the focalisation should be targeted toward the large mass of impoverished people.

5. From the Government and World Bank's standpoint, the problem stems from the incomplete and incorrect application of structural adjustment policies, including the subsidies issue.
6. The goal should envisage the elimination of poverty, improvement of the quality of life of the population at large, and thus avoid the need to pay a poverty or a similar sort of bonus.

PROPOSALS

1. To maintain universal subsidies (gas, gasoline, etc), and to design tax policies aimed at eliciting a larger contribution from those who have more. To maintain focalised subsidies for the needy but in dignified conditions and only until they get a job.
2. Enhance social responsibilities of the State and upgrade them into State policies by supporting existing institutions, programmes or systems.
3. Increase social investment under the State General Budget (SGB) through own resources and without incurring in additional foreign debt, by improving allotment and quality coverage without privatisation.
4. Maintain and generate more employment; raise salaries.
5. Support the agricultural/livestock and handcrafts sectors (that generate wealth that is internally mobilised) instead of supporting the financial speculative system; stop bank salvaging.
6. Improve the efficiency of the public enterprises.
7. Promote incentives to the intermediate and small businesses.
8. Introduce credit policies to improve investment and to reactivate production.
9. Agricultural insurance for farmers.

OVERALL PROPOSALS

1. Implement a sovereign way of inserting into the new economic and political architecture prevailing in the world.
2. Improve the distribution of wealth and the democratisation of power.
3. Establish a barter-deal between foreign debt and ecological debt.
4. Implement public controls to audit the investments made through the SGB and international credit in order to avoid corruption.

NARRATIVE REPORT - GROUP 2

RESEARCH LINE:

IMPACT OF OPEN TRADE AND LABOUR FLEXIBILITY ON PRODUCTION AND EMPLOYMENT

PARTICIPANTS:

Nearly forty people attended with a more or less balanced participation of women and men from all provinces invited.

PANEL COMPOSITION:

Moderator: Eng. Víctor Hugo Jijón

Board: Soc. Simón Ordóñez, Ec. Juan Fernando Terán. *Civil Community.*
Dr. Paul Beckerman. *World Bank*
Ec. Annabelle Salazar. *Government. Ministry of Finance.*
Ec. Ignacio Román. *Universidad de Guadalajara, Mexico. International Guest.*

Narrator: Lic. María Chacha and Eng. Byron Coral.

WORK METHODOLOGY:

Dividing the analysis into two stages was considered appropriate. One was devoted to comments on the Research Report and the other to discuss and identify alternate proposals.

□ INITIAL CONSIDERATIONS

1. In general and in regard to the briefings presented by part of the researchers, the research work carried into effect by the PUCE complies with the objectives, methodology and Terms of Reference set forth by the National Steering Committee and the SAPRI-Ecuador Technical Committee.
2. The research conclusively demonstrates the negative effects which the open trade approach has had on the production apparatus, on competitiveness and on profitability for the various businesses involved, as well as regarding the under-utilisation of natural and human resources for development issues. This has led to an entrepreneurial bankruptcy, the weakening of industrialisation and a

stagnant commercial sector, thus increasing the vulnerability of the Ecuadorian economy in the face of external factors.

3. It has also shown that, far from improving the employment conditions and stability of workers, labour-related flexibility has caused its precarious situation. It has violated labour-related rights and has generalised unemployment, thus incrementing informality and poverty among large segments of the population thereby having caused significant impairment in terms of malnutrition, illnesses, greater mortality and forced migration both at the national and international level
4. Publication and dissemination is recommended for the entire report, together with an abridged popular edition reflecting the most salient and illustrative findings and conclusions which the Structural Adjustment Policies have had as applied in Ecuador throughout the period comprised between 1982 and 1999.
5. Continuance of this three-party exercise among Government, the World Bank and representatives of the Civil Society is recommended. A self-financing strategy needs to be set out for this purpose and a broadening of the participant base in order to ensure appropriate representation of all social and institutional actors involved.

PROPOSALS

It is, in general terms, considered that confronting poverty, improving quality of life and orienting the population toward sustainable human development requires a combination of equity and efficiency, competitiveness and co-operation within a framework of policies that build bridges between that which is fair and that which is viable.

We believe that it is more than pertinent to continue to debate on what the alternate proposals truly entail. It is not a matter of mechanically opposing a given model against another out of merely econometric provisions. It is rather an exercise of finding a way of organising and giving direction to a society without leading it on to yet another policy that promotes the amassing of wealth that is based on cheap labour and the irrational exploitation of non-renewable and renewable natural resources.

This exercise is aimed at rethinking a future for Ecuador. This entails the idea of keeping in place long-term utopias and influencing on the changes needed to attain great conversions.

These changes imply at least the following general aspects:

1. Setting forth ways of generating wealth.
2. Establishing a social deal that affords fair access to the wealth thus generated; i.e., put in place a mechanism that enhances and ensures appropriate redistribution.
3. Programs aimed at improving market conditions, productivity wise whilst also impeding the conformation of oligopolies and oligarchic groups.

4. Programmes promoting and combining universal consumption of public goods and services (health, education, basic infrastructure, culture, etc.) and in particular the levels of consumption by the marginal population.
5. Balanced re-negotiation of the foreign debt and promotion of a non-subordinated insertion into the international economy.
6. Environmental recuperation and preservation programmes.

Specific Proposals:

1. Define a policy that attaches priority to productive investment and not directed toward financial speculation, thus establishing a real democratisation of industrial and commercial, urban and rural credit. This would integrate the current marginal social strata, areas and provinces.
2. Allot public investment, banking credits and technical/professional capabilities in a preferential manner and in the right proportions in order to achieve agricultural development in terms of security and food sovereignty for the entire population.
3. Elaborate a foreign investment policy that prevents investment of “fly-away” or volatile capitals and the sacking of natural resources, as well as over-exploitation of local labour.
4. Rethinking of the economy and of a market within the Latin American context, along with new production and commercial allegiances with neighbouring countries, in order to successfully counter the challenges posed by globalisation and the restrictions assessed by multilateral organisations such as the World Bank, the IMF, the IDB and the WTO, etc.
5. In this sense, thought should be given to development issues at a regional and sub-regional level, with technological projects that can be jointly financed by several countries, specially regarding production of capital assets, bio-technology, information services, etc.
6. Define employment policies that inter-relate with productivity, the importation of appropriate technologies, the generation of self-developed technologies and the search for intra and inter-sector production chains that avoid under-utilisation of skilled labour and incorporate native raw materials.
7. Propose a salary policy that allows for rescuing the buying power; facilitates employment generation and confronts the oligopolies control of economy. This implies affecting interests that are opposed to the rights of majorities and hence negotiation mechanisms that exert pressure without discarding mobilisation and therefore organisation.
8. Reformulate labour market flexibility together with the added flexibility of capital in such a way as to favour workers, by introducing appropriate supervision measures for credits and social control mechanisms for public and private indebtedness.

9. Promote policies that enhance the insertion of farmers with a valuation of their productivity, particularly in regard to Indian communities, respecting at the same time their views and rights as a group.
10. Set Forth policies promoting micro-credit and parallel markets aimed at the popular segments.
11. Set forth policies that are specially oriented toward the agricultural workers and at introducing protection measures for the unemployed.
12. Put in place a tax reform programme that eliminates fiscal evasion and corruption; that enforces the contribution of those who have more; to reduce indirect taxes and to ensure that taxes paid are put directly into special accounts that belong to marginal areas.
13. Put in place new ways of relating with international donors, in such a manner that financial aid can be directly channelled toward the intermediate and small industries sector, the intermediate and small agricultural sector by conforming solid co-operative systems that build on successful national experiences.
14. Make preparations to confront the ALCA at a national and Latin American level in the defence of an autonomous development and economic sovereignty.
15. Renegotiate the Foreign Debt with the participation of civil society.
16. Set forth measures to fight corruption, and specifically to recover the money that was sacked by the financial system, by extraditing and indicting those bankers who have fled from justice.
17. Link financial policies and national development issues with specific democratic decentralisation guidelines.

GENERAL CONCLUSIONS

1. Include as part of the Structural Adjustment Programme an assumption that corrective measures need to be included in their reformulation, based on the acknowledgement that the market does not regulate all social and economic relationships. That the effort requires a strong, solidly and legitimately rooted State that is respected by all.
2. The need arises for having appropriate mechanisms available in order to ensure that civil society partakes in the decision-making process to help identify and put in place public policies and control measures that will help overcome the limitations and restrictions with which representative democracy is afflicted.

NARRATIVE REPORT - GROUP 3

RESEARCH LINE:

THE IMPACT OF ADDED FINANCIAL FLEXIBILITY ON THE SAVINGS AND CONSUMPTION CAPACITY OF THE POPULAR AND LOWER MIDDLE SEGMENTS OF THE POPULATION

PARTICIPANTS:

PANEL COMPOSITION:

Moderator: Iván Cisneros.....

Board: Carlos M. Carrasco..... *Civil Society.*
McDonald Benjamin.. *World Bank*
..... *Government, Ministry of Finance.*

Narrators:

□ REMARKS

1. The importance and validity of the participation method was highlighted in terms of allowing for the recollection of actual situations experienced and the benefits perceived by the financial system. Such circumstances were either documented or technically validated.
2. The banking crisis has taken place in every country where the financial flexibility measure has been introduced.
3. At the theoretical level, the financial openness should have implied a lowering of interest rates, but in practice these rates became speculative and benefited only those who speculated, intermediaries, those who marketed and imported consumption goods to the detriment of the entire productive and labour capacity.
4. This all leads to the concentration of credit, exacerbating the characteristics of an excluding economic model that ratifies the difference in opportunities, thus favouring capital.
5. The financial system has been unable to fulfil its role and has exerted its influence by worsening poverty.

6. Thought must be given to an Overall Project for Ecuador at the national level, and to the fact that the country's development cannot be sustained on the large enterprise concept that has received the benefits derived from the banking sector salvaging effort. It should be based, rather, on the development of the intermediate and small business sector.
7. The role was stressed of the financial system acting as an intermediary between the financial system and the savers and credit applicants. This role is no longer being met when only their (the financial system's) interests are at stake.
8. Control and monitoring mechanisms need to be developed and put in place so that the State may become reliable and can keep within parameters of operability and solvency, because existing evidence points to the fact that added flexibility had led to financial crisis.
9. It is recommended that the Basil parameters be adopted to include juridical and transparency changes aimed at enhancing investment.
10. Competitiveness can be addressed in theory, but in practice a concentration takes place of property and greater power exerted by the monopoly groups.
11. A Dollarised competitiveness could allow for attracting more Dollars to the national economy, but deterioration takes place in terms of the exchange and concentration of capital in the hands of a few. Also, competitiveness cannot be heightened if we have no capacity to increase productivity unless workers' compensation is lowered and the overexploitation of labour is therefore exacerbated.
12. On the other hand, Ecuadorian entrepreneurs have no entrepreneurial spirit.
13. It is very strange that the World Bank trusts the government if we, the citizens, do not trust it because it is not our sovereign representative. It should trust, rather, the active participation of civil society.

□ **ALTERNATIVES AND PROPOSALS**

1. Develop an open and real dialogue with civil society.
2. Support the small business sector without having the banks act as intermediaries, through a supportive, alternate credit system that is managed with the technical support of NGOs and product improvement projects.
3. Reactivate the small production sector by establishing an Affiliate Bank based on the resources held by the Social Security in order to reactivate the economy and reach the sectors that have been excluded by corrupt bankers.
4. Direct support to communities on the part of international organisations.

5. Support the establishment of a tax similar to the Tobin Rate assessed on large financial transactions.
6. Support a new financial architecture at the international level.
7. Trade external debt for development programmes, with the supervision of civil society, aimed at improving health, education, basic sanitation and infrastructure.
8. Purge the financial system by assessing fines on corrupt bankers and authorities, instead of solely complying with the technical standards issued at Basil.
9. Recupérate the moneys that have been misappropriated by corrupt bankers by seizing their assets.
10. Lift the bank secrecy requirements in order to have a transparent financial system.
11. Break the unity that exists between the financial markets and the power groups.
12. Recupérate the political role of the economy and develop a social control device to monitor the financial system – especially in regard to structural adjustment loans.

SECOND GLOBAL SAPRI FORUM

COUNTRY REPORT: ECUADOR

NATIONAL COMMITTEE FOR THE SAPRI
ECUADOR PROJECT: CIVIL NETWORK,
GOVERNMENT OF ECUADOR, WORLD BANK

3. Proposals by the SAPRI-Ecuador Committee for the Second Global SAPRI Forum

SAPRI-ECUADOR PROPOSALS TO INCORPORATE CIVIL SOCIETY INTO POLICY DEFINITION

After having reviewed the findings arising from the research studies on the impacts which structural adjustments have had on intermediate and low income populations (commissioned to CELA-PUCE and the Universidad de Cuenca); and after having reviewed the analysis of the Second National Forum that took place in December 2000, the National Committee for SAPRI-Ecuador has proposed the following means of incorporating the participation of civil society into policy definition processes:

- Establish an efficient and effective methodology for ensuring community participation aimed at reaching appropriate consensus with the participation of representatives from all segments of society. These methodologies would be directed toward signing an “Agreement for a New Ecuador” (a social pledge) in which the general guidelines of the main economic policies, economic performance, social policies and ways of combating poverty and of handling the country are defined.
- Propose, approve and implement a “Law for Civil Dialogue, Participation and Control” that applies the above proposed methodologies, and that enforces its application on the part of every single strata of public administration. This will enhance the enforcement of fiscal policies, will put public investment into practice, specially in regard to investment plans and budget preparation prior to the contracting of important works or prior to the promulgation of basic laws that are especially aimed at reorganising the financial system. Several mechanisms will need to be used, such as extended municipal councils, citizen surveillance movements and neighbourhood boards among other possibilities.
- The passing of a Fiscal Accountability Law should be promoted as an instrument to help control public finances, both at the national and regional levels. Macro fiscal management of the country shall abide by such law and ensure transparency for everyone and all transactions, especially the management of public funds and incurring into further public indebtedness.
- Establish effective mechanisms envisaging regular submittal of accountability reports to be issued by all main officers of the State and all publicly elected officials. Improve transparency for all the information issued on public administration and the application of public policies, to be presented to the general public, thus promoting the delivery of pertinent information to all mass media, specifically through the use of electronic means. To support institutionalisation and the actions launched by the Civil Commission for Corruption Control, acting as the representative of Civil Society in order to combat corruption in all State-run entities.
- Include a mandate in the sense that prior to incurring in public indebtedness, extended discussion with potential “beneficiaries” must take place, with the participation of a multidisciplinary group of state authorities. This discussion should

include project design and implementation as well. All multilateral financial entities must be asked to include this requirement as a condition precedent, prior to granting the credits.

- Ask multilateral entities to include “positive conditioning” requirements as part of the credit agreements. This will mark the path toward the application of effective redistribution policies that include considerations regarding the social repercussions of proposed policies sponsoring the credit engagement, and will help introduce changes aimed at reducing the inequality of income and promoting a rational redistribution of key production assets.
- Strengthen the representation of civil society by including a broader number of sectors and also through training to upgrade technical and political capacity in such a way as to generate public opinion in the various spaces of power. Training should also be oriented toward the public agents intervening in the decision-making (government and sectional authorities, political leaders, legislators and civil representatives).
- Identify effective monitoring and social control mechanisms, educating the public on their co-responsibility in public actions and by acknowledging the interaction that should exist with the private sector. Social audiences envisaging the participation of social networks and neighbourhoods boards shall be systematised and identified as an instrumental element to improve governance, beginning from the grassroots of society.

It is considered, in general, that in order to attack poverty, improve the quality of life and show the way toward sustainable development, a combination of fairness and efficiency, of competitiveness and co-operation within the framework of policies to help create bridges between that which is fair and that which is possible, should be pursued.

A consensus exists in the sense that it is more than pertinent to continue debating on what alternate proposals really entail. It is not a matter of mechanically opposing a model instead of another due to simple econometric considerations. Rather, consensus should be aimed at finding a way of organising and directing society without falling into the same old pattern that leads to the amassing of wealth based on cheap labour, and the irrational exploitation of natural renewable and non-renewable resources.

The issue at hand has to do with the future of Ecuador whilst introducing the necessary changes at present in order to lead the way into significant potential possibilities. This implies the provision of resources that allow for the generation of wealth on the one hand, and on the other, by committing ourselves into a social pact that allows for fairer access to the wealth being generated. In other words, to have appropriate redistribution mechanisms in place.

