National Committee of SAPRI in Ecuador
(Structural Adjustment Participatory Review Initiative)

Civil Society Network (SAPRIN)
Government of Ecuador
World Bank

THE SOCIAL IMPACT OF BASIC SOCIAL SUBSIDIES IN ECUADOR 1982-1999

Executive Summary

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A NOTE ON METHODOLOGY

Our definition of subsidy includes a payment made by the government to private agents as well as exemptions that benefit producers or consumers. This transfer can happen either through monetary or non-monetary transactions. In both cases, the defining feature of a subsidy is that the government does not receive from the beneficiary an equivalent amount for the transfer. By providing subsidies, the government absorbs part of the cost of reproducing the labor force, thus improving the overall macroeconomic conditions whereby the richest groups can appropriate wealth and accumulate capital.

Several criteria can be used to determine which public expenditures can be counted as subsidies. The most obvious and immediate way is to identify those subsidies that appear as a social expenditure in the national budget. This method, however, can be problematic. On the one hand, there are some subsidies that are not included in the budget and, on the other hand, there are some public practices that generate subsidies and are not reflected in the national budget. For example, according to the current accounting procedures used by the Ecuadorian government, such practices as the control of consumer prices, tax exemptions for corporations, and transfers designed to cover private-sector liabilities are not identified as subsidies.

In analyzing the major shifts in subsidy policies from 1982 to1999 in Ecuador, our research goals were the following.

(a) To identify and quantify the most important subsidies, both those which existed in the past and those which are currently being applied.
(b) To look at the mechanisms through which subsidies are provided.
(c) To find out the perceptions and concerns of the three actors (the Ecuadorian government, the World Bank, and civil society) involved in the design and implementation of subsidies.
(d) To identify the main features of the police-making process related to subsidies, as well as the actors involved in the design of the policy.
(e) To propose some feasible alternative policies for the short and medium term; and
(f) To carry out a process of participatory review and reach agreements regarding the policy of subsidies.

In order to gather information and data, the research team took into account the literature related to subsidies, such as books, reviews, journals and official statistics. Interviews with key informants, focus groups, participatory workshops and a sample composed of more than 1,000 households located in 7 provinces also formed part of our research methodology. To improve the quality of the data, incorporate civil society's perceptions, and commit those involved to the participatory nature of the study, the sample groups participated in both gathering information and defining the course of the research. By adopting this research methodology, we expect to begin a process in which civil society can first participate in defining subsidy policies and, later, in their monitoring the implementation.

HISTORICAL AND POLITICAL BACKGROUND

Since the 1980s, Ecuador has undergone economic, social and political transformations that have led to the consolidation of an export-oriented model of growth. All of these transformations have been inspired by the neoliberal paradigm, which does not allow civil society to question the current model of growth. Ecuadorians are limited to discussing the ways in which this model can be improved.

According to the neoliberal thought, in order to achieve economic equilibrium and stimulate social welfare, an economy driven only by market forces will perform better than an economy where the public sector plays an active role. From this perspective, the duty of the State is, first and foremost, to guarantee market conditions so as to achieve an optimal use of resources. This theoretical framework has informed decision-making processes in Ecuador. Thus, despite the fact that the Ecuadorian Constitution states that the government must provide education and health services, structural adjustment policies that reduce expenditures on social services have been applied regardless.

Several types of adjustment measures have been applied to the Ecuadorian economy. Monetary-policy adjustment devalued the local currency until it disappeared and was replaced with the US dollar. Labor flexibilization has made workers more vulnerable to lower wages. Adjustment measures in the agricultural, industrial and energy sectors brought about such high increases in the price of goods and services that many consumers were no longer able to purchase these goods and services.

Assessed from a macroeconomic perspective, the results of the structural adjustment policies are rather questionable. The Ecuadorian economy has not grown at a significant rate for many years. Despite official dollarization, the inflation rate remains high and unemployment levels, which are mathematically masked by the number of people migrating, are still increasing.

Income is sharply concentrated in the upper classes. The national financial system is still weak and there is no real legal mechanism to make corrupt bankers responsible for their actions. Domestic investment is not sufficient to make the economy grow, and foreign investors continue to perceive Ecuador as a high-risk country. Economic reactivation, which, according to the government, is supposed to be occurring, has yet to manifest itself in the short term.

Structural adjustment has been a slow and torturous process for most Ecuadorian households. Although some neoliberal economists might say that Ecuador has not yet implemented real structural adjustment policies, most household economies have been permanently affected by monetary devaluations, increases in the price of basic goods and services, elimination of subsidies, and so forth. Structural adjustment is neither a socially nor politically neutral policy. It has had different impacts according to social class, gender, age group and ethnicity. Unemployment, starvation, malnutrition, illiteracy, the spread of diseases, overcrowding and other features of poverty are not faceless, for they have names, gender, age, ethnic identities and spatial locations.

ON THE RELATION BETWEEN MACROECONOMIC POLICIES AND SUBSIDIES

During the 1970s, thanks to the extraordinary mass of financial resources pouring in from oil exports and external borrowing, the Ecuadorian State was capable of enhancing the amount and coverage of both direct and indirect subsidies. The sudden and remarkable boom of the national economy, which grew at an average rate of 9% during the decade, allowed an expansionary fiscal policy that was taken advantage of by both traditional and new elite. As a result, an important proportion of subsidies did not benefit either the poorest inhabitants or productive agents. However, at the beginning of the 1980s, the boom disappeared.

Due to the inability of sustaining the debt service payments, the Ecuadorian balance of payments faced a severe crisis at the beginning of the 1980s. In order to rescue the corporate and financial private sectors, which were not able to meet their external liabilities alone, the government began to abandon its role as a provider of welfare and subsidies for the poor. At the International Financial Institutions' insistence, structural adjustment policies were adopted at the same time. Although the orthodox neoliberal package was not initially implemented as a whole, the government took measures aimed at gradually liberalizing external trade and financial markets, reducing the State's productive and regulatory functions, and privatizing public-owned enterprises.

Given that structural adjustment programs were basically designed to foster conditions for a fast economic recovery, police-makers did not really take into account the social and political costs associated with their implementation. It was said that economic stabilization was by itself enough for bringing about both a better income distribution and a stronger democracy. The real objectives that lay behind this optimistic discourse, however, are quite different.

By focusing on trade and financial liberalization, structural adjustment programs have sought to increase the foreign currency holdings, which Ecuador needs in order to meet its external liabilities. Policymakers have become so concerned with stabilizing the economy that they have failed to address economic development and social welfare as a priority. Structural adjustment has become a permanent mechanism for implementing those economic and political changes that the International Financial Institutions deem necessary. Since the 1980s, different administrations have repeatedly implemented structural adjustment policies. This has resulted in the reduction of social spending and investment for the past 20 years.

In order to cope with the economic crisis, the administration of Oswaldo Hurtado (1981-1984) announced the first structural adjustment package known as the "Social and Economic Stabilization Program" (SESP), encompassing measures such as the evaluation of subsidy programs that were established in accordance with the Import Substitution Model, the elimination of subsidies on wheat and other agricultural goods, the increase in fuel prices, and so forth.

The national economy grew by just 1.4% in 1982 and the consumer price index reached a 24.4% annual growth rate. In this context, the first Letter of Intent was signed by Ecuador so as to obtain financial support from the International Monetary Fund (IMF). By doing so, the Ecuadorian government committed itself to the implementation of further adjustment measures, which were aimed at lowering the budget deficit through severe controls on expenditures, raising the prices of public goods and services and defining austere wage increases. This adjustment package also included a freeze on the number of new public jobs (except those in the health and security sector) and the reduction of subsidies on fuel derivatives. The first Letter of Intent represented a landmark in the Ecuadorian history, as it marked the beginning of the drop in the government's level of social expenditure.

During the administration of Leon Febres Cordero (1984-1988), two more Letters of Intent were signed, following the same adjustment measures and resulting in similar effects. In January 1985, the price of gas increased by 75%. Most public controls on prices were eliminated, except for a limited number of goods, such as sugar, salt, flour, milk, rice, medicines and cardboard boxes used for packing exports. The liberalization of controls on prices was supposedly aimed at increasing production levels through providing private firms more and better incentives for expanding their supply. The result, however, was quite different; inflation grew at rapid rates.

In July 1986, after signing a new Letter of Intent, the government committed itself to: improve public revenues from taxes; increase the price of water, electricity, and phone services; reduce public expenditure by 5%; enhance the liberalization of interest rates; and avoid the creation of new restrictions on imports. Once again, the government gave priority to the interests of the corporate and financial sectors: the Monetary Board increased by up to seven years the maturity of the so-called "stabilization loans", which were born from the nationalization of private external debt.

From 1988 to 1992, the administration of Rodrigo Borja -- which defined itself as ideologically driven by social-democratic principles -- tried to implement reactivation policies that were supposedly aimed at putting economic development before structural adjustment. These policies were also directed towards "the payment of the social debt" with the poor through a package of social measures. Despite its initial proposals and intentions, the government could not avoid the conditionalities imposed by the International Financial Institutions. In 1990, a new Letter of Intent with the IMF was signed, as was a Letter of Development with the World Bank. The latter changed the style of implementing adjustment policies. Instead of requesting annual commitments of funds from the Bank, the Letter of Development established a long-run structural adjustment program that, besides deepening trade liberalization, put economic achievements as a pre-condition to the implementation of social policies. Following this path, the government designed new social programs focused on the most vulnerable groups.

In order to mitigate the impacts of adjustment on the middle classes and the poor, the government increased the price of gas, electricity, water and phone services gradually. In spite of this style of adjustment, the Borja Administration's macroeconomic policies helped to consolidate the export-oriented model of growth and, more specifically, to sharply increase the export sector's profits. From 1988 to 1992, as a consequence of 12 instances of monetary devaluation, the national currency (sucre) depreciated by 400%.

The administration of Sixto Durán Ballen (1992-1996) continued with structural adjustment. The administration's policies, which were also implemented in the name of achieving macroeconomic stability and lowering the fiscal deficit, worsened civil society's welfare. Gas prices were increased by 115%; electricity prices increased by 120%; and the national currency depreciated by 35%. The combined effect of these measures led to a more expensive basket of goods and services than ever before.

From 1996 on, several international and domestic shocks affected the national production system even more. In the administration of Jamil Mahuad (1998-2000), the long-term economic crisis, which was brought about by structural adjustment policies, transformed itself into a deep recession that resulted in extremely low consumption and production levels. In 1999, the national budget deteriorated sharply as the government unsuccessfully attempted to stop the banking crisis, which stemmed from pyramid schemes in lending practices, lax oversight of offshore operations, and public and private corruption. To reduce the central government deficit, general subsidies on electricity, fuel and cooking gas, which accounted for over US$ 500 million, were completely eliminated. Nevertheless, Mahuad could not solve the crisis and was forced to leave office in January 2000 after a popular revolt.

In the middle of the social storm caused by an unstoppable deterioration of overall living conditions, the administration of Gustavo Noboa (2000 to present) took office and signed another Letter of Intent with the IMF. Once again, the policies suggested by the International Financial Institutions included increases in the price of basic public goods and services, reduction of subsidies, liberalization of interest rates, tightly controlled salary increases, lower public expenditures and a reduction in public bureaucracy. Furthermore, the government began to implement a more aggressive and rigid economic-reform program. The latest structural adjustment package comprises measures aimed at facilitating domestic and private foreign investment in economic activities previously controlled by the State, creating a more flexible labor market and keeping the financial system from collapsing again.

In brief, the Ecuadorian administrations, either by ideological conviction or by external pressure, have implemented structural adjustment policies. These policies have not solved the crisis of the national production system, nor strengthened the financial sustainability of the public sector. Structural adjustment policies have neglected to promote the growth of human capital.

ON SUBSIDIZED GOODS AND SERVICES

The Ecuadorian government has transferred public resources through different kinds of subsidies, not only to middle and low-income social groups but also to corporate and financial private firms. With regard to the issue of subsidies, the Ecuadorian public debate generally focuses only on subsidies related to mass-consumption goods and services, rather than on public transfers made in favor of the corporate and financial sectors.

Beneficiaries from the Bono Solidario by Province

Province	Beneficiaries
Guayas	420240
Pichincha	276479
Manabí	185564
Los Ríos	92466
El Oro	82799
Azuay	63844
Loja	63038
Imbabura	55753
Tungurahua	55187
Chimborazo	52731
Esmeraldas	49287
Cotopaxi	37536
Bolívar	26760
Cañar	23869
Carchi	18961
Napo	15674
Sucumbíos	13591
Zamora Ch.	9717
Morona S.	7917
Pastaza	6942
Galápagos	961

Source: CONAM

Since 1996 the elimination of gas, electricity, and transportation subsidies has been highly debated. The subsidy on cooking gas, which was first introduced 40 years ago, is currently used by 88% of urban households. Nearly 50% of the national consumption of cooking gas is imported.

Although cooking gas is produced by public enterprises, it is currently sold through eight commercialization firms, four of which are private and control 94% of the national sales. Given that the Government pays private enterprises for transporting and bottling every single can of gas, the biggest share of the cooking-gas subsidy actually benefits private companies. Furthermore, this structure of commercialization does not rely on accurate public controls as it allows private entrepreneurs to increase their profit levels both by making illegal sales across the border and by cornering the domestic market. It follows from this that, contrary to what is usually believed, low-income social groups do not benefit the most from the cooking-gas subsidy.

Since 1996, there have been several attempts at eliminating the cooking-gas subsidy, all of which have resulted in the gradual increase in the final consumer price. In 1998, for example, the cooking-gas price was increased from 4,900 to 20,000 sucres; that is, it was increased by 308%. Later, the administration of Jamil Mahuad increased the price of cooking gas to 25,000 sucres (1 dollar). Simultaneously the electricity subsidy was also eliminated. By eliminating subsidies on cooking gas and electricity, the government expected to save US$ 390 million annually or 1.75% of GDP.

In order to mitigate the impact of these measures, the government created a targeted social protection program in 1998 that provides cash transfers to the poor and the elderly through the Bono Solidario. According to the official data currently available, the annual cash transfers made through the Bono Solidario are equal to US$ 180 million, a figure which is far below the US$ 400 million that went to cooking-gas and electricity subsidies.

The Bono Solidario program was not well designed. Initial targeting procedures were conceived of as measures aimed at working in the very short-term. Due to the eligibility criteria for receiving the Bono, a significant amount of applications made by poor citizens were rejected by the government. As a result, in implementing the Bono Solidario, problems of inappropriate targeting and deficient coverage became apparent. While these problems were addressed and the eligibility criteria were later improved, discontent remains about the overall characteristics of the program. Assessed from the perspective of both beneficiaries and non-beneficiaries, the Bono Solidario demonstrates that the government is rather incapable of defining and implementing a truly integral, well-focused poverty-alleviation strategy. Nevertheless, this cash transfer to the poor is the only public social program available. The Bono Solidario also contributes to economic recovery by enhancing consumption levels. The annual disbursement of US$ 180 million to this social program, however, accounts for less than 9% of the external debt spending.

With regard to subsidies on electricity, while several adjustments to energy prices were made during the 1980s, consumer prices remained lower than production costs. In 1994, for example, the government spent US$ 246 million in electricity subsidies, which benefited those who consumed less than 1,000 kilowatts per hour per month. Beginning in 1998, the electricity subsidy benefits only those who consume less than 100 kilowatts per hour per month.

With regard to subsidies on transportation fares, the government implemented a national program to subsidize urban transportation from 1992 to 1997. Its beneficiaries were the owners of buses who received a monthly cash transfer from the public budget.

During the past few years, the elimination of general subsidies has been gradually accomplished by several administrations, none of which has put into place adequate compensating mechanisms. As a result, government expenditure in the social sectors has not increased at the same pace as the reduction of transfers to the poor. During the 1990s, for example, the average government spending on the health and education sector was 5.3% of GDP. This rather low share contrasts sharply with what the Ecuadorian Constitution states, namely, that 30% of the total government income should be invested in the education sector. During the same period, the average public spending on health ranged from 6 to 9% of total government expenditure. The insufficient resources devoted to the health sector cannot help to improve either the quality or the quantity of public services. The share of health-care spending that corresponds to curative treatment is about 39%. It follows from this that preventive services are not widely available. Most of the public expenditure on health benefits urban inhabitants, for almost 46% of the total expending is directed towards 32 large hospitals.

Government expenditure has been directly related to macroeconomic fluctuations. Broadly speaking, public spending was severely reduced in those years in which GDP fell noticeably. The public budget decreased by 52.55% in 1983, by 28.6% in 1988, by 17.09% in 1998 and by 7.45% in 1999. These recession-related expenditure declines often affected all the components of the public budget. However, in years such as 1998, public spending on health, community development and transportation did not contract, for the government attempted to lessen the impacts of "El Niño", a natural disaster that primarily impacted the agricultural sector.

ECUADOR: Central Government Expenditures by Sector

USD million

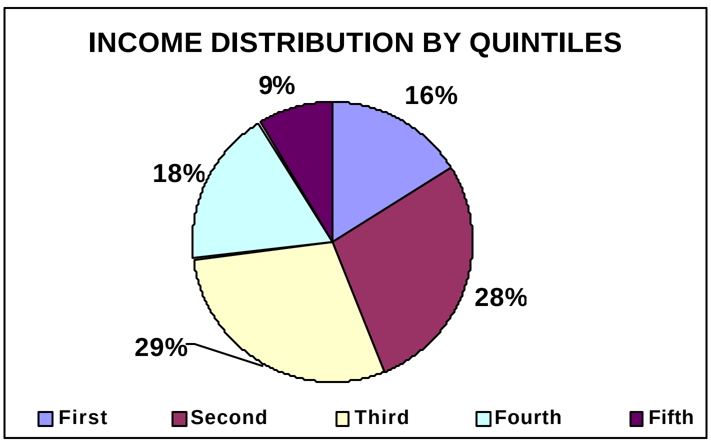
	TOTAL	Services	Education	Health	Agricultural Development	Transport & Communication	Others	Public Debt	GDP
1980	1.537	366	508	107	104	134	182	136	11.733
1981	2.016	433	563	157	152	163	303	245	13.946
1982	1.883	416	500	145	133	153	185	350	13.354
1983	893	192	232	67	49	62	102	190	11.114
1984	1.153	252	294	87	45	108	110	256	11.510
1985	1.739	424	424	127	76	210	106	372	11.890
1986	1.925	471	453	128	61	188	162	462	10.515
1987	2.157	392	412	150	54	164	240	745	9.450
1988	1.540	375	318	131	44	105	131	436	9.129
1989	1.602	371	289	112	47	94	148	543	9.714
1990	1.820	386	288	127	62	95	191	670	10.569
1991	1.845	409	337	104	72	89	231	603	11.525
1992	1.968	467	384	127	56	80	201	652	12.430
1993	2.178	575	375	102	73	165	350	538	14.540
1994	2.882	766	486	146	105	204	407	769	16.880
1995	4.308	927	590	201	246	295	242	1.806	18.006
1996	4.451	1.086	613	230	256	258	378	1.630	19.157
1997	5.288	1.277	690	191	289	162	288	2.392	19.760
1998	4.385	1.194	636	207	197	183	232	1.736	19.710
1999	4.058	974	519	169	161	149	189	1.897	13.769

Source: Central Bank of Ecuador

Besides being affected by unpredictable fluctuations of the aggregate activity, the government budget and its components are permanently constrained by the ever-increasing amounts devoted to the payment of the public external and internal debts. The implementation of structural adjustment policies, which was supposedly aimed at improving the balance of payments, has only reinforced this trend. Thus, instead of decreasing through time, public external debt rose from 49% of GDP in 1982, to 115% of GDP in 1999.

PERCEPTIONS ON SUBSIDIES HELD BY SOCIAL ACTORS.

Most of the civil society participants consulted in our research think of subsidies as a way in which the government can help to reduce the difference between the production cost of a good or service, and the market price paid by consumers or producers. Unlike civil society, International Financial Institutions (IFIs) and the Ecuadorian government conceive of subsidies as the difference between the national price of a good or service and its opportunity cost, which is implicitly understood as the international price. These two perceptions about what a subsidy is are quite different.



Social actors distinguish between subsidy and social spending. They point out that, whether or not the government provides subsidies, the State has to assume responsibility for increasing social spending in such areas as health, education, and social security. International Financial Institutions, the government, and businessmen tend to think that traditional parts of social spending, which are mostly related to health and education, are in fact the same thing as subsidies.

Social sectors who most directly benefit from subsidies are their most adamant defenders, especially in the case of such targeted subsidies as the Bono Solidario. Contrary to the direct beneficiaries of subsidies, most upper-class individuals reject transfers to the poor based on political or moral reasons. Nevertheless, gas, electricity, and cooking gas subsidies are seen by most Ecuadorians as necessary because of two main factors. First, since neither the public nor the private sectors generate enough new jobs, households require subsidies so as to have greater access to basic goods and services. If there were more employment generation, public support to productive sectors and higher incomes, subsidies would no longer be necessary. Second, according to the experience of popular sectors, increases in the prices of subsidized goods and services unavoidably leads to a higher cost of living which is never compensated through salary increases. This widespread opposition to reduction of subsidies has made the Ecuadorian government hesitant when attempting to eliminate or reduce subsidies.

ACTORS AND THE DECISION-MAKING PROCESS

The government, civil society, and the World Bank are involved unequally in defining social programs and subsidies. Each actor has a different level of control, access to power, ability to negotiate, organizational capacity, and influence in the international arena. Ecuadorian civil society is not capable of structuring itself as a unified entity. As a result, its social, political and civil rights are only partially exercised. From the birth of the Ecuadorian State, the exercise of citizen's rights has been quite limited. Up until now, indigenous peoples, women, and popular sectors are excluded from decision-making processes.

Structural adjustment policies began to be implemented within a specific social and political context. At the beginning of the 1980s, the Ecuadorian political system was shifting from what could have appeared as a "welfare state" to a new institutional design which was less prone to implement socially-oriented economic policies and more willing to accept IFIs' rigid demands. Political parties and middle classes, which appeared as new actors on the political scene, have played an intermediary role. They have been capable of organizing social demands and communicating them to the State, but at the same time, not allowing these demands to curtail the government's agenda.

Currently, the Ecuadorian State is looking for new ways of obtaining legitimacy. In order to reach this goal, it is trying to combine social assistance, which is carried out through targeted social programs, with market-oriented reforms, which are driven by the logic of structural adjustment. Under this new institutional framework, civil society is seemingly becoming less dependent upon the traditional paternalism that previously characterized public policies.

Due to structural adjustment policies, the meaning of poverty was redefined in Ecuador. Instead of being understood as a problem that requires state intervention, poverty is currently seen as an economic issue that should be resolved by market forces. With regard to decisions affecting civil society, the domestic decision-making process is quite authoritarian, for it is the Executive Branch that makes the final decision. According to the International Financial Institution's discourse, the decision-making process on social policies is participatory. However, in practice, the World Bank and the International Monetary Fund's style of decision-making lacks social participation and delegates the responsibility of implementing their decisions onto the national government. As a response to the lack of an institutionalized participation in national decision-making processes, indigenous people and peasants have been forced to organize and express themselves through political actions. Most of the participants in our sample group and workshops think that the Ecuadorian government makes decisions in response to the pressures coming from the IFIs, whose only interest is to secure the payment of the external debt.

SOCIAL IMPACTS OF SUBSIDY POLICIES

Currently, it is estimated that seven out of every ten Ecuadorians are poor, with the majority of this poverty concentrated in rural areas. In the last few years, by acting in accordance with the International Financial Institutions, the government has been systematically eliminating non-targeted subsidies such as those related to gas, electricity and cooking gas. Targeted subsidies such as the Bono Solidario have been prioritized.

The quality of life in Ecuador has deteriorated. Household earnings, which can be used as an immediate indicator of social welfare, have been severely impacted by governmental policies. Theoretically, subsidies are meant to compensate gaps in household income only if they are targeted to the poorest populations and reach their expected goals. The question remains, who is actually benefiting from subsidies in Ecuador?

In order to find the answer, our research team worked with information gathered through a survey applied in the rural and urban areas of Azuay, Esmeraldas, Guayas, Loja, Los Ríos, Manabí, and Pichincha. With this information, we have constructed three scenarios to determine the possible impact of subsidies on household budgets in the future. By taking into account such variables as geographic area and head of household, we defined the following income-level ranges: (1) households that earn up to 100 dollars per month; (2) households that earn between 101 and 200 dollars per month; (3) households that earn between 201 and 400 dollars per month; (4) households that earn between 401 and 800 dollars per month; and, (5) households that earn 800 dollars or more per month.

In the first scenario, let us assume that the State does not allocate an adequate portion of its budget to the education and health sectors, and the cost of these services needs to be absorbed by each household. Let us also assume that the State continues with targeted subsidies. Under this scenario, households that earn up to US$ 100 per month will benefit positively, while those that earn over US$ 101 will experience a decrease in their income. Although this applies both to urban and rural areas, urban inhabitants benefit more than rural populations. Male-headed households will experience positive impacts as opposed to those headed by females.

Under the second scenario, lets suppose that the State does fulfill its constitutional obligations related to health and education expenditures. This implies a positive impact on the household budget, as each household will not have to assume the costs of these services. At the same time, lets suppose that subsidies reach their intended recipient. In this case, all income-level ranges, urban and rural sectors, and male and female-headed households will benefit.

In the third scenario, lets suppose that the State does not spend any portion of its budget on education and health services, replaces general subsidies with targeted transfers and forces each household to assume the total costs of health and education services. This situation would have a negative impact on all income levels. This negative impact would be much greater in those households with incomes of up to US$ 100 a month, households that are located in rural areas and female-headed households. One may also note a severe increase in poverty, for there would be households whose income would decrease by two income levels.

In summary, by using an econometric model, we have been able to determine that subsidies for education and electricity as well as the Bono Solidario provide the most benefits to the Ecuadorian people. We have also been able to establish that the impact of subsidies is directly related to both the gender of the head of household and the geographic area in which households are located.

CONCLUSIONS

Although subsidy programs are, in fact, important and must be preserved, basic social subsidy policy is not enough for improving the quality of life and the welfare of workers in Ecuador. What is needed is a different kind of macroeconomic policy. Under the current model of growth, there has not been a reactivation of the economy, nor an increase in new employment opportunities, nor an improvement in the income levels of the middle and lower classes. Accordingly, the elimination of non-targeted subsidies will drastically affect the quality of life of the poorest. If the economic processes and public policies that contribute to poverty continue, the targeting of subsidies will no longer be feasible. In a situation where the majority of the population is already poor and becoming poorer, it will be increasingly difficult to target public transfers. Macroeconomic policies based on the structural adjustment agenda will not bring any positive social impact insofar as these policies prioritize the servicing of the external debt at the expense of investing in human capital.

As a result of our study, we strongly recommend the construction of social alliances and agreements to achieve the following. Subsidies should focus on the poorest and most vulnerable populations. The level of public social investment should be increased, especially in the health and education sectors. Subsidies in these areas work as a preventative measure and avoid the need to subsidize other sectors. There will be no real increase in public social investment if macroeconomic policy maintains its current priorities. The reactivation of national production, the generation of employment opportunities and the increase of incomes are badly needed. Only if these needs were satisfied would it be possible to eliminate some non-targeted subsidies without affecting the most vulnerable populations.

The implementation of structural adjustment policies has an influence on gender and inter-generational relations, with the most negative impacts felt by women, children, the elderly and the poor. The elimination or reduction of subsidies on food, medicines and basic services forces women to increase their hours of paid and non-paid labor. This has a negative impact on women's reproductive health and their working capabilities. The elimination of these subsidies also forces children and the elderly to enter the labor market.

Since most Ecuadorians lack sufficient job opportunities and adequate income levels, they are in favor of subsidies. The government should take this into account and fulfill its obligations for social investment under the Constitution. International Financial Institutions should be more aware of the extreme poverty affecting Ecuadorians and not insist on the application of rigid economic "recipes" whose only real proven result has been the increase of poverty. If the Ecuadorian social situation is to change for the better, opportunities for dialogue and agreements between civil society, the Government and the World Bank need to be created, enhanced and preserved. It is for this reason that the SAPRI network should be strengthened.