The social costs of IMF policies in Ecuador

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Protests on the streets of the Ecuadorian capital Quito erupted in the beginning of October 2019 following the abandonment of state subsidies on the price of gasoline and diesel. The cutbacks are part of structural reform conditionalities that secured the government of Lenín Moreno a loan of US$ 4.2 billion under the Extended Fund Facility (EFF) of the International Monetary Fund (IMF) in March 2019. Protestors frequently clashed with the police, leaving more than 1,300 injured and seven people dead, while the number of arrests has risen to at least 1,152. After almost two weeks of ongoing mass demonstrations, the government had to drop the critical measures in the night of 14 October in negotiations with indigenous leaders that were brokered by the UN and the Catholic Church.

Although the situation in Ecuador may settle down a little after the government had withdrawn the order removing the fuel subsidies, the uprisings should steer the view towards the role of the IMF, its loan policies and subsequent social effects thereof. While the increase in fuel prices can be regarded as a trigger for the protests by different sectors of Ecuadorian society that are affected by a continuing “general deterioration of living conditions, [...] labor precariousness, regressive fiscal adjustment and decrease in public services”, the structural adjustment conditions imposed by the IMF on Ecuador are very likely to contribute to the current worsening of the social situation in the country. In Ecuador, while the cutbacks of subsidies on fuel have been one condition for the IMF loan, the agreement between the Ecuadorian government and the IMF entails other major reforms to the detriment of Ecuadorian citizens at the lower end of the income distribution.

These measures include a shift from direct to indirect taxation, which redistributes a higher burden on those with lower and medium income (and which is contrary to a provision of the national constitution); “realigning” the public sector wage bill, including reduction of the

2 Ibid.
workforce of public and government entities – 2,500 workers in the health sector have already been dismissed\(^6\) – and containing wage growth in the public sector;\(^7\) introducing targeted social spending which is most probably failing to reach the majority of the poor;\(^8\) major labor market reforms by i.e. prolonging the probing period in contracts and reducing hiring and firing costs for employers;\(^9\) and privatization of public assets.\(^{10}\) Apart from this, the economic prospects of the reforms are equally questioned.\(^{11}\)

Remarkably, the IMF itself acknowledged that “domestic political and social opposition could create challenges” and is likely in the light of the present reform program.\(^{12}\)

Conditionality clauses between the IMF and debtor countries, like the ones the Ecuadorian credit arrangement with the IMF contains, have long been criticized in that context. According to the IMF, conditioning the payment of a loan has the overarching goals of ensuring balance-of-payments viability and macroeconomic stability as well as growth and the reduction of poverty.\(^{13}\) A Eurodad study finds however, that program conditionality has often been ineffective when it comes to restoring long-term debt sustainability.\(^{14}\) On the contrary, governments’ restricted fiscal space leads to major retrenchments in public services and subsequent deterioration of living standards.\(^{15}\) In addition, IMF conditionality programs undermine democratic ownership and democratic negotiation in key areas of social contestation.\(^{16}\) In the case of Ecuador, the National Assembly did not have a say in the critical decision to enter the current loan agreement with the IMF.\(^{17}\)

Instead of demanding austerity measures, the IMF should thus take on a different approach to loan agreements. It should redirect the scope of credit arrangements, putting focus not only on fiscal consolidation but also on taking into prioritized consideration the likely impacts of reform programs on a country’s social constitution and human rights situation. While the IMF has reviewed its policies on social spending in the last two years, it is still assessing social expenditures in purely fiscal terms of sustainability, adequacy and efficiency and does not have aligned its policies with neither the Sustainable Development Goals (SDGs) nor provisions of the International Labour Organization (ILO).\(^{18}\) Ongoing discussion is therefore necessary. Current reform proposals from civil society actors such as Eurodad and

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\(^{7}\) IMF (2019a), p. 16.


\(^{9}\) IMF (2019a), p. 23.


\(^{11}\) Weisbrot, Marc and Arauz, Andrés (2019).

\(^{12}\) IMF (2019a), p. 12 and p. 59, respectively.


\(^{15}\) Ibid., p. 4.

\(^{16}\) Ibid., p. 8.


Global Policy Forum (GPF) include the introduction of an independent Human Rights Impact Assessment tool for complementing the IMF’s debt sustainability assessments, which should be completed before a respective loan program is approved.\textsuperscript{19} In order to maintain democratic ownership, the IMF should also refrain completely from applying conditionality to credit arrangements other than the repayment of loans on the terms agreed.\textsuperscript{20}

In addition to these IMF reforms, the international community has to work more broadly on ways in which indebted countries can engage in fair and durable crisis resolution, for example by a debt workout mechanism as proposed by an alliance of NGOs such as Eurodad and Society for International Development (SID).\textsuperscript{21}

The annual meeting of the IMF and the World Bank in Washington D.C. from October 14-18 2019 may be another opportunity to put these important issues on the agenda.

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\textsuperscript{19} Brunswijck, Gino (2018), p. 23.
\textsuperscript{20} Ibid.
\textsuperscript{21} We can work it out: 10 civil society principles for sovereign debt resolution (2019). https://eurodad.org/files/pdf/1547087-we-can-work-it-out-10-civil-society-principles-for-sovereign-debt-resolution_1569844053.pdf