

BTI 2008 | Ecuador Country Report

Status Index	1-10	5.75	# 64 of 125	
Democracy	1-10	6.15	# 61 of 125	➔
Market Economy	1-10	5.36	# 66 of 125	➔
Management Index	1-10	3.73	# 103 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Please cite as follows: Bertelsmann Stiftung, *BTI 2008 – Ecuador Country Report*. Gütersloh: Bertelsmann Stiftung, 2007.

Key Indicators

Population	mn.	13.2	HDI	0.77	GDP p.c.	\$	3,862
Pop. growth ¹	% p.a.	1.4	HDI rank of 177	83	Gini Index		53.6
Life expectancy	years	75	UN Education Index	0.86	Poverty ³	%	40.8
Urban population	%	62.8	Gender equality ²	0.52	Aid per capita	\$	15.8

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Three key moments marked Ecuador's democratic and economic transformation during the period under review. The first is the overthrow of President Gutiérrez, with its lead-up and aftermath. The second moment comprised the failed negotiations over a free trade treaty with the United States. Finally, the elections at the end of 2006 marked the third moment, signaling a possible change of direction in Ecuador's political and economic future. At the end of 2004 and beginning of 2005, President Gutiérrez brought the country into a state of social and political conflict through a series of controversial actions. Namely, he managed to form a parliamentary majority that invoked a "liberal" interpretation of the constitution in order to dismiss the Supreme Court of Justice and appoint judges likely to support their parties in return. The Ecuadorian Roldosista Party maneuvered in this way to bring about the closure of the lawsuits held against Adbalá Bucaram since his presidency. Besides these back-handed dealings, other clear instances of corruption during Gutiérrez's rule had caused discontent in the affected quarters of society. It was in this context that the so-called "Rebelión de los Forajidos" or "Outlaws' Rebellion" broke out in Quito in the week of 20 April 2005. The Rebelión consisted of a series of protests resulting in the overthrow of the president. In concert with the protests, Congress drew an unconstitutional resolution accusing the president of having abandoned his post, and requiring that Vice President Alfredo Palacios replace him. It should be pointed out that Congress took action under pressure from mass popular protests. Palacios took control pledging that he would carry out a process of political reform that failed, due to his poor management and the incapacity of the relevant players to reach any agreements.

Palacios' period of rule began and finished weakly: he lacked the support of a party or candidates and was unable to strengthen his position during the twenty months that he was in power. Once the political reform platform on which he had entered office had

failed, Palacios and his government embarked upon the task of negotiating a free trade treaty with the United States, which also failed once the United States withdrew in reprisal for the Ecuadorian state's breaking a contract with North American oil company OXY. The company was accused of renegeing on an established contract for oil exploration. This period of evident social unrest revealed the opposition of numerous sectors of society to measures designed to relax market restrictions. The indigenous movement led the protest, as they saw in these agreements a direct threat to the agricultural sector and thus their livelihood.

The third key moment was the 2006 general elections, when Rafael Correa became president, after competing against the entrepreneur-turned-politician Álvaro Noboa in the second round. The 2006 elections marked the decline of the popular PRE party and to a lesser extent the decline of the right-wing PSC. Meanwhile, the parties on the rise included PRIAN, a personalist-led party with no clear direction that serves the interests of Álvaro Noboa, but which nevertheless had a majority of deputies. The Sociedad Patriótica (PCP), led by the military coup leader and ex-president Lucio Gutiérrez, also won more votes. Like PRIAN, PCP had no clear course of action and its typical approach was to employ a black and white logic in questioning the establishment. Surprisingly, Gutiérrez and his group recovered so quickly after the *Rebelión de los Forajidos* that they secured third place in the presidential elections and formed the second largest group of representatives in Congress. PCP and PRIAN both provide examples of the rise of ad-hoc movements in Ecuadorian politics, which took an anti-party, anti-political line without proposing definite solutions, such as President Correa's *Patria Altiva i Soberana* (PAIS) movement. Significantly, the PAIS movement did not put forward any candidates for deputies, leaving the country with an administration that could not count on any parliamentary support of its own.

Democratic rules of the game were consistently ignored in Ecuador during the review period and the country's version of authoritarian populism was strengthened. A culture of conflict among Ecuador's social and political players paralyzed political and economic reform, obstructing any form of political or economic transformation.

History and Characteristics of Transformation

As part of the third wave of democratization in 1970s Latin America, Ecuador transitioned from a military dictatorship to a democratic system of government in 1979. The Ecuadorian process of transition took place upon the basis of an agreement between civil reformers and sectors within the military intent on more openness. Powerful sectors of society, both liberal and conservative, opposed the transition and hampered its progress, and were thus eventually excluded from future policymaking.

Moreover, the political alliances that subsequently formed civil governments also proved too weak to integrate the opponents of transition into the new political order. Despite excluding itself from the process of democratization, this group nevertheless remained influential enough to win the presidency five years after the transition had begun. From this position, they attempted to undermine one of the essential agreements of the transition, that is, political participation through parties by anchoring political participation through so-called *Independientes* (independents) in the constitution.

The political elite generally lacked widespread commitment to democratization, which some political actors did not regard as their own agenda. The transition therefore never achieved the basis of a consensus on the mechanisms of the allocation and distribution of political power; this in turn restricted the consolidation, legitimacy and durability of the democratic model. Since the transition, inconsistencies have developed between political participation and representation: while the parties held a monopoly over political participation, they failed to anchor themselves in society and thus could not fulfill the function of representation. They lost legitimacy rapidly.

The process of democratization in Ecuador coincided with a long and profound economic crisis that further impoverished vast sectors of the population. This undermined the legitimacy of the democratic model in the eyes of much of the population, who did not consider it capable of solving the most urgent economic problems. The economic crisis led to a considerable reduction in material resources, human and power resources, while the state increasingly lost control over these assets. Furthermore, the economic crisis brought international financial organizations onto the national political scene in the form of political actors participating in political events in accordance with specific preconditions; there was practically no space for discussing or questioning their conditions or decisions. This by no means fortified the legitimization of the democratic model. Twenty-five years after the formal transition to democracy, the population's hopes for the democratic system have given way to mistrust.

The cycle of political crises in the past eight years began in February 1997, with the resignation of President Abdalá Bucaram, whom parliament and pressure groups forced out of office. Then National Congress President Fabián Alarcón succeeded him, albeit via marginally constitutional proceedings in which political actors ignored official procedure. Political stability seemed to have returned with the adoption of a new constitution and the beginning of President Jamil Mahuad's term in August 1998. After a few months, however, a financial crisis shook the government and society as a whole, which led to measures including the introduction of the U.S. dollar as the national currency and finally a coup d'état on 21 February 2000. In order to preserve the institutional continuity of democracy to some extent, the relevant political parties and actors agreed on the nomination of Vice President Gustavo Noboa for the office of president; Noboa held office until Lucio Gutiérrez took over the presidency in January 2003. As in most other Latin American countries, the transformation of Ecuador's market economy involved abandoning the traditional model of development that had

been typical in Latin America from the 1930s onwards. This model consisted of industrialization as a substitute for imports. This meant that market-based structures did exist during the transition to democracy, but the domestic market was relatively isolated and over-regulated with a wide-reaching public sector. In Ecuador, this was partly a result of the early 1970s oil boom under military rule that was not channeled into a consistent and sustainable economic policy. Instead, the military's outdated development plans not only brought about increasing macroeconomic imbalance within Ecuador; they also resulted in growing budgetary deficits and an explosion in state and private debt.

The debt crisis of the early 1980s revealed the frailty of this development model. In the ten years that followed, the governments of Hurtado, Febres Cordero and Borja made a great effort to stabilize the Ecuadorian economy with varying and altogether little success. IMF alignment requirements increasingly determined the measures taken in economic policy. The chaotic governments of the 1990s prevented Ecuador from reaching fundamental stability. From 1998 to 2000, these developments resulted in Ecuador's worst economic crisis of the 20th century. Although triggered by a combination of factors, the Ecuadorian economy was already crisis-prone by the mid 1990s. Clearly, poor economic policy-making played a role. However, there were several damaging external influences that made matters worse: El Niño floods in late 1997 affected the agriculture of coastal regions in particular; investors and creditors from Ecuador retreated during the crises in Asia, Russia and Brazil in 1998 and 1999; and a severe drop in oil prices on the international market in 1998, which led to a drop in export revenue.

The liberalization of the Ecuadorian financial market also led to a prolonged financial crisis that began in the mid 1990s. The dependency on the export of primary goods and on few price-volatile products in particular makes Ecuador more prone to external influence. Until late 1999, the Ecuadorian economy recorded a 7% reduction in GDP but was able to recover in the years that followed. However, even after this deep crisis, fundamental reforms of the market economy were not undertaken. President Mahuad's introduction of the dollar as the national currency in 2000 marked the only milestone. Although this step helped to lower inflation, it also led to Mahuad's removal.

Transformation Status

I. Democracy

Ecuador's democracy has been functioning in cycles of crisis for around 10 years. The process began with the fall of president Abdalá Bucaram. Despite being in office for only about six months, his actions contributed to the rapid deterioration of the fragile institutionalization that Ecuador's democracy had achieved since the transition. Moreover, with Bucaram's departure, street protest as a form of political pressure became a successful device. After that crisis, there was an attempt to "re-found" the country with an assembly that produced a constitution which came into force in 1998. The breakdown of the financial system, which forced the state to take control of around 80% of it, again highlighted the political system's tendency toward deadlock and bad management, culminating in the coup which the military and sectors of the indigenous movement led in 2001. The crisis cycle repeated with the unconstitutional removal of President Gutiérrez in April 2005 by Congress during the street protests called the "Rebelión de los Forajidos." At the close of this report, the country finds itself in the middle of another cycle expected to end with a Constituent Assembly. For a start, the winner of the November 2006 elections was promoting the convening of such an assembly, and upon the completion of writing this report, the process had already begun. The lack of respect for the norms of democracy and the democratic state underpins all these cycles of crisis, a general attitude revealed in the presence of strong veto figures with a recurring tendency towards deadlock, a greater incidence of public protest than expected and the lack of procedure of conflicts in the key institutions that are typical of democracy. This situation has remained unchanged throughout the period under review.

1 | Stateness

In Ecuador there are no guerrillas, mafias, or ethnic groups that strongly question the monopoly of the use of force by the state or that propose the formation of an alternative state. One problem is posed by Colombian guerrilla groups making raids into Ecuadorian territory. Indigenous groups have been known forcibly to prevent the access of people, such as government and business representatives, into their areas of influence. However, these groups do not compete with the state's monopoly on the use of force but try to improve their negotiation power

Monopoly on the
use of force

vis-à-vis the government.

All citizens enjoy fundamental civil rights and the great majority recognize and accept the existence of the State of Ecuador. The country's social and economic framework does exclude certain sectors of the population in ways that may threaten their rights (i.e., there is "de facto" and not "de jure" discrimination). Ecuador's indigenous movement does work constantly and successfully for equal rights, although there are still structures yet to be changed.

State identity

Religion is not a controversial subject in Ecuador. There is freedom of worship and different religious beliefs are respected. Nevertheless, the Catholic Church continues to have wide recognition by the state that takes into account its position in the process of public policy, and by politicians who bring their principles and beliefs into the public sphere and prevent decisions on topics that are controversial for the Catholic Church, such as abortion or the so-called "morning after pill."

No interference of religious dogmas

An administrative framework extends throughout the country but the scarce training received by employees, the lack of budget, the lack of continuity and absence of directives from the various strata of government and corruption hamper its functioning. Regarding this point it must be taken into consideration that the attempt at neo-liberal reform in Ecuador consisted less of the sale of state companies than of the deconstructing of state administration through plans to reduce bureaucracy, which in the long run brought about the disappearance of relevant state agencies.

Basic administration

2 | Political Participation

The principle of equality is formally guaranteed and there are no restrictions. Accordingly, elections are free and transparent. However, this has not been sufficient to strengthen democracy. The manipulation suffered by the Supreme Electoral Tribunal at the hands of Congress, created a climate of distrust surrounding the transparency of the electoral process. However, up until now, none of the accusations of irregularities has been upheld. The complexity of the electoral system poses the biggest challenge: since 1998, different electoral formulae have been used in order to designate the winners. This generates uncertainty amongst voters because the system rewards and punishes candidates and parties erratically. Furthermore, the parliamentary electoral system produces a disproportionate relationship between votes and seats in parliament.

Free and fair elections

The elected authorities have effective power. However, certain social movements (particularly those relating to indigenous people's rights) under certain situations question this power. Economic and military groups also influence the authorities

Effective power to govern

but they tend to exercise pressure and actions behind the scenes.

The right to free association is generally respected; even in situations of coups or profound political crisis associations and other organizations have not been openly persecuted. So-called civil society is very strong in Ecuador and has a great deal of public influence.

Association /
assembly rights

There is respect for freedom of expression. In Ecuador, the media are powerful and broadcasters openly take sides on political issues. The state does not tend to put pressure directly on the media. There is one exception from the last days of Gutiérrez's government when, through different mechanisms of coercion, Radio La Luna was attacked. This radio station openly opposed the government and called for street protests to cause its fall.

Freedom of
expression

3 | Rule of Law

From the end of 2004, when he managed to form a favorable parliamentary majority, until his dismissal at the end of April 2005, President Gutiérrez brazenly weakened checks and balances mechanisms, particularly when he intervened in the formation of the Supreme Court of Justice. Moreover, he weakened the parties of the opposition, encouraging the defection of deputies from one party to another. Due to his ineptitude and political weakness, President Palacios did not intervene in other branches of government as brashly as his predecessor, but had to direct processes such as the restructuring of the Supreme Court of Justice. It is important to note that the legislative branch has a key role in the breakdown of control mechanisms and the separation of powers due to two main factors: it can use its right to appoint judges, and it can put enormous pressure on the executive branch, which cannot usually rely on stable party coalitions to support it.

Separation of
powers

Judicial independence is very weak due to the constant interference from political parties represented in the legislature. The interference is demonstrated by the appointment of judges who have commitments to those parties that helped to appoint them. Interventions continue after the appointments, as judges' party-based biases reveal (e.g., the judicial persecution of politicians or critical individuals or the impunity of actors linked to the parties which have had an influence in the judges' appointment). At a lower level, the tribunals of justice are rife with corruption; a series of videotapes recently made public illustrate that judicial sentences can be bought.

Independent
judiciary

As mentioned above, the tribunals have been manipulated so as to allow the impunity of the same errant civil servants. More worryingly, the different sectors of society do not frown upon corruption or the abuse of power but rather exhibit a more ambivalent attitude: on the one hand, there was the so-called "Rebelión de

Prosecution of
office abuse

los Forajidos” in April 2005 against the corruption and abuse of authority by Gutiérrez’s government; and on the other hand, Sociedad Patriótica, Gutiérrez’s party, came third in the presidential elections in 2006 and formed the second largest group of deputies in Congress. Though elections are widely seen as the best mechanism for accountability, a large sector of Ecuador’s electorate demonstrated with their votes their approval for a political group with practices running contrary to law and democracy.

Civil rights are formally guaranteed and the state does not systematically violate these rights. However, the weak state cannot protect citizens’ rights in the face of aggressions by the public sector or by individuals. Ecuador has no history of massive human rights violations as has happened in other Latin American countries. However, police have been known to abuse their authority and violate certain rights when taking declarations from detainees or during crime-fighting operations.

Civil rights

4 | Stability of Democratic Institutions

Formally, the country has a structure of democratic institutions but the political actors have not respected them and they have not become the main stage for political conflict. That the last three elected presidents have not been able to finish their terms due to the citizen protests and with parliamentary processes of dubious constitutionality reveals the weakness of democratic institutions. Another symptom is the fact that institutional reform is constantly on the political agenda. This was one of the demands of the “Rebelión de los Forajidos,” but President Palacios’ poor management of the process cut it short. In the 2006 elections, the main proposal of the winning candidate was the formation of an assembly to draw up a constitution that would “re-found” the Ecuador. It is important to remember that the current constitution is less than 10 years old and was the result of another Constituent Assembly that also wanted to “re-found” the country.

Performance of democratic institutions

Ecuador’s democratic institutions do not have the acceptance and unconditional support of relevant actors, who are willing to employ openly unconstitutional procedures or to doubtful interpretations of the constitution to justify their actions. Once again, the fall of President Gutiérrez exemplifies the anti-democratic actions of political and social groups. Furthermore, an “anti-party” and “anti-congress” discourse is gaining force; it calls for conflicts to be settled outside of institutional channels. The impact of this discourse within society is so great that the winner of the 2006 presidential elections did not present candidates from his political movement as deputies in protest. Since transition in 1979, Ecuador has been subject to a persistent power struggles in which the executive branch aims to manipulate Congress and its disloyal opposition. For its part, the opposition forces outside the parliament have repeatedly demonstrated a lack of

Commitment to democratic institutions

commitment to democratic principles. In short, all political actors attempt to manipulate each other in turn.

5 | Political and Social Integration

The party system is instable and volatile with a high number of parties (5.84 ENP in 2006). The parties do not reflect clear positions on items of public policy but rather provide an electoral mechanism to promote local leaders' interests to a national scale. This does not mean that there is no "identifying" link, however weak, between parties and electors. The Pachakutik and indigenous sectors, or Sociedad Patriótica with middle to lower class sectors, particularly inhabitants of the Sierra mountainous region exemplify relatively clear representation. The strongest links between parties and electors are of a client-patron nature. The 2006 elections resulted in surprising losses for both the populist party PRE and to a lesser degree for the right-wing PSC. The up-and-coming parties are PRIAN, an individualistic party with no clear line that serves the interests of the businessman Álvaro Noboa, and Sociedad Patriótica, headed by Lucio Gutiérrez, ex-President and leader of a military coup. The latter party does not have a clear line either, and its discourse consists of a "black and white" criticism of the establishment. Ad-hoc movements with an anti-party and anti-political discourse, presented as a solution to national re-foundation, have also risen to prominence, such as President Correa's PAIS movement.

Party system

Despite the division within the indigenous movement that occurred between those who joined the patron-client networks of the Gutiérrez government and those who opposed him from the ranks of the CONAIE under Luis Macas, the CONAIE and other indigenous organizations remain the strongest set of social organizations and interest groups in Ecuador. Their capacity to mobilize people became evident during the failed negotiations for Ecuador to join the FTA. However, the indigenous movement's reliance on protests makes political negotiation very difficult, since the radical discourse mobilizes the population in search of maximum objectives. Any type of negotiation is seen as a betrayal or surrender. Trade unions have very little force due to the weakness of the production sector; its organizations have become progressively less influential due to political, social and economic changes, as well as to the sometimes antagonistic differences between sectors or groups from different regions. Another important pressure group comprises transport companies and drivers who, particularly in small and medium-sized cities, are the most organized and strongest sector, and possess the most resources.

Interest groups

Confidence in democratic norms and procedures is rather low in Ecuador. Data from the Latinobarómetro in 2006 show that only 66% of those interviewed are very convinced or agree that "democracy can be problematic, but it is the best

Consent to democratic norms

system of government". This places Ecuador third to last of all Latin American countries in terms of this question. In addition to these data, two situations demonstrate the population's lack of assimilation of democratic norms: on the one hand, the processes prior to the fall of Gutiérrez in which a large part of the population supported the president, despite his violations of the constitution and cases of corruption; and the attitude of legislators, opinion-makers and citizens who called for non-democratic procedures to remove Gutiérrez from the presidency. The Ecuadorian police force has strong corporatist and nepotist characteristics, owing to populist legacy rather than democratic roots. The 2006 elections highlighted the vitality of undemocratic practices, as shown in Correa's electoral victory and his discourse, which has shades of authoritarianism and a clear disrespect for institutions, which he considers illegitimate.

Ecuador has a strong network of civil society organizations. Unfortunately, its practices and discourses do not favor the inter-personal trust that then becomes democratic social capital. The aims of the organizations tend to be particularistic or corporative.

Associational
activities

II. Market Economy

After the crisis of the financial system at the end of the 1990s and the establishment of the U.S. dollar as the national currency, the Ecuadorian economy is showing signs of stability and margins of growth. It is important to note that improvement in the Ecuadorian economy owes mainly to the recuperation of oil prices and the money that emigrants send to their family, which, according to el Banco Central del Ecuador, amounted to \$1.7 billion in 2005.

6 | Level of Socioeconomic Development

The lack of up-to-date data makes it difficult to determine the level of socioeconomic development in Ecuador. Thus, for example, the GINI index data is from 1998, which is outdated if one considers that the economic crisis in the interim produced an enormous wave of emigrants. According to the calculations of the Instituto Nacional de Estadísticas y Censos, up until 2003, emigrant numbers reached 613,106. Comparing the HDI's data from 1990 (0.732) with those of the 2005 Human Development report (0.765), a slight improvement in socioeconomic conditions could be observed, but other data reveal the difficult conditions in which a large part of the population lives. According to the 2006 Human Development report, between 1990 and 2004, 37% of the population lived on less than \$2 per day. Surveys performed by the Sistema de Selección de

Socioeconomic
barriers

Beneficiarios de Programas Sociales provide the most recent data reflecting the socioeconomic differences. The survey has a database with 7,769,051 people that could potentially benefit from these social programs; in 2006, 70% of those people fell in the two lowest income levels. These data signal at least two trends: more than half of the population needs social protection and the largest group therein (5,445,062) has the lowest standard of living level, according to this index.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	24,899	28,636	32,636	36,489
Growth of GDP	%	4.2	3.6	7.9	4.7
Inflation (CPI)	%	12.5	7.9	2.7	2.4
Unemployment	%	9.1	11.4	8.6	-
Foreign direct investment	% of GDP	5.1	5.4	3.6	4.5
Export growth	%	-0.8	9.6	15.8	7.4
Import growth	%	16.7	-3.9	11.1	13.5
Current account balance	\$ mn.	-1271.8	-424.1	-550.5	-59.0
Public debt	\$ mn.	11,240.1	11,368.3	10,626.6	10,662.0
External debt	\$ mn.	16,451.8	16,864.1	17,215.7	17,128.9
External debt service	% of GNI	9.3	8.9	12.1	12
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.8	11.6	11.4	11.3
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.9	2.0	2.2	-
R&D expenditure	% of GDP	0.1	0.1	-	-
Military expenditure	% of GDP	2.3	2.4	2.4	2.6

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The institutional framework of the market economy is weak. The informal sector is very strong; the “bazaar and services economy” has benefited from the current economic model of growth. One of its axes is the money that emigrants send to their families.

Market-based competition

Monopolies in the private sector are prohibited.

Anti-monopoly policy

The Modernization of the State law is aimed at eliminating public monopolies. However, its application has not been very effective, as is to be expected in a country with a weak rule of law. Due to the reduced size of the market and the concentration of business opportunities into few hands, Ecuador has a tendency towards oligopolies in sectors such as flour and sugar production. The banana export sector, which is Ecuador’s key agricultural export, is fraught with conflicts due to the formation of oligopolies. Producers are obliged to sell the fruit at prices marked by the export companies that control the markets and transport. Despite constant efforts by the government to regulate the sector, the results have been insufficient. State ownership in sectors such as telecommunications remains the most significant cause of monopolies’ persistence.

External commerce is liberalized although tariffs are maintained in order to protect productive sectors that cannot compete with imported products or those which mark agreements of integration such as those of the Andean Community. It is important to note that Ecuador did not finish negotiations to sign the free trade agreement with the United States.

Liberalization of foreign trade

The financial system has recovered since the crisis at the end of the 1990s, which had led to the state controlling about 80% of the financial system. The stability generated by using the dollar has added greatly to this recovery. The majority of private financial institutions in operation today are those that survived the crisis due to their decent management. The greatest disadvantage of the Ecuadorian financial system is that the interest rate for deposits is low whilst the interest rate for loans is very high compared to that found in economies with similar characteristics.

Banking system

8 | Currency and Price Stability

The good results with regard to inflation, reserves and influence in monetary policy owe more to the use of the dollar than to the management of the economy by the different governments of the period under review. The members of the government elected in November 2005 and beginning their terms of office in January 2006 are very critical of the use of the dollar, and Correa has even

Anti-inflation / forex policy

declared on occasions that it would be best to abandon it. In the interim between the government's taking power and the writing of this report (less than a month) the government has taken no concrete measure in this respect.

Gutiérrez's government tried to maintain a certain degree of coherence with regard to economic policy, delegating control to ministers with a technocratic profile, but the crisis of the last few months has also been reflected in economic policy. Palacios' government did not have a clear economic policy for nearly 20 months of rule during which, on average a new Minister of Economy and Finance was appointed every four months.

Macrostability

9 | Private Property

Property rights are usually respected by the state and the majority of citizens. But the weakness of the rule of law and its capacity to enforce laws make it difficult to protect those rights in conflictive cases, such as the rights of exploitation of natural resources or the occupations of private properties in rural or urban areas. The clearest cases of a lack of respect for property rights occur in relation to properties or goods belonging to any of the public administration offices. There seems to be a widespread perception that public property does not belong to anyone.

Property rights

Private companies have guarantees and freedom to function, but very large sectors of the economy that remain in the hands of the state. It is noteworthy that in Ecuador there was no aggressive plan of privatization as occurred in other Latin American countries.

Private
enterprise

10 | Welfare Regime

The social security network called the "Instituto Ecuatoriano de Seguridad Social (IESS)" has serious financial difficulties and covers mainly workers in the formal sector of the economy. According to data from the "Secretaría Nacional de Planificación," only 23.36% of the economically active population contributes to the IESS. In order to meet the needs of the most vulnerable members of society (the poor, disabled, elderly, single mothers), the government provides indirect subsidies for products such as gas or electricity, and direct subsidies such as the "Bono de Desarrollo Humano," a monthly payment of \$15 per family. Correa's government raised it to \$30 in January 2006.

Social safety nets

According to the 2001 census, 61.3% of the population lies beneath the poverty line according to the criteria of Unsatisfied Basic Needs. Poverty, as elsewhere, affects women and indigenous populations most. Despite the attempts to implement localized social programs, aims are limited considering that Ecuador's

Equal opportunity

GINI Index is 43.7 (data from 1998), which reflects a disparity between the extremes of the population.

11 | Economic Performance

The Ecuadorian economy is still able to recover, as the indicators below show. Despite the fact that the growth rate of the GDP has decreased in comparison to 2004, the last two years have seen a rate of growth near 4%. These levels of growth are acceptable, particularly when taking into account the instability of the economic policy leadership due to the constant change of ministers. The fact that the economy maintains its growth despite the inconsistency of the government and its policies can be seen as a symptom of the economy's good health. Three key factors contribute to the current economic situation: the use of the dollar, the high oil prices and the money sent by emigrants for their families in Ecuador. However, it should be noted that this economic growth is not sustainable and that external factors can have a deciding influence. An important decrease in the price of oil could lead once again to a profound crisis. The dependency on oil means that the Ecuadorian economy is highly vulnerable.

Output strength

12 | Sustainability

Despite the increased awareness of the need to protect the environment and the creation of control organizations (including a Ministry), the Ecuadorian model of development, that is, one based mainly on oil which is a highly polluting industry, has proved incompatible with environmental conservation. Moreover, the expansion of the agricultural border, which relieves the demographic pressure of unemployment, results in increasing deforestation.

Environmental policy

Higher public education is encountering financial difficulties and barely manages to cover basic costs. Nevertheless, some scholars attempt to conduct research that corresponds more with their academic interests and capabilities than with the institutional support they depend on. Within private institutions of further education there are a few quality centers of investigation in areas such as biology, which take advantage of the country's biodiversity.

Education policy / R&D

Transformation Management

I. Level of Difficulty

Ecuador's difficulties are more political than structural. It is a country that comes 83rd in the list of 177 countries for which the PNUD has data in terms of human development. This reflects the fact that the structural conditions of the country are not extremely low, even if they could be much better. Although Ecuador has a high percentage of people living in poverty – which could be considered a structural limitation – it also has natural resources and is free from large epidemics and pandemics, natural disasters and internal wars. However, other elements such as its geographical fragmentation and ethnic-social marginalization pose serious limitations to economic development.

Structural
constraints

There is a wide network of civil society organizations, but its practices are rather private and do not contribute greatly to the development of interpersonal trust and/or institutions, nor to the accumulation of democratic social capital. Organizational tradition in Ecuador feeds mainly on three elements: indigenous social organizations, which are structured around the idea of the community; the historic weakness and incapacity of the state that has generated incentives to take charge of solving public problems at the grassroots level; and the Catholic Church, which has been an agent for trades unions, guilds, and local, peasant and indigenous organizations. In addition, the relative strength of civil society also results from the incapacity of political parties to channel social demands.

Civil society
traditions

One positive achievement of Ecuador's otherwise weak transition to democracy has been the greater inclusion of indigenous sectors in political and social spheres. While this inclusion has not yet reduced economic disparities, it still marks progress in such a socially and ethnically fragmented society. Conflict generated by indigenous movements still outside the system has continued, however, to obstruct the consolidation of the democratic political system. During the period under review, the central impetus for mobilization was opposition to the signing of a free trade agreement with the United States.

Conflict intensity

II. Management Performance

The lack of preparation and “quality” on the part of those responsible for making public decisions is a major cause of Ecuador’s current crisis. Nearly all political actors lack a clear agenda and attempt to legitimate their rise to power by redistributing the resources controlled by the state. Palacios’ government (April 2005 – January 2007) provided the clearest example of improvisation and instability in the top positions of the state administration. According to calculations by the consultants “CEDATOS” there were nearly 300 changes at the highest levels: ministers, vice ministers, director generals and other specific management positions with high levels of responsibility and decision-making capacity. Furthermore, the governments’ difficulty in forming parliamentary majorities to support them and the high level of social mobilization constantly block the decision-making process.

14 | Steering Capability

Rather than long-term plans, a great deal of action aims for short-term benefit and relies on improvisation. The lack of agreement surrounding the political reform on whose necessity all political sectors agree, shows the magnitude of this problem. Not only do political actors refuse to agree on objectives and an agenda, but they also cannot tolerate suggestions from the opposition. In sum, political actors are not capable of making viable and structured plans for government. The manipulation of the judiciary by members of parliament in order to achieve favorable sentences provides a salient example of this political short-sightedness; rather than assure the basis of democracy and a socially responsible market economy by working to strengthen the rule of law, they weaken the very institutions meant to guarantee them.

Prioritization

One of the main sources of inefficiency in Ecuadorian reform policy lies in the lack of coherent, structured proposals that would lead to democratic consolidation and a social market economy. Furthermore, with regard to certain topics, certain sectors have a higher veto capacity, such as the indigenous movement, which uses it against anything deemed neoliberal, or trade unions from the public sector, which use it against state reform. In institutions, veto power is exercised by political parties that, even if only minor parties, as a consequence of high party system fragmentation, can have a great deal of influence. This is manifest in two ways: parties that actively protest against specific policy lines and make alternative concrete proposals; and those who adopt a passive strategy, that is, blocking projects by remaining on the sidelines

Implementation

of the political process, aware of the fact that their lack of action will prevent the needed majority to approve changes.

Ecuador's governments present proposals for reform, but the proposals are unstructured and offer no viable solutions to the country's problems (democratic consolidation and the market economy). It is important to note that after writing this report, a Constitutional Assembly was called, which reflects the country's propensity toward reform. However, there is no agenda for the assembly to follow, and the ideas that the president has given them are incoherent. For example, he claims to solve the problem of political representation by adopting a system of uninominal districts, when the literature on electoral systems demonstrates that this system can encourage individualistic behavior and patron-client relationships which, according to the president's reasoning, need to be eliminated. On previous occasions when reforms have had such undesired and unforeseen side effects, political actors have reacted by sabotaging them from within. A clear example of this are the constant infractions of the system to elect the president of Congress adopted in the constitution of 1998, which dictates that candidates for presidency of the Congress be from the party with the most deputies. In general, political leaders show a reluctance to learn from the past, little coherence and innovation, and those who break the rules enjoy judicial and social impunity.

Policy learning

15 | Resource Efficiency

During the first years of the Gutiérrez government, the administration of the budget was more efficient, since the president left the control of the economy in the hands of ministers with technical knowledge. Towards the end of his government however, the balance came undone. In general, human resources do not improve due to the high turnover of personnel and the reliance on personal contacts rather than qualification or experience in choosing positions of responsibility. Furthermore, parties in the midst of a crisis have repeatedly proven that they cannot fulfill one of their basic functions: forming leadership groups.

Efficient use of assets

The scenario described above under "Efficiency" contributes to the incoherency of public policy, as does the lack of creativity and the constant improvisation. An example of this was the failed negotiation for the free trade agreement during Palacios' government.

Policy coordination

There is no clear political will to end corruption, and the sporadic attempts to do so fail because of the impunity of those involved and the ambivalence within society.

Anti-corruption policy

16 | Consensus-Building

Not all of the principal actors agree that democracy and the market economy are the best long-term projects for the country. Not even the business sector clearly defends the open market economy, because Ecuador's productive structure is weak and the business sector has developed in the state's shadow, either as its main client or financier or by saving poorly managed businesses. Other indicators of the lack of consensus are Gutiérrez's fall and Correa's election, particularly because the latter proposes measures that are closer to authoritarianism than to liberal democracy and an economic model in which the state has a great capacity to intervene.

Consensus on goals

Reformers in Ecuador are in the minority and do not have sufficient consistency and coherence to neutralize opposing forces. The relevant actors do not have a clear proposal of the type of reforms that could strengthen democracy and the market economy, despite the fact that the topic of reform is constantly present in political debates. President Correa won the 2006 elections with the campaign promise of forming a Constituent Assembly, although without the support of a reform plan; moreover, when he is asked about the necessary reforms, his response is vague or he makes suggestions that cannot be upheld by a serious analysis based on the experiences of other democratically successful countries.

Anti-democratic veto actors

Ecuadorian politics is highly polarized and political practice centers around confrontation rather than agreement. Key cleavages can be summed up in populist terms as the "People vs. Oligarchy" that is exemplified within parties such as the PRE or PSP. Another important cleavage is regional and sets those from the tropical coastal regions against those from the Andean region. The constant use of street protests as a mechanism of political pressure reflects this character of polarization and conflict. At the time of this writing, Ecuador finds itself in a climate of conflict led by a president who called upon his sympathizers to go into the streets and confront his opponents; they complied, even occupying parliament by force for hours. The incorporation of indigenous sectors into institutional politics has been accompanied by the greater significance of ethnic cleavages in national politics.

Cleavage / conflict management

Despite the high levels of mobilization and strong social networks, there is no dialogue between civil society and political leaders. Furthermore, many sectors of what might be considered civil society employ an anti-system and anti-politics discourse. Decisions on policy respond more to agreements on power reached by elected actors in order to control the state apparatus.

Civil society participation

17 | International Cooperation

One of the strongest sources of support for Gutiérrez's government came from the U.S. government which, in exchange, obtained support for its anti-drugs policy and other plans for the region. The Ecuadorian government channeled this support, obtaining the backing of international economic organizations and the mediation of the U.S. embassy during the internal crises of the last two years. Palacios' international policy was less consistent: after a failed attempt to ally himself with Chávez in exchange for help in the petrol sector, he switched sides and tried to negotiate a free trade agreement with the United States, which also failed. The country's relationship with credit agencies (IMF, World Bank and the IDB) was fluid during the period under study thanks to the efforts made during the government of Gutiérrez to strengthen the bonds between the country and those organizations. However, it is expected that those relations will deteriorate as a result of the critical stance of President Correa and his economic team with regard to international credit organizations.

Effective use of support

The government's vacillations (see point "Using support") and the instability of the governments did not construct a solid international image. Ironically, it was Colombia's infractions of Ecuador's territory that gave the latter an opportunity to improve that image. Ecuador's defense against the fumigation of coca plantations that polluted its lands, and Colombian military maneuvers on the border zones (which violated its air space) was viewed favorably by international observers. According to data from a survey carried out by "Informe Confidencial" amongst citizens from Quito and Guayaquil how they would rate Palacios' government in different areas, the percentage of those who answered bad and very bad were: 49.5% (economy), 58.5% (politics), and 40.5% (international relations).

Credibility

Relations between the Ecuadorian government with its neighbors and the country's participation in international organizations are acceptable. It participates actively in all of the international forums to which it belongs, but does not seek an active role. The line in external policy has been to try to defend the country's interests within the possibilities available to a small country that lacks influence in the international sphere. Ecuador's efforts to avoid a crisis in the Community of Andean Nations (CAN) once Chávez decided that Venezuela would pull out provide a positive example of international action. Although Chávez did not return to the CAN, the attitude of the presidents of other countries served to demonstrate the relevance of the project, despite few achievements during more than 30 years of existence. Ecuador does have disputes with Colombia (noted in "Credibility"). Indeed, in addition to bilateral negotiations, Ecuador has taken its complaints to international forums such as the OAS and the Inter-American Court of Human Rights.

Regional cooperation

Strategic Outlook

Ecuador's future is quite uncertain due to the fact that its political actors have no clear agendas and have yet to configure political and economic scenarios. The following lists a series of potential scenarios and positions actors could take that should be considered:

President Rafael Correa: He is a political outsider who rose to fame as Minister of Finance for 100 days during the Palacios government, a period in which, according to his megalomaniac discourse, the economic recovery began. He defines himself as left-wing, a defender of sovereignty, and anti-neoliberal, although as a Catholic, he is conservative on moral issues. He is an unconditional admirer of Hugo Chávez, who referred to Correa as “muchacho” in a display of affection. He does not have a concrete plan for government and his central proposal in the campaign was to carry out a Constituent Assembly to “re-found” the country. Despite the fact that at the time of this writing he has only been in government for a few days, the expectations that he generated during the campaign have already begun to cause him problems, and some of his foremost allies, precisely the most radical and violent ones, have turned against him.

Some of his first measures demonstrate his clumsiness and inexperience, shared by most of his team. His style in government is sensationalist, relying on constant campaigns with offerings to citizens as a means of maintaining support. The problem with this model is that it exhausts itself quickly if the offerings take a long time to arrive, which seems probable when considering the complicated political agenda and the fact that Correa does not have deputies from his movement that can make his proposals viable in Congress. Furthermore, the president has cornered himself in a constant dynamic of clashes with deputies whom he accuses of blocking his proposals. This is not entirely true; the deputies have merely noted that the procedures the president wants to implement are not suitable and that the logic of democratic politics implies the inclusion of other points of view as well as those of the government. President Correa's attitude is reminiscent of Fujimori in his campaign to tarnish the prestige of Congress prior to the autogolpe.

The deputies and Congress: according to surveys, they form an institution with very low social credibility and yet in elections there is no protest at the polls; instead, deputies who move according to a patron-client logic fueled by networks of corruption are rewarded. In the current situation, the deputies have moved clumsily. Thus, for instance, salaries were increased during the first

weeks of the legislative period, which, along with other unfortunate measures, led to protests that ended with the occupation of the Sala de Sesiones by the outraged protestors. The role played by Congress, whether blocking Correa or giving in to him and offering its support is absolutely uncertain and everything will depend on the sporadic majorities that form and can resist the attacks of Correa and his allies.

The Constituent Assembly and the new constitution: this is the president's key proposal and his hope is that the representatives elected will favor him and his project. However, the president and his team do not have clear ideas about what to do with the new constitution or which reforms will lead to a better government. One of the dangers is that a series of measures will be adopted without broad agreement and therefore not facilitate the construction of a broad political and economic consensus on the goals of democracy and the market. In the draft regulation for the assembly, it is noted that decisions will be taken with the vote of half of those present; a very complicated scenario will be created if the majority of the elected representatives are not in agreement with the president and make decisions that are not to his liking. In this case, it must be noted that the president and his most radical supporters are not at all against resorting to violent methods.

Sectors of non-legislative opposition: what may happen with social and productive sectors that are not represented in Correa's Bolivarian model is an enigma. Indeed, the right-wing leader, Jaime Nebot, who was rather isolated from national politics and involved in the government at Guayaquil, has already voiced his desire to participate in the constituent process. Another sector, comprising representatives from the productive sector, views Correa with distrust. Thus far, all attempts to get involved in the political process have failed. These are just two examples of sectors that could join opponents of Correa and his proposals.

Economic uncertainty: the Ministry of the Economy belongs to the group of economists who believe that external debt is immoral – that it is an ethical problem that has already been paid. As was to be expected, their positions vis-à-vis the country's international obligations generate uncertainty. The president and his group of economic advisors and ministers are not in favor of using the dollar. They have said that they will maintain the system, but there are serious doubts that they aim to change the currency, which would have a serious impact on the state of the economy and economic actors. Last but not least, there is a climate of uncertainty among sectors that could be nationalized, following the example of Venezuela or Bolivia. In Ecuador's case, this would implicate the areas of the oil sector managed by companies associated with the state, because no privatizations in other sectors were considered strategic by soberanistas, that is, those who support national sovereignty. Perhaps the most important aspect of

the measure would be its negative effect on the country's reputation and the conduct of economic actors.

Once these relevant actors define their positions and the scenarios in which they move become clear, a complete vision of the country's economic and democratic transformation will be possible. However, the weakness of democratic institutions, the rise in conflicts, the redundancy of the political class and the lack of long-term goals on political and social reform leave little room for optimism about the process of transformation in Ecuador.