■ ECUADOR

Oil exploitation versus citizens' rights

There is going to be more investment in health and education thanks to a new social reactivation fund, but valuable resources have been lost due to difficulties in implementing the scheme, and there are no long term programmes. The Government ought to provide the services that are a constitutional right for the population, seek alternatives to over-dependence on oil, and take measures to counter the negative impact that oil exploitation is having on the environment and on local and indigenous communities.

Centro de Derechos Económicos y Sociales (CDES)

More money has been flowing into the treasury in the last few years because Ecuador's main source of foreign currency is oil, and the price of oil has been rising. This has meant increased funds for the national budget, so the Government has no excuse for not fulfilling its constitutional obligations to ensure that the economic, social and cultural rights of the population are provided for. However, for more than 20 years structural adjustment policies have been in operation because of pressure from the international financing organizations, and because successive administrations have done a poor job of managing the economy. Their policies have made for increased indebtedness. The argument was that it would be easy to pay off these debts by intensively exploiting the country's oil and by raising taxes, but citizens' rights have been overlooked and there has been no serious attempt to improve the quality of life of the population as a whole.

These government policies, and structural changes they have caused, have had a severe negative impact on people's rights in Ecuador. Unemployment rates are high, emigration is on the rise, more people are going hungry and fewer people have access to good quality health and education services. This dynamic is not conducive to fostering economic growth or sustainable human development.

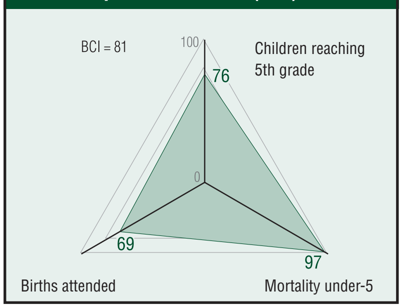
The national budget clearly shows what the Government's priorities are. The figures speak for themselves. In 2003, spending on long term defence assets went up by 196% while the amounts spent on educational and hospital equipment went down by 88% and 49% respectively. In 2004 the main priorities were still foreign debt payments and allocations to the telecommunications sector and the military, and there was a series of regressive measures in areas of vital importance like education and housing.

The oil-based budget

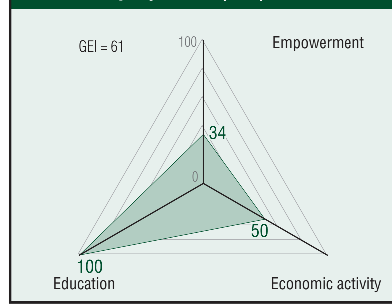
Governments over the last 10 years simply do not seem to have been aware that the citizens have a whole range of rights including decent work, adequate food, housing, health, education and an unpolluted environment, and that the programmes and services to provide these depend on the Government's own economic and social policies, on the way these policies are implemented, and on the amount of resources that are allocated to these areas in the annual budget (CDES, 2006). According to the Ecuadorian Integrated System of Social Indicators, in 2001 some 61.3% of the population were living in poverty and their basic needs were not being met. This is just one of the consequences of an economic and social policy in which human development is disregarded.

In 2006 the total national budget came to USD 6,254 million, an increase of 15.2% on the previous year. Some 28.6% of this total came from the export of oil and the sale of the by-products of this industry. In 2006 social investment went up by 13.1% over the previous year. This was a considerable increase, but most of the allocation went on current costs, mainly salaries, rather than on specific long-term social policies. In the 2002-2003 period, Ecuador ranked second to last out of 21 countries in the region in terms of social expenditure as a percentage of GDP (5.7%). Only Trinidad and Tobago allocated a lower proportion. In the same period social spending in neighbouring Peru doubled (to 8%), and in Bolivia it nearly tripled (to 13.6%) (ECLAC, 2005).

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Accumulated social debt

Successive governments have not honoured their constitutional obligations to allocate a specific proportion of State income to basic services for the people. According to article 71 of the Political Constitution, the Government should allocate at least 30% of current income to education and to eradicating illiteracy, but the figures show that this is simply not happening. When we consider current income and budget provisions and compare these with the allocation for education stipulated in the Constitution, it emerges that over a ten-year period the State has built on an accumulated debt of USD 1,285.92 million that should have been allocated to the education system but never was (Central Bank of Ecuador, 2005).

The education budget in 2006 was USD 112 million higher than in 2005. Of this, USD 89 million (79.4% of the increase) went on salaries in the sector. This shows that there is political will to improve funding for education, but more of the available finance was eaten up in salaries than was invested in long term policies and programmes. This makes it clear just what the Government's priorities are when it comes to drawing up budgets and choosing where to allocate extra funding.

It is the same story with the nation's health system. It is laid down in the Constitution that the health budget should be increased every year by the same percentage that general income increases, but it is no surprise that this has not happened. If we make the corresponding calculations it emerges that the total extra amount that should have been allocated to health between 1995 and 2004, that is to say the money the State "owes" to the health system, comes to USD 1,143 million (Central Bank of Ecuador, 2005).

Another complicating factor is that for some programmes the level of effective execution in a particular year – which stands at an average of 60% for the social sector – determines the amount allocated in subsequent years. This means that in spite of overall increases in social spending, there are some programmes and sectors for which the allocation is actually falling year by year.

Lastly, it is a sad fact that the gap between the tax burden and social expenditure is among the widest in the region. The ratio between the percentage of taxes and GDP is nearly double the ratio between the percentage of social investment and GDP. Out of all the countries in the region perhaps Venezuela is in the best situation in this respect since social expenditure there is higher than the percentage of taxes. But in countries like Argentina, Chile and even Bolivia the gap is much narrower than in Ecuador (ECLAC, 2005).

More funding for health and education

It has frequently been pointed out that Ecuador is in a paradoxical situation. On the one hand oil prices have soared to record levels in the last two years, but on the other hand the country does not have sustainable human development programmes, and the profits from the oil business have not been spent on improving living conditions for the population as a whole.

In July 2005, in an attempt to tackle precisely this problem, the Government set about reforming the so-called Organic Law of Responsibility, Stabilization and Fiscal Transparency, and this involved changing the Fund for Stabilization, Social and Productive Investment and Public Indebtedness Reduction (FEIREP) into a Special Account for Social Reactivation (CEREPS). The aims of this reform were to "improve the quality of public investment, protect human capital and bolster the economic reactivation of the country". The reform was a response to the crisis in social institutions and programmes, and it is designed to foster long-term social investment. In quantitative terms this change has had positive results since, under the old system, only 10% of FEIREP funds were allocated to education and health, while 20% was for stabilization and no less than 70% went on buying back and servicing the country's debts.

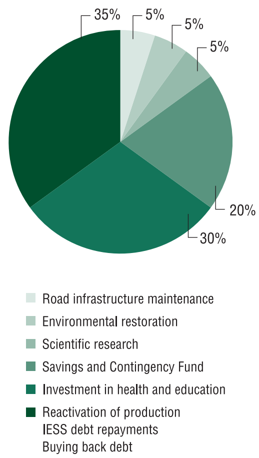
Under the new system, CEREPS, there has been a marked increase in the percentages invested in education and health, a set percentage is allocated to restoring damaged segments of the environment, and the percentage that goes to foreign debt servicing has been cut by half.

In terms of fiscal policy the setting up of the CEREPS has been important for the social sector, and it is one of the positive changes that has taken place in the last year. Nevertheless, certain difficulties arose when the FEIREP was changed into the CEREPS in 2005. Between August and December of that year the CEREPS had USD 97 million available for education, USD 97 million for health, and other funds for various other areas as laid down in the new provisions. However, between 16 and 31 December 2005, USD 170 million (apart from repurchases of internal debt) was transferred out of the account. This meant that only USD 48 million was actually available for education and only USD 56 million for health, which amounts to only about half of the funds originally allocated.

It is clear that the resources were handed over in a hurry at the end of the year. This made it impossible for government bodies to use these funds in a programmed and planned way, and it was inevitable that public funds received at the last minute would be wasted. Balances that have not been used when the fiscal year closes on 31 December must by law be transferred automatically to the Savings and Contingency Fund, whose function is to guarantee the flow of the oil income budgeted and support the tax system (OJO, 2006). In practice, however, all resources allocated to social investment are lost if they are not paid out.

CHART 1

Distribution of CEREPS resources



Source: Ecuadorian Social Security Institute (IESS). Based on the Organic Law of Responsibility, Stabilization and Fiscal Transparency of June 2002.

How far should the oil frontier go?

The CEREPS has certainly given cause for optimism, but there will be surplus profits available for social investment only if the current trend for rising oil prices on international markets continues for the next few years.

At the present time there are plans to extend the geographical area of oil concessions and increase the yield of the wells that are already in production, and this poses a potential threat of enormous proportions. Further exploitation of this natural resource will put even more pressure on indigenous rural communities in the Amazon region of the country to abandon the struggle to defend their rights to the land that they live on. The oil frontier is advancing, and this is putting the economic, social and cultural rights of the communities in the area in jeopardy. The Government should take measures not only to save the environment from destruction but also to safeguard the human rights of these local people which have been, and are now being, violated by the State and by the transnational oil companies.

Increasing long-term social investment cannot be a justification for pillaging natural resources or violating human rights. It would be very perverse indeed to maintain that it is acceptable to destroy the environment and the land and lives of one sector of the population so that another sector of the population can enjoy an improved quality of life.

Conclusions

In the latest budget, for the first time in the last six years, social expenditure went up less than total expenditure, which shows that it is still a low priority area. Nevertheless, the creation of the CEREPS has been a step in the right direction, and the sectors that have benefited most are health and education. It seems that, in the future, oil profits will be better used to foster human development.

However, it is not enough to rationalize public expenditure and increase investment in the social sector, it is also essential that social projects should be planned with a long-term perspective and implemented efficiently. This is complicated by the fact that the funds allocated to social investment are still insufficient not only to improve the living conditions of the most vulnerable sectors of the population but also to meet the State's domestic and international obligations in the sphere of economic, social and cultural rights and protecting the environment.

Unfortunately, in practice, the formulation of social policies is quite separate from the formulation of economic policies, and this makes for inefficiency in public spending and insufficient funding for social investment, which affects the poorest and most vulnerable population groups in the country. These resources are not allocated in line with state policies aimed at promoting the well being of the whole population. Ecuador urgently needs to change track to ensure that budget resources are distributed more equitably and to generate public policies that are geared to bringing about a real improvement in people's quality of life.

The big challenge for the country's finances in the years ahead is to find alternatives to dependence on oil. This challenge also involves not only implementing policies that reduce as much as possible, in the short and middle term, the negative impact that the oil industry is having on the lives of people and communities, but also preserving the country's environment and keeping it clean and healthy for everyone. ■

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