

Ecuador

The Development Challenge: Ecuador is recovering from the disastrous, twin effects of the interruption in the constitutional order and the collapse of the economy and the banking system that befell the country in 1999. Rampant inflation and capital flight in that same year caused Ecuador to dollarize the economy almost literally overnight, and the country experienced five changes in government in a little over a year. In short, the end of the century saw Ecuador in economic and political shambles, bordering on social chaos. However, Ecuador has made significant strides in recovering from the low points of 1999. The government completed the country's first International Monetary Fund (IMF) stand-by agreement since the 1980s and the 2002 presidential election was deemed by international observers as the fairest in Ecuador's history. A former army colonel, Lucio Gutierrez won the 2002 elections and took office in January 2003. This year also marks the 25th anniversary of Ecuador's return to democratic elections and civilian rule.

Nevertheless, much remains to be done before development, stability, and prosperity are assured. In 2003, Transparency International ranked Ecuador as the 20th most corrupt country out of 133, as perceived by business people, academics, and risk analysts. Lack of competitiveness fuels concerns about the stability and future of dollarization and further needed macroeconomic reforms. Although a real gross domestic product (GDP) growth of 3% was originally estimated for 2003, this figure has been adjusted to 2.2%, based on the poor second-quarter results, which showed a quarter-on-quarter contraction of 0.8%. The total external debt estimated for 2003 represents 59% of GDP and debt service estimated as a percentage of earnings from exports reaches 20.8%. Unemployment rates remain close to 10%, while underemployment is approaching 50%. Over 60% of the population lives in poverty and only 40% has access to safe water.

Furthermore, Ecuador continues to suffer from the destabilizing effects of the drug trafficking activities in neighboring countries and the collateral effects in security. Communities along Ecuador's northern border are especially vulnerable to drug related criminal activity and incursions by guerillas across the Colombian border. Finally, the destruction of natural ecosystems is threatening Ecuador's impressive biodiversity. The country that is one of the world's richest biodiversity centers and holds 10% of the earth's plant species and 18% of bird species, now also has the second highest deforestation rate in South America.

The United States and Ecuador maintain close ties based on mutual interests in upholding democratic institutions; combating drug-trafficking; combating terrorism; fostering Ecuador's economic development; building trade, investment, and financial ties; combating poverty; and cooperating and participating in inter-American organizations. Ecuador's position in the heart of South America's most conflicted region also underscores the country's importance to U.S. interests. A democratic and prosperous Ecuador can help restrain the spread of illegal drugs and violence across the Northern Andes.

The USAID Program: The Data Sheets provided below cover the five strategic areas for which USAID is requesting 2004 and 2005 funds: biodiversity conservation; democracy and governance; economic opportunities; and development of Ecuador's northern and southern borders. USAID supports the conservation of biologically important regions within Ecuador's protected area systems. USAID also seeks to increase support for the democratic system by strengthening the transparency and accountability of democratic institutions, fostering greater inclusiveness of disadvantaged groups in democratic processes, and increasing consensus on policies critical to democratic consolidation. USAID aims at reducing rural and urban poverty by helping to develop a strong and sustainable microfinance sector in Ecuador and by improving the macroeconomic environment for more equitable growth. USAID continues working with the Government of Ecuador to contain the spread of a coca/cocaine economy into Ecuador by supporting the construction of social and productive infrastructure projects and providing alternative income opportunities for small and medium-sized farmers. Finally, USAID assists in the improvement of social and economic conditions of inhabitants along the Peru-Ecuador border, encourages equitable development on both sides of the border, and fosters border integration.

