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Oil prosperity and citizen poverty

Citizen mobilizations that ended with the overthrowing of President Lucio Gutiérrez in April 2005 expressed people's rejection of an economic policy that did little to distribute Ecuador's substantial income equitably following the rise in oil prices which, paradoxically, increased the country's external debt. The new Government has expressed its intention of giving priority to the needs of the most vulnerable sectors. If this takes shape, progress could be made towards social inclusion.

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Ecuador's insertion in the international market has been characterized by the export of raw materials. The economic model that prevailed was based on the intensive exploitation of natural resources and although attempts were made to diversify exports, the inflow of foreign currency since the 1970s has concentrated on oil activities.

In the period 1995-2004, the contribution from oil to the General Budget averaged 34.5%.[1] In 2005, this contribution is estimated at 23%.[2] In order to increase the influx of foreign currency, the State intensified the exploitation of oil and the construction of a new pipeline.

An order of priorities contrary to people's rights

In strict adherence to neoliberal principles and in clear agreement with the economic, commercial, social and political tendencies of the 1980s and early 1990s and the so-called "Washington Consensus", state policy gave priority to the payment of external and internal debts rather than fulfilling constitutional obligations regarding people's fundamental rights.

In recent years, different international factors determined an unprecedented rise in oil prices, causing more income to flow into the public coffers than was optimistically expected. In 2003 the estimated price per barrel for the national budget was USD 18. However increased revenues amounted to USD 74.6 million, with an average price of USD 25.66 per barrel.[3] In 2004, the price estimated for the budget was USD 18 and the average price received was USD 32.[4]

The underestimation of oil prices cannot be regarded as the result of poor economic forecasts. On the contrary, the decision to set up the national budget without taking into account the rising trend in hydrocarbon's international prices reveals a clear intention to give priority to debt payment and other types of expenditures unrelated to social services.

With the surplus obtained through the rise in prices, the State created the Oil Stabilization Fund aimed at financing national policies (10%), building the Amazonian road network (35%) and assisting the provinces of Esmeraldas, Loja, Carchi, El Oro and Galápagos (10%). The remaining 40% makes up the Fund for Stabilization, Social and Productive Investment and Reduction of Public Indebtedness (FEIREP), whose resources were allocated to repurchase public debt (70%) and to the creation of an oil revenue stabilization fund (20%), leaving barely 10% to spend on social investment.

The rise in oil volumes and prices, has not prevented poverty from intensifying. Most of the population regards the minimum fulfilment of rights such as housing, access to quality public health care, universal and free education and food security as something illusory and unattainable.

Data from Ecuador's Integrated System of Social Indicators regarding consumption indicate that 61.3% of the population face poverty conditions. Of these, 31.9% live in indigence with significant differences between urban and rural areas, where there are different types of material deficiencies as well as wider gaps among indigenous and Afro-descendant groups than among the *mestizo* population.

According to the Human Development Index, the country has experienced regression. While in 1999 Ecuador ranked 69th out of 175 countries of the world with available data, in 2003 it fell to 97th place and ranked 100th in 2004.[5]

The disproportionate and differentiated impact of deterioration of living conditions is still more critical in vulnerable sectors, among which the following stand out: indigenous people, children and adolescents, women and the elderly. No systematic or appropriate effort has been made in the country to gather information reflecting gender inequalities, thus failing to acknowledge the commitments undertaken at the Fourth World Conference on Women (Beijing, 1995) and other human rights international instruments.

However, research carried out by social organizations and some state agencies warn about negative impacts of a particularly serious nature for women.

Illiteracy affects almost 10 in 100 women, while it affects 7% of men,[6] and differences are still more significant in rural areas. In 2003, female sub-employment was 50% compared to 25% for men, while unemployment rates were 11% and 6.5%, respectively.[7]

The exclusion and discriminatory practices suffered by women are found in the inferior salaries they earn compared to men for performing similar activities.[8] Likewise, there tends to be more job uncertainty among women, who also experience limitations in the exercise of rights related to maternity and reproductive health. Many activities women engage in fall into the category of unpaid labour.

In terms of ownership, only 68% of women heads of household own their houses or are paying for them. The increasing number of women heads of household, a phenomenon caused either by the emigration of their partners or by a higher number of divorces, and the differentiated impacts suffered by this group affect the whole of society, particularly boys, girls and the elderly in their care.[9]

The narrowness of social policies

In view of the high-risk situation of most groups in the country, the Government has been totally inequitable in its implementation of public policies, both fiscal and social. Besides, it has shown no political will to face traditional forms of discrimination based on age and gender. Different estimates[10] indicate

1 Central Bank of Ecuador. *Información estadística mensual.* Nº 1836, Quito, 28 February 2005.

2 "El gasto de 2005 con más fondos". *El Comercio.* 1 December 2004, www.elcomercio.com

3 Secretaría Técnica del Observatorio de la Política Fiscal (OPF). Boletín Nº 8, Quito, March 2004.

4 Secretaría Técnica del OPF. Boletín Nº 19, Quito, February 2005.

5 United Nations Development Programme (UNDP). *Human Development Report 1999; Human Development Report 2003; Human Development Report 2004.*

6 UNDP. *Human Development Report 2004.*

7 Larrea Maldonado, Carlos. *Pobreza, Dolarización y Crisis en el Ecuador.* Quito: Ediciones Abya-Yala, 2004.

8 Consejo Nacional de las Mujeres. *Beijing +10, Los Derechos Humanos de las mujeres ecuatorianas 10 años después.* Quito, 2005. In 2003, in urban areas, the average monthly income earned by women was USD 167, while that earned by men reached USD 249. The situation is even more serious in rural areas where women earn USD 126 per month compared to the average monthly USD 192 earned by men, while the household food basket amounts to approximately USD 350.

9 *bid.*

10 Badillo, Daniel. "La inversión social pública ecuatoriana en el contexto latinoamericano". *Ajuste con Rostro Humano.* Nº 8. Quito: UNICEF, 2001; Sistema Integrado de Indicadores Sociales del Ecuador; OPF.

that the social public investment in the country is one of the lowest rates with respect to other countries in the region, which barely accounted for 4.5% of the GDP in 2003.

Notwithstanding the increased availability of tax revenues from oil exports and the process of poverty intensification, fiscal policy continued to cut funds allocated to social investment to such extent that the country has not managed to recover the levels of more than a decade ago. In 1992, social investment accounted for 5.2% of GDP. Eleven years ago, in 1981, it amounted to 6.3%.[11]

In the international context, Ecuadorian people, mostly distributed among the under-25 age group, are allocated very limited funds for the fulfilment of basic needs such as 10 years of free universal schooling; access to health services with priority given to pregnant women, children under-5 years old and the elderly; basic sanitation; housing and employment. State investment in health barely reached USD 16 a year per person in 2001, the lowest among the 18 countries in the region, forcing households to directly take on 48.6% of the total expense.[12]

Also, in 2001 Ecuador invested only USD 45 per capita, surpassing only Nicaragua in the region, which invested USD 28. The outcome of low investment was that by 2004 about 700,000 boys, girls and adolescents aged between 6 and 17 were denied access to the education system.[13] Although this information is not broken down by sex, girls are the most likely to be excluded from school.

Apart from allocating next to nothing to social investment, state programmes following impositions by the World Bank and the International Monetary Fund have typically provided quick assistance style solutions and have failed to build capacities and opportunities as well as to promote sustainability. Essential aspects such as gender, rural character, age or culture have not been taken into account in the programmes' design and implementation.

State interventions are aimed at temporarily alleviating basic deficiencies such as the lack or insufficient amount of food among pregnant women and very young children. In other cases, such policies have consisted in a limited transfer of funds to people living in extreme poverty situations. An example of this is the so-called "solidarity bonus" which, under a public charity approach, does not allow recipients to overcome their appalling living conditions. How are these people to overcome poverty if they receive USD 15 a month for being women heads of household or USD 11 for being elderly?

The intervention of the State in social areas has shown no intention of affecting poverty structural causes and has given little or no importance to inequity in the country's distribution of wealth. While 20% of the population holds 58% of wealth, at the other end, the poorest 20% only has access to 3.3%.[14] Besides, no efforts have been made in favour of the productive reactivation of small farmers and peasants, who are responsible for domestic food supply, or to improve people's health and educational situation.

In this context, it is difficult to anticipate whether the economic, social and cultural rights stipulated in the Constitution are as a matter of fact ensured. If an order of priorities considering the achievement of macroeconomic goals in the first place is maintained, it will not even be possible to reach the Millennium Development Goals approved by the UN in 2000, which beyond their limitations in terms of human rights, represent minimal chances for improvement for most part of the population.

Is it possible to redirect priorities?

If in times of prosperity, with high oil prices, poverty continues to intensify and external debt payment has priority over social public policies, when then could changes be expected?

The paradoxical thing about the economic model is that it demonstrates that overcoming poverty and ensuring Ecuadorians the full exercise of rights are not directly proportional to the increased availability of economic resources. While this statement does not fail to acknowledge the importance of the economic dimension in achieving development, it does challenge a linear and causal relationship between increased income and improvement of people's quality of life, within a context where the most vulnerable groups lack the effective power to have incidence on tax and budgetary decisions which could make a true difference when it comes to ensuring their economic and social rights.

The Ecuadorian case is eloquent in this respect. Although in the last 35 years the country received large amounts of foreign currency for oil sales, this has not been reflected in the people's living conditions. Paradoxically, the rise in public revenues during the so-called "oil boom" (1972-1982) unleashed an unusual process of external indebtedness.

The country's high degree of social polarization and the lack of capacity of civil society in terms of organization, incidence and participation in decision-making regarding public policies, are elements that limited discussion on a new order of priorities that, among other things, would subordinate external debt payment to the solution of problems affecting most part of the population.

In a context of increasing trade liberalization, the possibility of placing national production at profitable positions in the international market will depend, apart from the quality of export goods, on the possibility of having access to competitive factors. Unfortunately, since Ecuador has higher inflation rates compared to the international context as well as internal interest rates that are not very attractive for investment, the possibility to reduce costs lies almost exclusively on salary reduction, labour flexibility, the resulting loss of benefits by workers and increasingly precarious jobs, including the growing labour market insertion of children, young people, peasant and indigenous women in the area of production and services.

On the other hand, the marked economic liberalization threatens to increase inequity levels and to deprive traditional groups of people - living in areas were nowadays export-directed activities are being carried out - of their survival means.

The country's current political scenario, brought about by the overthrow of President Lucio Gutiérrez in April 2005 following an unusual mobilization of citizens claiming the restoration and enforcement of democratic mechanisms as the basis for a new relationship with power structures, could turn out to be appropriate to welcome people's demands to review the way in which surplus from oil exports is being channelled into the FEIREP.

The present Economy Minister, Rafael Correa, proposes to allocate 40% of resources of this Fund to economic reactivation, particularly of peasants and small farmers, 30% to social investment, 10% to science and technology and 20% as contingency. This intention is a change in priorities regarding investment and allocation of state resources in favour of the most vulnerable sectors of the population.

If this proposal was turned into a reality, a path would be opened to advance towards the fulfilment of the social and cultural rights of all Ecuadorians and especially of those groups traditionally excluded because of their gender, age and ethnicity. Likewise, it could lay the basis to move from the focalization and disarticulation of state actions to the universalization of social policies, thus overcoming the restrictive character of inconsistent solutions that prevent the poorest groups from finding a way out of the evil cycle of poverty. ■

11 Technical Secretariat OPF. *Cartilla educativa sobre macroeconomía,* Nº 2, Quito, June 2004.

12 Technical Secretariat OPF. *Cartilla educativa sobre macroeconomía*, Nº 7, Quito, January 2005.

13 Technical Secretariat OPF. *Cartilla educativa sobre macroeconomía*, Nº 6, Quito, October 2004.

14 UNDP (2004), *op cit.*