

Social and Solidarity Economy – Changing economic relations for equality and sustainable development in the post 2015 agenda

Mont Blanc Meetings - UN

February 4th, 2014

Her Excellency Ambassador Nathalie Cely

Good afternoon.

Claude Dorion and Nicole Alix, Members of the Board of Directors of the Mont Blanc Meetings, Natalia Bento Rodriguez, Member of the Scientific Committee of the Mont Blanc Meetings, Peter Utting, Deputy Director of the United Nations Research Institute for Social Development, Representatives from the Governments of France and Morocco, with whom I am sharing this panel today; and representatives from governments, international organizations and civil society who are joining us today - on behalf of the Republic of Ecuador and President Rafael Correa, I appreciate this opportunity to speak with you today.

It is a wonderful pleasure for me to be a part of this side event to share with you our vision towards changing economic relations for equality and sustainable development as well as the lessons that we have learned through the process of recognizing and embracing a social and solidarity economy in our country and the challenges that we and other

countries in Latin America face as we try to follow our own journey of economic and social development.

To understand our current challenges, it is important to understand a little about our history. Like most Latin American countries and the United States, Ecuador too fought off the shackles of colonialism, becoming an independent republic in 1830. Yet, while the US for the most part experienced political stability—aside from its Civil War--- the political development of much of Latin America has been extremely turbulent.

A number of factors contributed to this, including the effects of neocolonialism and neoliberalism, but the end result was that our economic development was stunted for many years. Poor and unsustainable economic policies, weak or non-existent institutions, an ineffective judicial system, and a lack of investment in health, education, welfare, and national infrastructure characterized Ecuador until very recently. Before our current President, who was first elected in 2006, the last President to complete his term left office in 1996.

In many respects, the election and subsequent re-elections of our current President Rafael Correa has marked a return to both political stability and the resumption of economic growth and development for our country. Our current challenge, which we share with other countries in the region, is to develop the right way. This development requires a structural transformation of our economy towards a more diversified economy; but at the same time the consolidation of a more inclusive and equitable society.

Before I move on to discuss how Ecuador is confronting these challenges today, first allow me to give you a brief economic and socio-economic outlook of my country and how we have progressed. Over the last few years, Ecuador has become a regional leader. The average growth rate of GDP in Ecuador from 2007 to 2013 was 4.2%, compared to the average growth rate in Latin America of 3.4% for the same period.

Today, Ecuador's public investment as a percentage of GDP is 11.92% whereas the regional average in Latin America is 4.06%. Ecuador's debt to GDP ratio is 21.6% compared with a regional average of 29%. In 2012, oil revenues as a percentage of GDP were 7.1% and Ecuador's

GDP growth has been balanced in recent years with growth in oil as well as non-oil sectors. Our current tax revenues stand at about 14.2% of GDP.

Ecuador understands that reforming and strengthening our educational system is key to ensuring the socioeconomic mobility of our citizens. We have instituted historic educational reforms, adding more than 500,000 children and teenagers to school rosters and increasing elementary attendance rates to 95% in 2012 (compared with 91.2% in 2006) and an even greater increase for high school age children to 63.9% in 2012, up from 47.9% in 2006, both with an increased participation of minorities. This would not have been possible without the historic increases in government spending for education, which went from approximately 0.6% of GDP in 2006 to 2.1% of GDP in 2013. One of the emblematic programs that is changing our human talent foundations is our scholarship program, where nearly 7,000 Ecuadorian students have received scholarships to study at the world's top universities in exchange for returning to Ecuador to put their training and expertise to work back home.

As a part of our wide-reaching transformation, Ecuador has moved from a middle to high human development index country. In fact, between 2007 and 2012 Ecuador was one of the top 4 countries with the most progress in the UN human development index. According to the Economic Commission for Latin America (ECLA), Ecuador is among the top 3 countries that reduced poverty and number 1 in reducing inequality across all strata of society. Over the last 6 years, more than 1 million Ecuadorians have risen above the poverty line.

According to the Gini Index, from 2007-2012, income disparity in Latin America decreased from .52 to .50 while in Ecuador, it decreased from .54 to .47 during the same period. Ecuador has also seen a real growth in household income and record low levels of unemployment. These remarkable achievements did not come by accident; rather they are the result of a renewed vision for our country's development, which has been supported by targeted policies, political will and resources.

However, Ecuador faces several formidable challenges as we seek to consolidate a social and solidarity economic system as part of a necessary structural transformation of the economy, which will

contribute to the creation of Good Living for our current and future generations.

Overall, Latin America must pursue a considerable structural transformation of our economies to address lagging productivity and a lack of diversification. Economic heterogeneity is imperative to this structural transformation and for Ecuador especially, this must include the consolidation of our strategic sectors. But, at the same time, it has to follow the principles of equality and inclusion codified in our constitution and indispensable for our social and solidarity economy.

The social and solidarity economy in Ecuador is created by individuals or families implementing economic initiatives in order to survive and achieve social mobility. But at the same time it includes those organized economic units who share principles such as the prevalence of work over capital, collective interests over individual interests and the search for common wealth and an equitable distribution of surpluses.

When President Correa came to power, we were extremely aware of the challenges that this sector was facing. For many years, sectors like

agriculture, livestock and fisheries, which are part of this economy, were among the most vulnerable sectors in the country and had the lowest levels of productivity. The gaps observed on the evolution of productivity indicators and GDP contribution by worker across different productive sectors confirmed this concern. For example, the productivity generated in sectors like mining and financial services grew at 31% and 42% respectively from 2003 – 2009, while agrarian productivity grew at only 14%. During the same period, the productivity of an agrarian worker was only 68% of mean productivity in the economy, while a worker in the mining sector generated almost 25 times more¹.

At that time those in this sector of the economy were also among the most affected by the unfair structure of the system. In 2006, 10% of the wealthiest Ecuadorians earned 36.4 times more income than the poorest 10%. This came about because members' of the social and solidarity economy access to resources like finance, knowledge, technology and markets had been restricted for decades.

¹ Productive Transformation Agenda 2010, Section III.

The Government took action, and started by recognizing the existence and evolution of the social and solidarity economy. While there is no adequate statistical information on the social and solidarity economy in Ecuador, we do have some data that allow us to make an approximation of the informal sector of our economy. We also have data on employment in different sectors, and by approximating the employment data of the informal sector, micro enterprises and domestic services we can conclude that at least 57.8% of the total employment in our country corresponds to the social and solidarity economy. Additionally, the Superintendence of the Social and Solidarity Economy has registered 20.149 formal units that represent this type of economy in Ecuador, including associations, cooperatives, community enterprises, etc. Combining these two facets of the economy, we cannot ignore the importance that the social and solidarity economy has on our labor market.

Certainly the most important step we took in terms of recognizing the social and solidarity economy and which triggered the development of this sector in Ecuador was its recognition in our Constitution. Let me briefly explain how.

First of all, our Constitution establishes that one of the primary duties of the State is to foster sustainable development and equitable distribution of resources and wealth in order to have access to Good Living. In article 283 of the Constitution, the Ecuadorian Economic System is defined as “Social and Solidarity”, recognizing the human being as the subject and end, which fosters a dynamic and balanced relationship between the society, the State, and markets in close harmony with nature. Article 276 of the Constitution also establishes that the government has the goal of building a just, democratic, productive, solidarity and sustainable economic system based on the egalitarian distribution of benefits, production means and the generation of dignified and stable jobs. Last but not least, Article 319, recognizes the diverse forms of organization for production in the economy, including those managed under communitarian, cooperative, associative, family, domestic, autonomous and mixed structures.

Our Constitution has opened up a huge opportunity and space for the social and solidarity economy and its new management and governance models. The next steps we took to guarantee its consolidation were

taken at the policy level, by including objectives and goals to promote the social and solidarity economy alongside multiple objectives from our National Development Plan. At the institutional level we have created a framework made up of several institutions which take economic and social factors into consideration in the decision-making process for the social and solidarity economy, as well as institutions that are implementing public policies specialized for its actors. The Superintendence, which supervises and regulates the ESS organizations, the Inter-institutional Committee which designs and coordinates the implementation of policies, the Corporation of Popular Finance which provides special financial services for the ESS actors, and the Institute for the Social and Solidarity Economy which implements public policies, are part of this institutional framework. Finally, we have also developed a special legal framework for this economy, which is codified in the Organic Law of the Social and Solidarity Economy and Popular and Solidarity Financial Sector and its corresponding regulations.

Political will has increased and there has been significant progress at the institutional and policy level. However, we still need to strengthen our own capacity to design and implement integral policies to support

this economy under the construction of a pending and necessary post oil horizon. And drawing on our own experiences and challenges, I would like to finish this presentation by sharing with you four key insights that must be kept in mind as we face the significant challenge of building a post 2015 agenda.

- At the political level it is important to maintain the principle that human beings are the center of any development process, and that markets need to serve that purpose. It is time to change paradigms in the global economy; it is the market that has to serve individuals and not individuals who have to serve the market. This change in paradigms has allowed us to recognize and embrace the social and solidarity economy as the focal point in the creation of a new development model – a model that transforms the traditional economic and accumulation relations in our society and that promotes economic and social inclusion as well as social mobility upon which our food security and sovereignty rely.
- Secondly, we have to stop looking at poverty as an isolated issue. In order to reduce poverty and inequality among the most

vulnerable members of society, many of whom are part of the social and solidarity economy, it is important to raise their visibility and provide integral and coherent solutions for them based on the harmonic application of macroeconomic, sectorial, social, human talent, science and technology policies adapted to their local needs and dynamics. One key example of this integral approach is using public procurement as a powerful tool to foster the development of the solidarity economy. Ecuador has implemented programs that are good examples of this practice. For example, Hilando el Desarrollo has provided more than 1 million children with free school uniforms produced by small SMEs. These types of programs have created around 30,000 jobs in Ecuador. (positive cycle of public procurement, training, technical assistance and financing).

- Third, social protection policies need to be aligned with social and economic inclusion policies. It is very important to realize that there is an initial trade off between efficiency and economic inclusion, and that productivity must be achieved in the short term. Once again public procurement applied in a decentralized

manner may create linking circuits for supply and demand, like the School Food Circuit Program, which has created a bridge between small and local producers of food such as milk, cereals, snacks, etc., and public schools that provide free meals to their students. These partnerships have allowed local communities to achieve not only social inclusion but improve health and nutrition of students who attend public schools.

Another relevant example that I would like to mention is the way in which we can link social protection with social inclusion by providing credit lines for human development. This approach consists of advancing the corresponding payment of two years of the human development bond in order to raise basic household economic activities. Between 2012 and 2013 Ecuador has provided 230.000 credits, 70% of which have been provided to women.

These approaches can only be successful at significant levels through strengthening our public institutions and guaranteeing their capacity to respond with visionary, innovative and practical policies.

- Last but not least, any structural transformation of an economy has to be inclusive; it must not only benefit certain economic actors. In order to achieve this, it is important to boost innovative and knowledge driven value chains. At the same time they should create, to the greatest extent possible, links with the social and solidarity economy; empowering and providing advantages to EPS actors in terms of technological transfer and access to knowledge without creating dependence, and helping them to accelerate the strengthening of human talent, increasing productivity, and promoting fair conditions for trading.

Before saying good-bye, let me thank you for your time today, and let me give a special thanks to Les Recontres Mont Blanc for once again organizing such a timely and relevant event. I hope that I can one day welcome you all to Ecuador – a uniquely beautiful country that is committed to progress, equality and prosperity.