Recovery at a Crossroads: How countries spent Covid-19 funds in the Global South

Country report: Ecuador

Socio-economic context

The health crisis caused by COVID-19, together with the confinement and other implemented emergency measures, produced a year-on-year decrease rate of the Gross Domestic Product (GDP) of 7.8% between 2019 and 2020. For 2021 year-on-year growth back was estimated at 2.8%.

The country faced further complications when its main trading partners (i.e. European Union, the United States and China) were also affected, severely contracting its external demand and complementing the generalised fall in the price of crude oil, the main Ecuadorian exportable product.

In terms of employment, 252,159 formal jobs were lost by the end of 2020, both from the private and the public sector. Thus, the unemployment rate reached values similar to those of 2016 (5.2%). As a result, by December 2020 the income poverty was 32% and extreme poverty reached 15%, an increase of 7 and 6 percentage points, respectively. Finally, the Gini coefficient went from 0.473 in December 2019 to 0.498 in December 2020.

Recovery Spending: 1,6% of GDP

- Formal private sector

To mitigate the impact on the productive sector—and promote its subsequent reactivation, the government designed mechanisms to make obligations more flexible. It also allocated resources, negotiated with international organizations and through loans with special conditions.

The designated funds for facilitating credits were not fully disbursed because 1) not all expected resources were received; 2) the conditions were not attractive enough for the financial system to get involved; and, 3) the contextual economic and political instability contracted enterprises' demand for credits.

Likewise, the government established reforms, decrees and bills that, despite not involving the mobilization of funds, complement the cushioning of the emergency impacts in the productive sector, among them: deferral of obligations and taxes, labour flexibility, transfer of losses and incentive to local production.

Corporate stimulus vs MSMEs

The problem of local production impacted mostly micro and small companies (MSMEs), which represent 97.9% of the country's productive units (by number). Even though it only concentrates 11.8% of total sales, this segment generates approximately 43% of total jobs. In other words, its affectation is closely related to the increase in unemployment and poverty. Although, in theory, the productive interventions prioritised this segment, in practice it was not possible as the conditions excluded the realities that most of them were facing.

- Informal private sector

As mentioned before, informality is another relevant indicator of the labour market both in the context of the country and the region. The Ecuadorian informal sector amounted to 47% of the labour market in December 2019, increasing to 52% by 2020, an increase that is already large compared to the stability of previous years. However, this figure does not reflect the actual mobilisation caused by the pandemic, as it also increased both unemployment and economic inactivity.

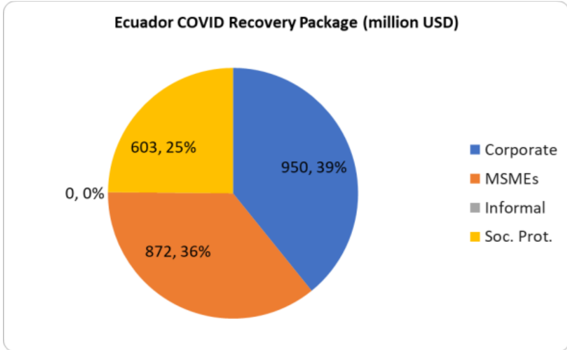
The lockdown affected all citizens, but it posed a particularly dangerous threat to those who depended on informal daily activities in public spaces for their livelihood and that of their families. Thus, although the informal sector was one of the most affected, the lack of public or private information on this sector complicated the possibility of getting timely help, ending up with no productive measure directly focused on this group (only social measures could have partially reached them).

- Social protection

Support for this included direct expenses, delivered as vouchers and other temporary aid instruments, as well as measures aimed at maintaining/improving the population's access to health, education, social security, housing and basic services, among others. The social measures reported as a response to the pandemic in 2020 amounted to a total of USD 108 million, benefiting 957,074 families and 2,260,303 citizens.

- General comparison (Table and pie chart)

Ecuador COVID Recovery Package (million USD)			
Corporate	**MSMEs**	**Informal**	**Soc. Prot.**
950	872	0	603



- Highest spending

The allocation for productive and social ends was 75% and 25%, respectively. Private corporations were the sector with the highest spending within the revised period. These actors received 39% of the total emergency budget, followed by MSMEs with 36%. Nevertheless, the actual difference between these two sectors is bigger, as the report finds that some MSMEs allocations did not reach the intended public given the processes' associated conditions.

- Gender aspects

The gender gap within the labour market was pronounced by the pandemic. By December 2020, the national unemployment rate for women was 6.7% and 3.7% for men. This gap almost doubled that of 2016.

Nonetheless, very few of the implemented measures considered the gender biases of the impact. Some of the programs that prioritised women are the delivery of food baskets and a specific credit line for women-led MSMEs.

- Tax-related measures (exemptions, cuts, amnesties, etc.)

The tax collection in Ecuador for 2020 was USD 11,545 million, a figure that represents a decrease of 17.4% (equivalent to USD -2,437 million), compared to the collection obtained in 2019. The COVID pandemic -19 generated a collection decline to values observed in 2015.

The tax revenues are mainly based on three taxes: i) Value Added Tax (VAT), with a 19% interannual reduction, equivalent to a USD 1,275 million loss, ii) Income Tax (IT), with a USD 1,098 million drop, or 24.2%, and iii) Tax on Foreign Currency Outflow, with an 18,1% or a USD 208 million contraction.

The postponement of tax declarations and payments for individuals, companies or companies intended to help with liquidity for the continuity of commercial and productive activities. However, the severity of the socioeconomic conditions and the loss of tax collection reduced the range of action of the government, since the public deficit continued to increase.

- Debt (IFI’s loans, SDR, etc.)

Aggregate external debt represents 71.8% of total debt, with USD 45,367 million at the end of 2020, an increase of 9.4% compared to 2019.

When revising the ratio between the annual payment of debt services and the collection of taxes, it had already reached 60% before the pandemic. With the renegotiations implemented during the emergency, it was 56% in 2020. This implies that more than half the government’s total tax income is committed to debt service, highlighting the relevance of improving debt management for the health of national finances.

The debt renegotiation in the midst of the crisis meant a cut in public spending of USD 980 million in the wage bill and USD 400 million in the acquisition of goods and services; reducing the income of citizens who saw their working hours cut or whose services were terminated. An austerity measure and contraction of demand, contrary to those expected in times of crisis, but chosen given that the alternatives for action were limited.

Conclusions and recommendations

The government's efforts to control, minimize, and counteract the social, economic and health effects caused by the pandemic were limited, mainly due to a lack of liquidity, but also given the incidence of corruption and inefficiencies regarding processes of public procurement and resource allocation.

This is possible given the scarcity of detailed public information on the interventions. It is mostly available at aggregate levels or presented in sub-categories that overlap, making it difficult to estimate the final assignment and impact of the implemented measures.

There was also low coverage and quality of the public information records, which was counterproductive as those who received more help were those who had already been identified through other aid programs, or who had advantages of access to information and connectivity. People living on the streets, in conditions of human mobility or without prior access to national support systems, had very few possibilities of receiving help.

Most of the interventions did not arise from a joint construction with social representatives. Almost no established measure contemplates the analysis of the impact, needs and contexts on specific vulnerable groups (women, older adults, children, people with disabilities or in conditions of unregulated human mobility, etc.)

Annexe: Country Summary Table

Ref	Measures taken	Spending Adjustment	Total (USD)	Sources
	Support to formal private sector, total		**1,822,850,000**	
i	Grants and Subsidies		0	
ii	Tax Exemptions		0	
iii	Tax amnesties		0	
iv	Tax rate changes (cuts or increases)		0	
v	Tax deferrals		0	
vi	Loss carry over		0	
vii	Granting of loans to corporates	950,000,000	950,000,000	IMF
viii	Granting of loans to SMEs	872,850,000	872,850,000	Ecuador reactivates, Ecuador resurfaces, Innovation trust, SMEs, Women in solidarity-based economy, Preferencial conditions
ix	Business loan restructuring		0	
x	Other support to formal private sector		0	
	Support to informal private sector, total of		**0**	
xii	Granting of loans		0	
xii	Direct support		0	
xiii	Other measures to informal		0	
	Social Protection Measures and Safeguards, total of		**603,760,000**	

xiv	Allowance / grant	414,000,000	414,000,000	Ministry of Social and Economic Inclusion, IMF
xv	Income/ job protection/job guarantee		0	
xvi	Unemployment allowance	68,700,000	68,700,000	Social security
xviii	Housing support (subsidy, allowance, no evictions)		0	
xviii	Basic Services support (subsidy, deferral, no service cuts)	121,060,000	121,060,000	Subsidies, Law of Humanitarian support
xix	Food / nutrition (subsidy, allowance, price regulation)		0	
xx	Care related measures (subsidy, allowance, policy measures)		0	
xxi	Sickness related (e.g. allowance for Covid19 illness, self-isolation)		0	
xxii	Loan restructuring support (e.g. student, credit card, mortgage)		0	
xxiii	Other social protection measures		0	
	Total fiscal measures		**3,299,460,000**	
	Total as % of GDP		**1.608191491**	