



**End of mission statement by Mr. Olivier De Schutter  
Special Rapporteur on extreme poverty  
and human rights**

**Visit to Ecuador  
(28<sup>th</sup> August to 8<sup>th</sup> September)**

## **1. Introduction**

The Special Rapporteur on extreme poverty and human rights, Mr. Olivier De Schutter conducted an official visit to Ecuador from August 28 to September 8, 2023. He is grateful to the Government of Ecuador for its cooperation prior and during the visit especially as the country is grappling with rising violence and instability.

During this visit, the Special Rapporteur met with President Guillermo Lasso, his Ministers of education, foreign affairs, economic and social inclusion, and his technical Secretary of “Ecuador grows without child malnutrition”. He also met with the Deputy Ministers of economy and finance, public health, urban development and housing, social inclusion, labour and employment as well as representatives from various Ministries including of women and human rights, economy and finance, of agriculture and livestock, education, public health, labour, environment, water and ecological transition, urban development and housing, economic and social inclusion and foreign affairs. In addition, he met with the National Councils for the equality of peoples and nationalities, the equality of people with disabilities for intergenerational equality and the equality of human mobility. He engaged in dialogue with the Secretariat of bilingual intercultural education and ethno-education, the National Secretariats of planning, management and development of peoples and nationalities, the National Institute of statistics and censuses, and the National Institute of social security. The Special Rapporteur also met with representatives of the Ombudsperson’s Office, the Prefect of Pastaza, the Mayor of Puyo and representatives from the municipality of Quito.

The Special Rapporteur travelled to Quito, Valle del Chota, Puyo and Riobamba. He met Afro-Ecuadorian communities in El Rosales, Concepcion and Salinas, women and men representatives of the indigenous peoples of Sapara, Andwa, Kicwa, Shuar, Achar, Shiwar, Waorani of the Amazon region. The expert also visited and met with indigenous communities in Pul Guamote, Galte Comité Guamote, and Compañía Labranza Colta. He discussed with a large number of civil society organisations, activists, human rights defenders including environmental rights defenders in all locations he travelled to. The Special Rapporteur also took part in meetings with academia.

The Special Rapporteur is thankful for the support received from the UN Resident Coordinator’s Office, the UN Country team and particularly the UN Human Rights Regional Office in Quito. He would also like to extend his immense gratitude to all the individuals, communities and groups he met, and who graciously shared their lived experiences with him. He observed first-hand how these individuals and communities gain their strength from mobilizing, organizing and working together to improve living conditions and to fight for their human rights.

## **2. Context of the visit**

This visit took place a week after the election of the National Assembly on August 20th and before the second round of the presidential election, which will take place on October 15th.

Both the electoral debate and the media reporting focused largely on the growing insecurity in the country and on the rise of political violence, dramatically illustrated by the assassination in the capital city of one of the presidential candidates, Fernando Villavicencio, on August 9th.

The Special Rapporteur understands the concerns raised by the deterioration of the security in the country, in which the homicide rate has been fast increasing, and which has witnessed a worrying rise of the role of drug traffickers. The response to this trend, however, cannot be solely to strengthen law enforcement. The need to tackle organized crime should not obfuscate the important links between socio-economic conditions and the rise of crime. A vicious cycle now may be emerging. The lack of job opportunities makes the youth an easy recruit for the criminal gangs and make crime, including the smuggling of goods across borders, a desirable option. Insecurity in turn aggravates poverty, as businesses are subjected to extortion in the form of 'vacunas', as schools are so unsafe that some parents pull their children out, and as both insecurity and poor economic prospects favour emigration, particularly to the United States: according to some estimates, 280,000 Ecuadorians have left the country since 2021, now using land routes that, while dangerous and long, are affordable to larger categories of migrants. The vicious cycle linking insecurity and poverty can be broken if the country invests more in its people, and provides better prospects to the youth.

The results of the August 20th elections provide a second lesson: the era of extractivism may be coming to an end. On election day, popular consultations were held on whether or not oil exploitation should be banned from the Yasuní National Park<sup>1</sup> ; and on whether or not metallic mining should be prohibited in the Chocó Andino in Pinchincha province. 58.95 per cent of the more than 13 million voters voted in favour of banning oil exploitation in the Yasuní National Park, and 68 per cent of the voters who resided in the municipalities involved voted to ban metallic mining in the Chocó Andino.

The mandate given by the voters is clear: the country must move beyond extractivism. Indeed, in addition to the strong majorities against oil exploitation in the Yasuní National Park and mineral digging in the Chocó Andino, the Special Rapporteur met a large number of individuals and groups who expressed their discontent vis-à-vis the impacts of the extractive industry. In the provinces of Chimborazo and Pastaza, indigenous communities explained that mining projects resulted in polluting the soils and water sources on which they depend for agricultural production. Other groups presented the Special Rapporteur with examples of mining projects, both legal and illegal, that affected their access to resources. The large-scale Fruta del Norte Project, a gold deposit owned by Lundin Gold, and the open-pit Mirador mining project for copper and gold extraction in the Zamora-Chinchipe Province, owned by Ecuacorrientes SA, threatening livelihoods of members of the Chuar nationality, are the most publicized of such cases. But many mining projects raise concerns of a similar nature, such as concessions in the canton of Pangua in the province of Cotopaxi, in the parroquia La Merced de Buenos Aires in the province of Imbabura, or in the the canton of Las Naves in the province of Bolivar, among others. While the Special Rapporteur could not examine the details of each of these cases, he was struck by converging allegations according to which the consultation requirements set by article 398 of the Constitution

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<sup>1</sup> More precisely, the referendum concerned oil exploitation in bloc 43 of the Yasuní National Park, also known as the Yasuní Ishpingo-Tambococha-Tiputini (ITT).

and the 2009 Mining Law were routinely circumvented, and that projects were allowed to go ahead despite the strong opposition of the local communities.

This context calls for a new approach to development, which reduces the dependence of the country on mining and on oil and timber exploitation. While the challenge of combating poverty remains more real than ever, the classic recipes relied on in the past will not suffice. New and bolder tools should now be used.

### **3. An assessment of poverty and inequality**

#### **3.1. General trends**

In 2008, the Independent Expert on the question of human rights and extreme poverty reported that 34,97% of Ecuadorians lived in poverty, and 16,45% were living in a situation of extreme poverty. While 2003 and 2009 recorded the years with the highest levels of poverty (49.9% and 36% respectively), Ecuador managed to reduce its poverty rate to 21.5% in 2017. The pandemic halted the positive trend, increasing the levels of poverty in Ecuador of 8 percentage points compared to 2019 (25%), that is 33% in 2020 (5,653,071 million people).<sup>2</sup> According to data from June 2023,<sup>3</sup> income poverty stood at 27%, with urban poverty at 18%, and 46.4% in rural areas. Extreme poverty stood at 10.8%, reaching 5.2% in urban areas and 22.6% in rural areas. The youth are especially affected: in 2022, 34.44% of the youth (between 15 and 24 years old) were in poverty.

In June 2023, the Gini index at the national level stands at 0.467, showing a slight increase compared to the previous year (0.453). In urban areas it stood at 0.440, also showing a slight increase of 0.005. In rural areas, between June 2022 and June 2023, the index showed a similar slight increase of 0.047, from 0.432 to 0.479. Inequalities are the main cause of social exclusion, thus, beyond pursuing the infinite race for economic growth, the government should focus on strengthening the resilience of households to crises.

Multidimensional poverty decreased between 2009 and 2017, with an overall reduction from 51.5% to 34.6% at a national level. Multidimensional extreme poverty rate followed the same trend, decreasing from 28.6% to 14.2% during the same period. The urban-rural divide, however, is alarming. In 2022 multidimensional poverty rate stood at 38.1% at a national level, while representing 23.2% in urban areas, in rural areas it affected 70.1%. In the same year, multidimensional extreme poverty rate stood at 16.6%, only 5.1% in urban areas and 41.3% in rural.<sup>4</sup> Despite the government's commitment to reduce from 70% to 55% rural multidimensional poverty, focusing on indigenous people, Afro-Ecuadorians, and vulnerable groups, the goal is far from being fulfilled. The main deficiencies are the lack of access to water and sanitation, chronic child malnutrition, precarious employment, insufficient social protection coverage, low quality of education, and poor housing.

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<sup>2</sup> Ayala, J., Correa -Marquinez, L. C., y Campuzano Vásquez, J. A. "[Indicador de pobreza por ingreso en Ecuador y el efecto Covid-19, del 2010 al 2020](#)". Revista Sociedad & Tecnología, 4 (2), (2021). p.248-264.

<sup>3</sup> INEC, "[Encuesta Nacional de Empleo, Desempleo y Subempleo \(ENEMDU\), Pobreza y Desigualdad](#)", Boletín Técnico N° 12-2023-ENEMDU, (Quito: INEC, 2023).

<sup>4</sup> Ibid.

Significant regional disparities prevail in Ecuador. Morona Santiago, situated in the Amazonian region, is the poorest province with an income poverty rate of 65.8%, with a context dominated by precarious jobs and unemployment (only 13 out of every 100 people earn, at least, the minimum wage). Closely following Morona Santiago are the provinces of Pastaza (with an income poverty rate of 64.53%) and Napo (63.87%), followed by Orellana (59.41%), Sucumbíos (54.45%) and Esmeraldas (50.22%). These territories are precisely those with the lowest coverage of household public services (water through public networks, adequate sanitation, garbage collection and electricity).<sup>5</sup> Pastaza and Napo are also the provinces with the highest income inequality in the country, with a Gini index of 0.58.

Measuring what counts is the only effective strategy to improve policies. To understand how poverty impacts vulnerable groups, disaggregated data and the application of human rights indicators is necessary. The government must invest resources to strengthen INEC's institutional capacities. Age, gender, household type, background (to identify the circumstances of indigenous groups, Afro-Ecuadorians, and Montubios), occupation, access to land, and location (to track variations between urban and rural areas) should all be precisely identified. This would make it possible to determine whether specific demographic groups are being neglected, deserving of special consideration in public policies, and increasing the effectiveness of policies to fight against poverty.

### **3.2. The most affected groups**

#### **a) Women**

Women are disproportionately affected. Although income poverty decreased for both men and women in 2022 (from 28.21% to 24.66% for men and from 29.46% to 26.22% for women), the gender gap stood at 1.56 percentage points, a widening that suggests a negative impact of other economic variables, such as inequality in the labour market, wage gaps, unpaid jobs and women spending more time on care. The rate of women who are not in education or in remunerated employment is 15.5% higher than the rate for men, a gap which is particularly important in the private sector. The major causes relate to lack of opportunities, unpaid care work that women do and patriarchal gender norms.

The multidimensional poverty rates of indigenous women, montubias and girls and adolescents are 78.1%, 57.3% and 45.8%, respectively.<sup>6</sup> Between 83% and 85% of indigenous boys and girls are in a situation of multidimensional poverty, being the most impoverished population group in the country.<sup>7</sup>

In the case of older adults, the percentage of women living in multidimensional poverty is 58.4%, 52.5% and 20.6% in the case of montubias, indigenous and Afro-Ecuadorian women, while percentages are 50.2%, 42.2% and 18% for men in the same groups.

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<sup>5</sup> Andrés Mideros Mora and Nora Fernández Mora, "[Brechas Estructurales en el Ecuador: barreras para el desarrollo](#)", Pontificia Universidad Católica del Ecuador, Instituto de Investigaciones Económicas-PUCE, OPSA, Friedrich-Ebert-Stiftung, (Quito: 2022).

<sup>6</sup> Source: INEC - ENEMDU, December rounds.

<sup>7</sup> Pontificia Catholic University of Ecuador - Institute of Economic Research [PUCE-IIE], 2022.

These figures show a marked gender gap in terms of the level of impoverishment of people over 65<sup>8</sup>.

However, civil society has pointed out that women have less access to credit policies. According to the National Coalition of Women of Ecuador (CNME), 24% of men obtain credit, while for women this percentage is 18%. The requirements for obtaining credit for women in general and rural women are difficult to meet. In this regard, the Committee on the Elimination of Discrimination against Women (CEDAW) had noted in 2020 that: "women have only limited access to loans and other forms of financial credit to land and to equipment and machinery for their businesses".

Economic vulnerability is exacerbated by low social security coverage. In 2021, barely one in three people was covered by social security schemes. Coverage was lower for women, at 30.2% compared to 34.7% for men. Women most left behind by the coverage were indigenous women and young women, with coverage rates of only 15.4% and 12.1%, respectively.

A critical element is the coverage of women working in the informal sector, which the CEDAW Committee also raised as a concern in 2020. The Committee pointed out that the State should "ensure that women working on their own account or in the informal sector are able to receive child benefits and affordable, good-quality care services for sick children and sick and elderly family members in order to reduce women's unpaid care work and to create social protection social protection schemes for women, such as pensions".

Gender-based violence against women and girls remain an obstacle that may aggravate the situation of women and girls living in poverty. Conversely poverty increases risks of gender-based violence against women and girls. As per the 2019 National Survey on Family Relationships and Gender-Based Violence against Women, nearly 56.9% of Ecuadorian women have suffered some form of psychological abuse, 35.4% have suffered physical abuse and 32.7% have undergone sexual abuse.<sup>9</sup> 65% of girls and young women over the age of 15 have undergone some form of abuse but only 2 to 20% of the victims have formally reported.<sup>10</sup> In other words, 65 out of 100 women in the country suffered from some form of violence at any given time in their life, whether psychological, physical, sexual or economic violence. This makes it for a total of 5,785,295 women who have been victims of gender-based violence, with the Afro-Ecuadorian and indigenous women being the most affected, according to INEC, 2019. For example, girls and adolescents from the Afro Ecuadorian peoples have a higher risk of being subject to forced and early marriages: 2.1% is the average rate in the population whereas it increases to 4.5% for the Afro-Ecuadorian women and girls<sup>11</sup>. Socio-economic factors like, the areas where they live, the educational level, the participation in the labour market and access to resources, have a clear correlation with the risk of being subjected to gender based violence. Considering those factors

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<sup>8</sup> Id.

<sup>9</sup> National Institute of Statistics and Censuses. Encuesta nacional sobre relaciones familiares y violencia de género contra las mujeres [National Survey on Family Relations and Gender-Based Violence against Women]. INEC. Quito, Ecuador. 2019. [Boletín Técnico ENVIGMU.pdf \(ecuadorencifras.gob.ec\)](https://ecuadorencifras.gob.ec/publicaciones/boletines/Boletin_Tecnico_ENVIGMU.pdf). [Ref list]

<sup>10</sup> UN Ecuador (2023), page 22 [https://ecuador.un.org/sites/default/files/2023-03/PPIG\\_Resumen%20ejecutivo\\_2023.pdf](https://ecuador.un.org/sites/default/files/2023-03/PPIG_Resumen%20ejecutivo_2023.pdf)

<sup>11</sup> CONAMUNE and FES, Diagnóstico de la situación socio-económica de las mujeres afroecuatorianas en el territorio ancestral de Imbabura y Carchi, 2021.

fare less well in poorer communities, the correlation between gender-based violence and poverty needs no further explanation.

## **b) Afro-ecuadorians and peoples and nationalities**

Members of the Afro-Ecuadorian community and indigenous groups also are disproportionately affected by poverty. Poverty experienced by those self-identified as indigenous increased from 52.68% in 2021 to 54.26% in 2022. Afro-Ecuadorian experience the second highest percentage of income poverty, affecting 33.77% of their population. Institutionalized discrimination and racism, unemployment and low wages are often considered as the main causes for this.

Indigenous communities have a right to the protection of their lands and territories. The Special Rapporteur notes in this regard, with regret, that the judgment the Inter-American Court of Human Rights delivered more than ten years ago in the case of the *Kichwa community of Sarayaku v. Ecuador*, in which the Court recognized that the State's failure to discuss the oil excavation with the Sarayaku people impacted their "cultural identity" and affected their "communal property", still is not fully implemented.<sup>12</sup>

The Court specifically noted that, by allowing the laying of explosives on the Sarayaku's territory, the State put the lives of the Sarayaku in great peril, in violation of articles 4(1) (prohibition of arbitrary deprivation of life) and 5(1) (right to physical, mental and moral integrity) of the American Convention on Human Rights. The Court also insisted that Ecuador should ensure the participation of the Sarayaku at all stages of the oil exploitation, and that their right to free, prior and informed consent should be protected by legislation.<sup>13</sup> The mere reference in article 57(7) of the Constitution to the right of indigenous communities to "free prior informed consultation, within a reasonable period of time, on the plans and programs for prospecting, producing and marketing nonrenewable resources located on their lands and which could have an environmental or cultural impact on them", is not sufficient in this regard: specific legislation should clarify the content of this right, consistent with the requirements of the 2007 Declaration on the rights of indigenous peoples, articles 10–11, 19, 28–29 and 32 of which refer to the requirement to seek Indigenous Peoples' free, prior and informed consent on measures affecting them. A similar requirement is expressed in the Indigenous and Tribal Peoples Convention, 1989 (No. 169) of the International Labour Organization.

The Special Rapporteur urges the next administration to make this issue a priority: the legal controversy surrounding Executive Decree 754 amending the Regulations on the Organic Law on the Environment (*Reglamento al Código Orgánico del Ambiente*), which the Constitutional Court suspended on 31 July 2023, illustrate the need to improve the regulatory framework in this regard.

That is not all, however. Indigenous communities in general, and those in the Amazonian provinces of Morona Santiago and Pastaza in particular, have a right to health and education services, as well as to improved employment opportunities. The

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<sup>12</sup> Judgment of 27 June 2012 (Series C, No. 45).

<sup>13</sup> *Id.*, paras. 300-301.

indigenous communities whom the Special Rapporteur met listed access to education, particularly higher level education, at the top of their priorities.

#### **4. Social protection**

Ecuador spends 9.6% of its GDP on social protection, with healthcare accounting for 4.4% of GDP and other social protection for 5.2%. This is a lower share than the Latin American and Caribbean average (which is around 14% of GDP).<sup>14</sup> Ecuador spends very little, moreover, on children and working age adults : most of its social protection budget benefits the over 65s who are just 8% of the population.<sup>15</sup>

##### **4.1. Social insurance: contributory schemes**

The social insurance system includes health insurance (*Seguro General de Salud Individual y Familiar*); workplace accidents and illness (*Seguro General de Riesgos del Trabajo*); old age and survivor benefits; as well as disability pensions.

In 2019, about a third of workers were paying into the scheme and are therefore covered, with women overrepresented among the workers who are not covered.<sup>16</sup> One noteworthy feature of social insurance, however, is that efforts have been made to extend coverage to categories of the working population that are usually not covered. Informal workers may opt to be covered under the Voluntary Social Security Affiliate Program (*Seguro Voluntario*), which by 2023 benefited 217,126 workers. Farmworkers may be covered under the *Seguro Social Campesino* scheme, benefiting more than one million people, and jointly funded through mandatory contributions from the formal sector, general tax revenue, as well as a modest contribution (of 2.75 dollars / month) from the enlisted beneficiaries. Unpaid carers may enter a specific scheme (*trabajadores no remunerados del hogar*), which the State subsidizes in proportion to the income level of the household.

Social insurance thus performs a vital role in protecting income security for workers affiliated to these schemes. However, apart from the need to further expand coverage (which the transition from the informal to the formal economy should favour), the State subsidy to social insurance (which represented 1.58 billion dollars in 2019<sup>17</sup>) may deserve further reflection in order to become more progressive.<sup>18</sup>

##### **4.2. Social assistance: non-contributory schemes**

Individuals who are not covered through social insurance will rely on social assistance, the coverage of which the current administration has significantly extended. In 2020,

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<sup>14</sup> International Labour Office, "World Social Protection Report 2020–22: Regional companion report for Latin America and the Caribbean." Geneva: ILO, 2021.

<sup>15</sup> UNFPA, "World Population dashboard Ecuador, available at <https://www.unfpa.org/data/worldpopulation/EC> (accessed on 4 August 2023).

<sup>16</sup> ILO, "World Social Protection Data Dashboards" available at <https://www.socialprotection.org/gimi/WSPDB.action?id=19> (accessed on 4 August 2023).

<sup>17</sup> Rodrigo Ibarra, "Financial and Actuarial State of the Ecuadorian Social Security System", Society of Actuaries, International news, May 2020 p.6.

<sup>18</sup> In 2009, 51% of State subsidies went to the richest decile and just 6% to the bottom five deciles (Ruth Alicia Lucio Romero, "Towards a Universal Pension Protection Scheme – Ecuador", Sharing innovative experiences: Successful Social Protection Floor Experiences, ILO, Global South-South Development Academy and UNDP, 2011, p. 244).



500 million dollars were dedicated to social assistance, the bulk of this amount going to the *Bono de Desarrollo Humano* (BDH), providing support to low-income households; and 30% of the households of the three lowest deciles were covered. By 2022, the amount dedicated to social assistance reached 1.2 billion dollars, and 80% of the three lowest deciles benefited, with 625,000 additional households receiving support.<sup>19</sup> Accessibility of the BDH was further improved by the introduction, in May 2021, of the possibility to open up a bank account free of charge in order to receive a direct payment, a safer option than having to go to the bank's cashier desk: about one fifth of the beneficiaries of BDH perceived the *bono* under that new system.

Significant challenges remain, however. First, while the coverage of social assistance has been expanded, social assistance schemes still fail to protect the lowest income decile adequately. The Social Registry Unit is still insufficiently equipped to ensure that households falling below the poverty line are properly identified: one 2020 study estimated an exclusion error of 48% within the main social assistance scheme, the *Bono de Desarrollo Humano*.<sup>20</sup> To reduce this exclusion rate and improve targeting, a rights-based approach should be taken: non-take-up can be largely reduced by clearly defining the beneficiaries of each scheme, by proactively reaching out to them and providing clear information (including in languages other than Spanish) about the benefits and eligibility conditions, and by ensuring access to complaints mechanisms in cases of exclusion.<sup>21</sup>

Secondly, the levels of the benefits provided are inadequate to effectively protect from poverty, and they are not regularly updated to take into account the increases in the costs of living. For instance, while INEC estimated the income required to cover basic needs (Canasta Familiar Básica (CFB)) (for a family unit of 4, based on 1.6 wages per household) to represent 785,47 dollars per month in August 2023, the BDH provided only 55 dollars per month to its beneficiaries found to be below the poverty line of 88 dollars per month, or, for those in extreme poverty (with an income below 50 dollars per month), representing 270,000 households in 2023, up to 150 dollars under what is known as the "variable" BDH.

## 5. Workers' rights

The Special Rapporteur welcomes the increase of the minimum wage, under the current administration: the minimum wage is now set at 450 dollars per month, and the government has committed to increase the level by 25 dollars annually over the next ten years. While the level remains low in comparison to the CFB, this is a laudable effort to combat in-work poverty.

The main challenge, however, relates to enforcement of labour law. According to the figures provided by the Ministry of Labour and Employment and the Institute for Social Security, there were 140 labor inspectors and 100 social security inspectors covering the country, with a population of 18 million. This is largely insufficient, and it goes a long way towards explaining the underenforcement of labour legislation, both in the formal and (especially) in the informal sector of the economy.

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<sup>19</sup> Data provided by the IMF.

<sup>20</sup> Stephen Kidd and Dilo. Athias, "Hit and Miss: An assessment of targeting effectiveness in social protection with additional analysis", *Development Pathways*, June 2020, p.23.

<sup>21</sup> For further guidance, see A/HRC/50/38 (2022).

The Furukawa case, on which the Special Procedures of the Human Rights Council expressed their concerns in 2019, illustrates the dramatic consequences that can result from the lack of adequate monitoring, particularly in the agribusiness sector: slavery-like conditions were alleged to exist in the farms located in the abaca plantations owned by Japanese company Furukawa Plantaciones C.A., and following the action taken by the authorities against the firm, the company filed a criminal complaint for extortion against a representative of the families affected in retaliation.<sup>22</sup> Bonded labour is alleged to persist in certain haciendas, however, including Tapiapamba (producing sugar cane), Tulcisan (producing avocados and fruit), and Chamanal (producing maize and beans), on which specific information was received: it is alleged in these cases that Afro-ecuadorian households, including children starting at 12 years of age, perform work remunerated significantly below the minimum wage in a form of debt bondage. The Special Rapporteur welcomes the commitment of president Lasso and of the vice-minister of labour and employment, Mr. Henry Valencia, to inquire into these situations.

## **6. Mobilizing domestic resources**

The Special Rapporteur encourages Ecuador to increase its level of social investment. Some challenges can be addressed without additional resources: for instance, improving the quality of education by making the curriculum more relevant and adopting better pedagogical methods, or improving the targeting of social assistance. Other policies however will require resources, and Ecuador's fiscal space is not unlimited : in fact, in September 2020, the IMF approved a 27-month Extended Fund Facility (EFF) of SDR 4.615 billion (661% of quota, equivalent of USD 6.5 billion)<sup>23</sup>: Ecuador is now one of 14 countries who exceeded 187.5% of IMF quota in 2021, with the result that between 2023 to 2033, Ecuador is estimated to make surcharge payments of USD 1.079 billion.<sup>24</sup> The Special Rapporteur therefore wishes to highlight three ways by which the available fiscal space could expand.

### **6.1. A more progressive taxation system**

Tax reform comes first. The 2021 tax reform was expected to increase efficiency and make the tax system more progressive. The reform was undertaken to comply with the agreement signed with the IMF in October 2020, which contemplated the need for a tax reform to raise tax revenues by US\$ 2 billion by 2022. By the end of 2023 however, tax-to-GDP ratio remained equal, and progressivity fell by 1,8% with a greater dependence on VAT revenue.

The Special Rapporteur stresses the role of a progressive tax regime in combating poverty and reducing inequalities. Only a progressive, equitable and efficient tax reform, focused on mobilizing permanent revenues in the medium term, will credibly address the fiscal deficits of the upcoming years. The new government of Ecuador should reduce the tax burden on the people who can least afford to pay. Low-income earners are likely to spend more on essential goods and stimulate the domestic

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<sup>22</sup> See <https://spcommreports.ohchr.org/TmSearch/RelCom?code=ECU%2013/2019>.

<sup>23</sup> <https://www.imf.org/en/News/Articles/2020/10/01/pr20302-ecuador-imf-executive-board-approves-27-month-extended-fund-facility>

<sup>24</sup> <https://cepr.net/report/the-growing-burden-of-imf-surcharges-an-updated-estimate/>

economy in the process. Improving the portion of tax revenue that comes from direct (income) tax (and decreasing the portion from indirect (consumption) taxes, as well as increasing the taxation levels of the highest income brackets and applied to corporate incomes (or at least to income from corporations of a certain size), would contribute to this.

## **6.2. Debt for nature swaps**

"Debt for nature" swaps are a second tool that could be used to expand the fiscal space for social investment. For this to be a viable option however, the lessons from past experiences should be learned. In May 2023, with the support of The Nature Conservancy, Ecuador sold its USD 1.63 billion debt at a discount of USD 0.66 billion in the largest debt-for-nature swap ever. The deal was arranged by Credit Suisse to finance marine conservation efforts in the Galapagos. It was also supported by the U.S. International Development Finance Corporation, which provided USD 0.66 billion in political risk insurance for the loan, and by the Inter-American Development Bank, which provided a USD 85 million guarantee.<sup>25</sup> The swap is expected to generate USD 323 million over 18.5 years for marine conservation in the Galapagos Islands.

The Galapagos Marine Bond has come under scrutiny for several reasons. It has been structured via tax haven jurisdictions (the US state of Delaware and Ireland). Its impacts on the servicing of the debt will essentially be felt in 2030-2035, whereas Ecuador will face a peak in debt servicing in the period 2025-2030. The governance of the scheme, and the role of the private financial sector in particular, lacks transparency and accountability. Some see it as a problematic limitation to the country's sovereignty. Finally, a key concern has emerged due to the recent downgrading of the bond by the credit rating agency Moody's.<sup>26</sup> For this reason, low-income countries, in particular, may fear opting for debt-for-nature swaps as potential market-based instruments due to poor ratings being awarded to such bonds, despite being debt distressed.

On 5 September 2023, the government announced an initiative to define an "Amazonian corridor", with the long-term objective of securing an even more ambitious "debt for nature" swap, this time to ensure that conservation efforts of the Amazonian rainforest are rewarded, allowing to expand the fiscal space available for social investment. While the idea is promising in principle, the implementation should be carefully designed to take into account the legitimate questions raised around the Galapagos deal, as well as the lessons that can be derived from similar past experiences in the Seychelles, Belize and Barbados.

## **6.3. Rationalizing fuel subsidies**

A third way to increase fiscal space is by rationalizing fossil fuel subsidies. In 2022, 4.5 billion dollars, representing about 4% of the GDP, went to such subsidies. This is roughly equivalent to the total budget of the Ministry of Education, and it is almost four times the budget spent on social assistance. Yet, such subsidies are regressive: they disproportionately benefit the richest 20% of the population, and this is especially the case for subsidies for diesel. They are also incompatible with the need to move towards

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<sup>25</sup> <https://www.credit-suisse.com/about-us-news/en/articles/media-releases/financial-close-reached-largest-debt-conversation-marine-conservation-protect-galapagos-202305.html>

<sup>26</sup> <https://ratings.moody.com/ratings-news/402314>

more sustainable consumption and production, as Ecuador has committed under Sustainable Development Goal 12. Indeed, SDG 12 includes a specific target on "rationalizing inefficient fossil-fuel subsidies", while emphasizing that the phasing out of such subsidies should occur "in a manner that protects the poor and the affected communities" (Target 12c).

The Special Rapporteur is aware that affordable fuel, in particular GLP, is a lifeline for many low-income households, and for those living in remote areas especially. Yet, the current scheme is not sustainable, and in its current form it is not even in the interest of these households themselves. A gradual and carefully sequenced phasing out of fossil fuel subsidies, starting with diesel, combined with a significant increase of the levels of social assistance and investments in health and education serving the poorest communities, would be in the interest both of these communities and of the country as a whole.

The budgets saved with the gradual phasing out of fossil fuel subsidies should allow to improve the adequacy of social assistance. But other social investments too should be considered, especially in order to bridge the huge gap between urban and rural populations. Much could be achieved, for instance, by funding an ambitious school feeding program, beyond the minimalistic snacks provided today in certain schools established in low-income neighborhoods, currently covering 2 million children: the World Food Programme is already experimenting with a home-grown school feeding program, the cost of which (0.56 dollars per child) is barely higher than the 0.34 dollars that the snacks cost, but with far greater nutritional value and multiplier effects benefiting local food producers and the local community. Significant investments could be made also in irrigation schemes (including in the harvesting of rainwater), and in providing water and sanitation services to rural communities.

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**The real wealth of the country is not in its subsoil; it is in its people and the priceless wellbeing they derive from their environment. What is needed now is not to dig deeper, but to increase social investment. This is the challenge the Special Rapporteur presents to Ecuador's next administration.**