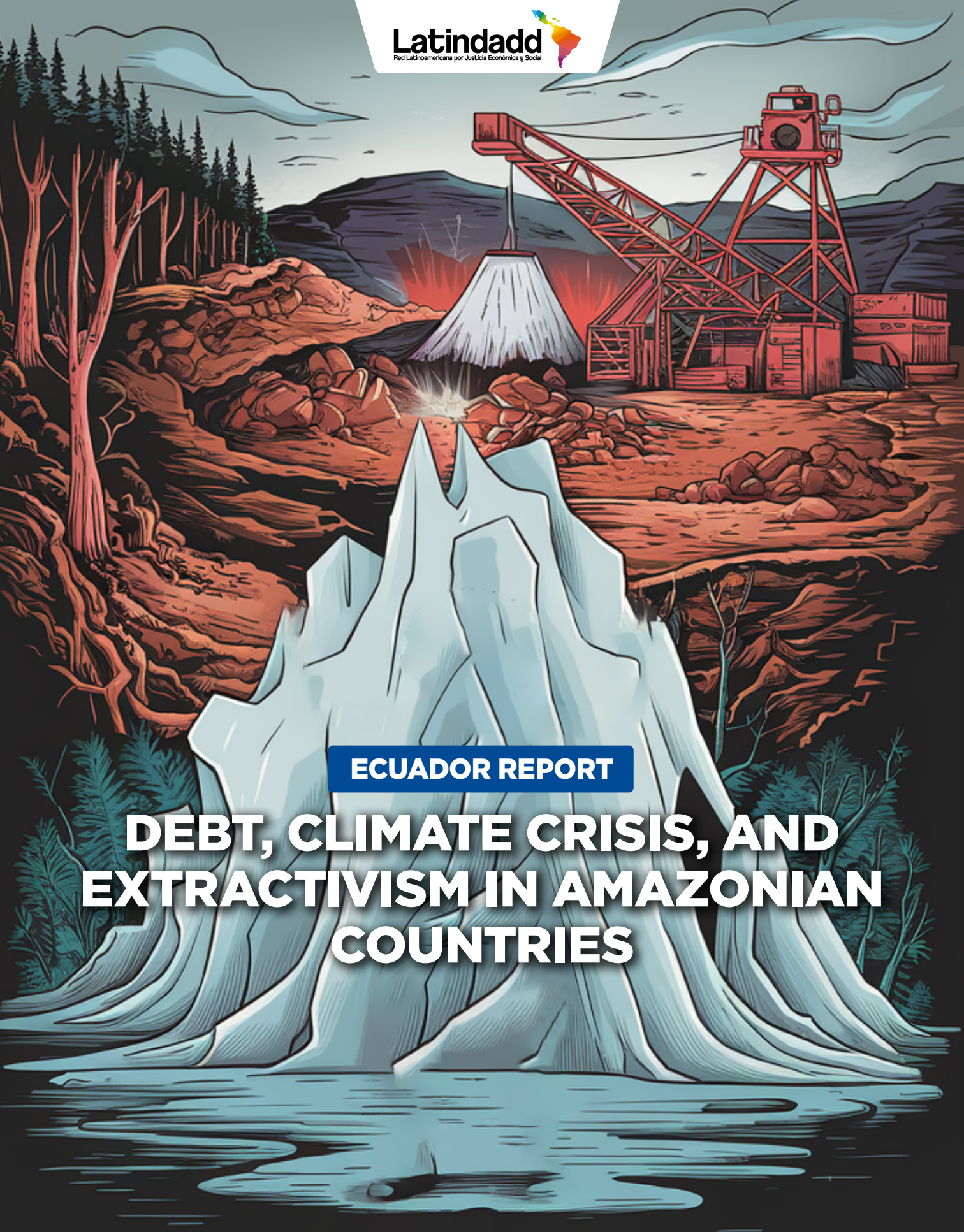
Latindadd
Red Latinoamericana por Justicia Económica y Social



ECUADOR REPORT

DEBT, CLIMATE CRISIS, AND EXTRACTIVISM IN AMAZONIAN COUNTRIES

ECUADOR REPORT – DEBT, CLIMATE CRISIS, AND EXTRACTIVISM IN AMAZONIAN COUNTRIES

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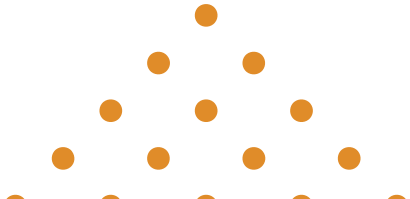
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ECUADOR REPORT – DEBT, CLIMATE CRISIS, AND EXTRACTIVISM IN AMAZONIAN COUNTRIES

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1. INTRODUCTION:

Between the climate crisis affecting the planet and the debt held by countries in the Global South, there exists a strong connection that must be made visible and addressed for the well-being of the population, especially indigenous communities, and the Amazon forests. Additionally, it is important to consider that natural resource extraction is a major source of tax revenue; however, it is also related to the issue of indebtedness and the deepening of environmental and social impacts.

In this context, the Latin American Network for Economic and Social Justice (Red Latinoamericana por Justicia Económica y Social – LATINDADD) is implementing a regional project to highlight the connection between these interconnected issues affecting five Amazonian countries. The project aims to propose solutions that contribute to a sustainable future for all people.

This initiative is executed in coordination with the Bolivian Platform Against Climate Change (Plataforma Boliviana Frente al Cambio Climático – PBFCC) (Bolivia), the Citizen Movement Against Climate Change – MOCICC (Movimiento Ciudadano Frente al Cambio Climático) (Peru), the Center for Economic and Social Rights - CDES (Centro de Derechos Económicos y Sociales) (Ecuador), the Popular Institute for Training (Instituto Popular de Capacitación – IPC) (Colombia), and Projekta (Suriname). The project is funded by the Rockefeller Brothers Fund.

The project "Debt, Climate Crisis, and Extractivism in Amazonian Countries" seeks to raise awareness about the connection among these three issues, which has created a vicious cycle that must be confronted, as it will otherwise continue to grow. For this reason, project partners believe that an "alarm must be sounded from the Amazon" to urgently address this situation through systemic changes and profound reforms in the international financial and economic system.

This will be possible when it is recognized that these are interconnected issues that feed into each other and have a direct impact on the indigenous peoples of the Amazonian forests. These native inhabitants are historically discriminated and unprotected groups who risk their lives to defend their territories, nature, and the rights of their communities.

This initiative also emphasizes the historical climate and ecological debt that industrialized countries in the Global North owe to the planet and humanity. The project aims to promote greater access to just public climate financing, which should be debt-free or highly concessional, within a global call for reparations for population groups who, being the least responsible for causing the climate crisis, are the most affected by its impact.

In this regard, the project's objective is to highlight the challenges in terms of debt, climate, and extractivism that Amazonian countries face in an exacerbate way in the current context of multiple crises, while also presenting potential solutions that contribute to addressing them collectively, turning the vicious circle into a virtuous one.

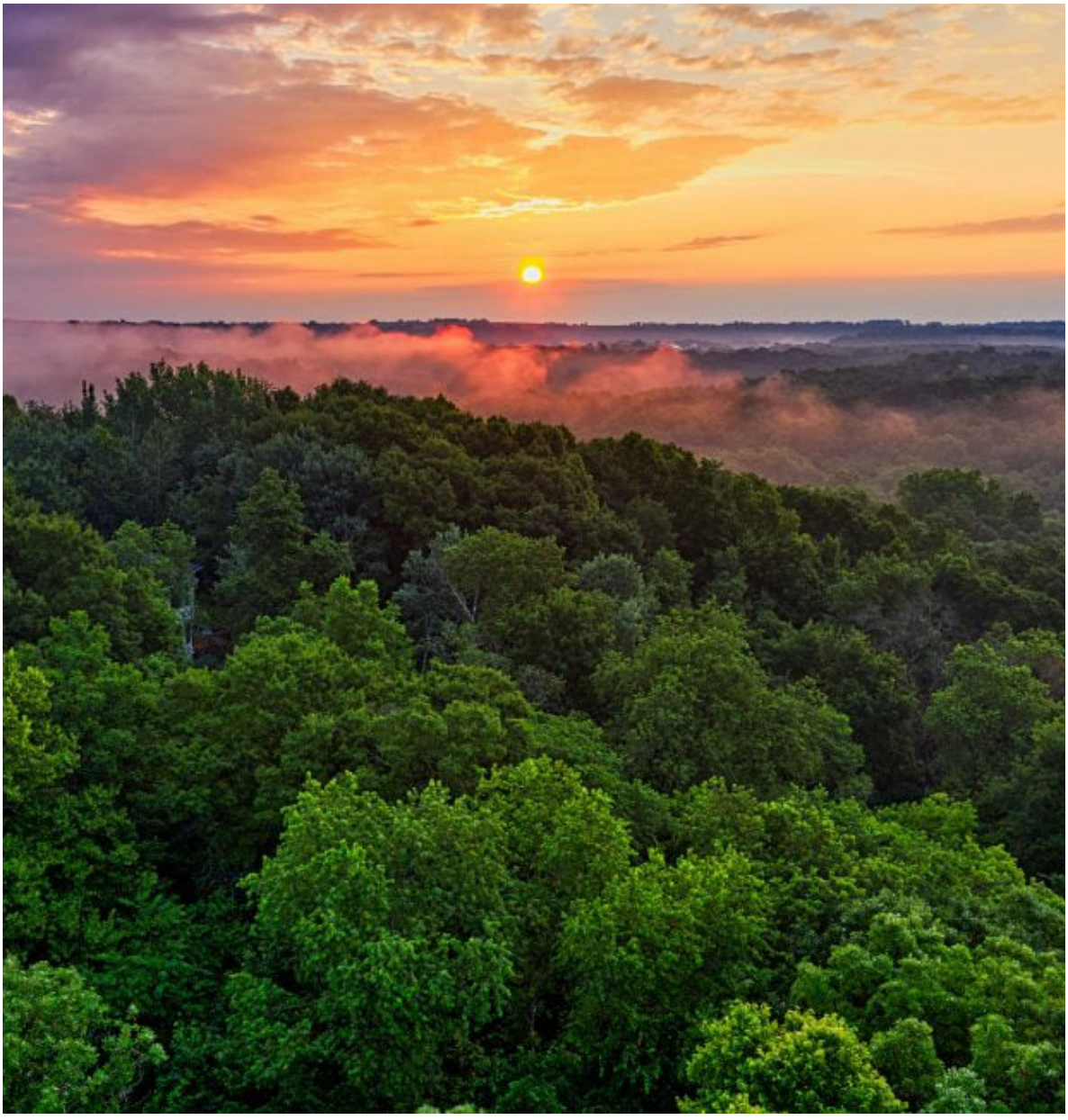
Furthermore, the project aims to expose the current crisis of the capitalist system, whose predatory logic, in both financial and environmental terms, is responsible for exacerbating the three issues, which will be analyzed in this document.

The project focuses on the Amazon, considering its significant importance in terms of global climate regulation and the provision of other services such as water purification and carbon absorption. Additionally, the Amazon rainforest represents more than 40 % of the remaining tropical forest in the world and is the planet's largest biodiversity hotspot.

Another reason why this initiative focuses on the Amazon is because it hosts the Amazon River, the largest freshwater system in the world, measuring approximately

6 600 km in length and contributing more than 15 % of the world's total river discharge into the oceans. Additionally, approximately 47 million people live in the Amazon region, including hundreds of indigenous groups, isolated tribes, and afrodescendant communities, making it a highly culturally diverse region. All of them depend heavily on the forests, rivers, and tributaries.

Latindadd



2. NATIONAL CONTEXT:

Ecuador, located in the northwestern region of South America, is a country of great geographical and cultural diversity. With an approximate population of 17 million inhabitants and a territorial extension of around 283 560 square kilometers, Ecuador spans from the high peaks of the Andes to the vast Amazonian plains and the Pacific coast, bordering Colombia to the north and Peru to the east and south.

The Ecuadorian Amazonian territory is of vital importance as it hosts a significant part of the Amazon rainforest. Beyond being home to an extraordinary diversity of flora and fauna, the region plays an essential role in climate regulation and the conservation of natural resources fundamental to ecological balance. Additionally, Ecuador is home to 14 nationalities and Indigenous peoples, representing approximately 7.7 % of the total population and living in the Andean and Amazonian regions. These peoples play a key role in environmental conservation through land use practices that oppose the extractive industry.

In recent years, indigenous peoples have been prominent in the defense of the environment in Ecuador. Their crucial participation in the 2023 popular consultation was fundamental to protect the Yasuni National Park from oil exploitation and to suspend new licenses for large-scale mining in the Amazon. However, the persistence of economic challenges, such as accumulated debt and dependence on specific sectors, raises questions about the long-term sustainability of these adopted moratoriums. The Ecuadorian indigenous movement has been fundamental in social demands that rejected the agreement with the International Monetary Fund (IMF), highlighting the consequences of external debt on the violation of social rights and the environment.

In recent years, Ecuador has faced economic, social, and environmental challenges. Economically, it has grappled with issues such as external debt, the decline in oil prices

(a crucial source of revenue), and fiscal management challenges. Socially, inequality, migration, and public security are recurrent issues.

Environmentally, deforestation, biodiversity loss, and pollution are significant concerns. Moreover, the impacts of climate change have led to increased flooding from extreme rainfall in some areas and droughts in others, affecting crops, energy generation, and the livelihoods of populations dependent on these natural resources.

The growth of external debt has been a persistent concern, with accumulated financial obligations impacting economic stability. The dollarization of the economy since 2000, adopted to overcome a crisis, has prevented the issuance of a national currency, making the country dependent on revenue generated by oil and vulnerable to fluctuations in oil prices and other external factors.

Additionally, the Ecuadorian economy is highly monopolized, especially by agro-exporting and financial oligarchies. Economic control by elites contributes to capital flight and economic inequality, as lack of diversification and dependence on key sectors create vulnerabilities to external factors.

Thus, Ecuador faces a complex intersection of economic, social, and environmental challenges that have exacerbated the country's vulnerability. The need to address external debt has led to increased exploitation of natural resources such as oil and mining, creating tensions between the financial urgency and environmental preservation. This dynamic unfolds in a context of high social vulnerability marked by insecurity and economic inequality, aggravating structural problems.

In this landscape, the country finds itself at a crossroads, balancing immediate economic needs with the long-term preservation of its natural resources and social rights. Inequality, migration, and public security are pressing social issues that require

urgent attention, while sustainable environmental management is imperative to ensure the well-being of future generations.

Overcoming these challenges will demand a comprehensive strategy that addresses economic, social, and environmental dimensions, forging a path towards equitable and sustainable development.



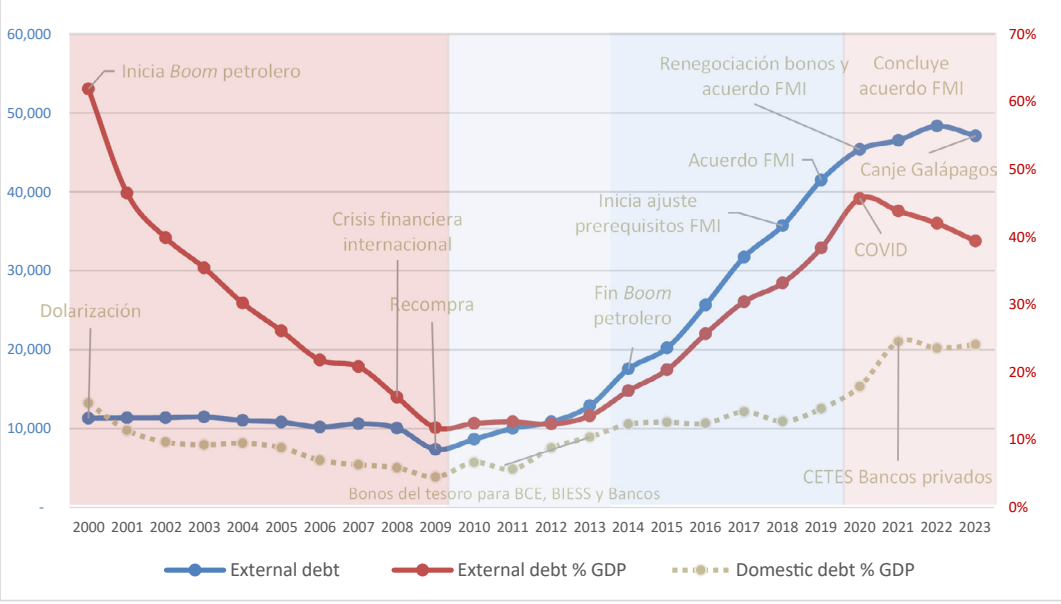
3. ANALYSIS OF THE GATHERED INFORMATION:

A. MACROECONOMIC AND DEBT ANALYSIS

The global economic situation, including oil prices and creditor conditions, has been crucial in determining the evolution of Ecuador's public external debt since the beginning of the century. Looking at both absolute debt and debt-to-GDP ratio, we can identify four phases:

1. (2000-2009) Debt reduction during the oil boom and bond repurchases.
2. (2010-2013) Moderate debt growth after the international financial crisis.
3. (2014-2019) Accelerated debt growth after the end of the oil boom.
4. (2020-2022) Slight decline during grace period and fiscal adjustment failure.

PUBLIC EXTERNAL DEBT (BILLIONS OF DOLLARS AND AS A PERCENTAGE OF GDP)



Source: Own elaboration using information from BCE.

The previous graph begins in the year 2000, when dollarization was implemented in Ecuador. During those initial years, the debt experienced a downward trend, a result of economic growth that significantly reduced the debt-to-GDP ratio, dropping from 62 % in 2000 to 16 % in 2008. This period also coincides with the beginning of the oil boom. However, as we will see later, oil prices alone are not sufficient to explain the entire cycle of Ecuador's external debt. It is necessary to consider the consumption of international reserves due to the increase in the trade deficit and debt service payments.

Additionally, as part of the debt reform processes, a renegotiation was conducted in the year 2000, resulting in the issuance of Global Bonds with maturities of 12 and 30 years, with an average discount of 40 %. Subsequently, a buyback of Global Bonds was conducted in 2006. This led to the lowest point of external debt in 2009, a year after the Rafael Correa government declared part of the debt illegitimate and unconstitutional, challenging the World Bank and expelling IMF delegates from Ecuador.

In this context, a Debt Audit was created, and 70 % of the debt in bonds was declared in default, causing debt holders to put bonds on the market with extremely low values, around 20 %. Then, secretly, the government used USD 800 million to buy USD 3.0 billion, generating a savings of USD 7.0 billion. However, Ecuador was excluded from the financial market with this operation .

Instead, from 2010 to 2013, a period of moderate growth of debt, because of increased public spending and household consumption, which led to a reduction in

1 However, it is important to highlight that Ecuador has not maintained a good credit rating since its first evaluation. In March 2008, before the default announcement, the rating agency Moody's classified Ecuador as B3 (stable), indicating that its bonds "lacked the characteristics of a desirable investment." Following the default announcement in September 2009, the rating was downgraded to CCC3 (stable), reflecting low-solvency bonds. This rating has been maintained in 2021 and 2023, although there has been no operation that allows for a significant reduction in debt, as occurred in 2009. Therefore, it is crucial to contextualize credit ratings considering the social and economic context. In contrast, in 1997, Ecuador had achieved its highest rating, B1, just two years before defaulting in 1999 amid a deep economic and social crisis that the rating agency failed to predict accurately. Moody's rating can be found at the following link: https://datosmacro.expansion.com/ratings/moodys.

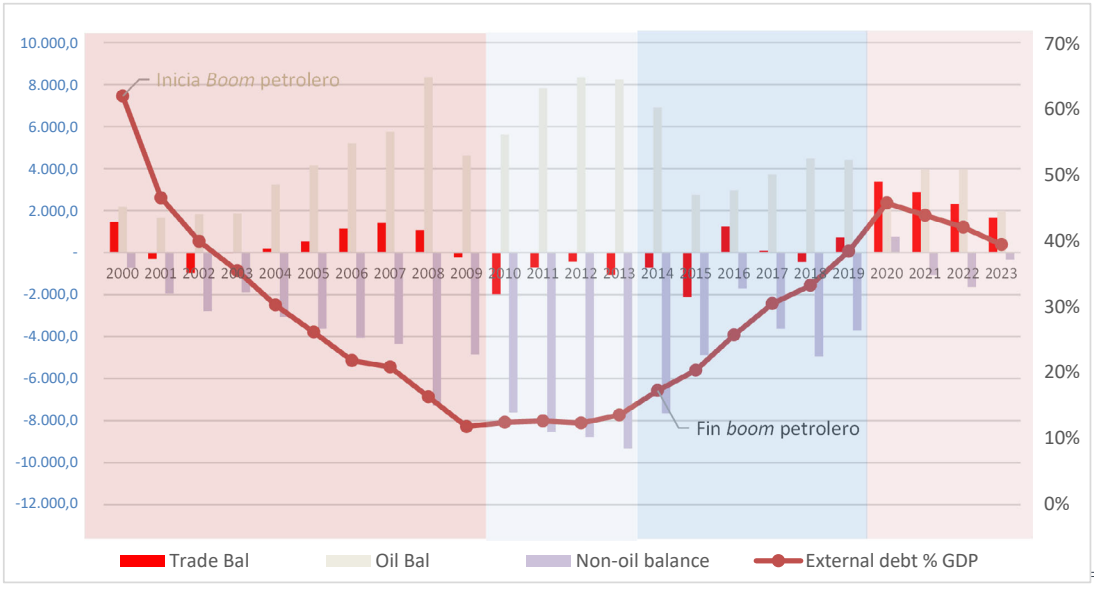
international reserves due to the rise in imports. This consumption of international reserves is linked to capital flight through the trade deficit and external debt payments.

It should be noted that dollarization is also not the fundamental variable to explain the reduction in debt since the beginning of the 21st century. It is true that monetary stability allowed for an acceleration of economic growth in the early years, which was reflected in a decrease in the debt-to-GDP ratio, dropping from 62 % in 2000 to 16 % in 2008. Previously, constant currency devaluation made dollar-denominated debt more expensive in local terms; with dollarization, this risk was reduced. Additionally, financial markets perceived lower currency risk, which improved Ecuador's credit rating and allowed access to new debt under better conditions. However, dollarization does not explain why debt began to increase moderately during the 2009-2013 period and accelerated from 2014 to 2020, periods characterized by large trade deficits with foreign countries.

In the following graph, note that from 2000 to 2009, foreign trade experienced small surpluses or deficits. Throughout this period, the trade balance was USD 4.3 billion, due to the high oil trade balance (due to rising oil prices) and because the non-oil trade balance did not have large negative balances.

This was not the case in the next period, 2010-2013, where the high deficit of the non-oil trade balance increased significantly, resulting in a total trade balance deficit of USD -4.2 billion, which was accompanied by an increase in external debt that accelerated between 2014-2019, a period during which a trade deficit of USD 1.2 billion was accumulated. Finally, in the 2020-2023 period, the trade balance showed positive balances, generating an accumulated surplus of USD 10 billion in just four years, because of a significant contraction in imports due to reduced consumption during COVID-19 and the IMF's structural adjustment program.

TRADE BALANCE (MILLIONS OF DOLLARS) AND PUBLIC EXTERNAL DEBT (PERCENTAGE OF GDP)



Source: Own elaboration with data from the Central Bank of Ecuador

It can be observed that hydrocarbons have prevented the trade balance from being negative every year. However, the years with the highest oil barrel prices (resulting in a high oil trade balance) also coincide with years with a more significant negative balance in the non-oil trade balance. This is due to the increase in imports driven by



household consumption and public spending, that is, in response to the growth of the country's domestic income from oil foreign exchange earnings. Thus, it is evident that a trade deficit precedes the search for capital in the form of external debt. If the non-oil trade balance is sufficiently pronounced, it creates an overall trade imbalance which translates into the contraction of more public external debt. Conversely, if the non-oil trade balance is positive, which has only happened twice in Ecuador's history, first in 1999 during the internal financial crisis and second during the COVID-19 crisis, it results from the contraction of consumption during crises, causing a significant drop in imports, which levels the trade balance . This explains why since 2020, there have been significant positive trade balance figures due to the contraction of domestic demand from the post-Covid economic recession and the IMF's fiscal adjustment.

Now, if we analyze the movements of international reserves, we can confirm that the size of imports is the decisive variable. We can also confirm that the reserves are fueled by oil exports and the acquisition of external debt.

INTERNATIONAL RESERVES

Components	2014	2015	2016	2017	2018	2019	2020		2022
Private Sector Transfers	-5.086	-544	210	-2.823	-2.091	-1.750	-12	-1.073	-1.289
Public Sector Transfers	-2.065	-1.320	-3.024	-1.753	-1.926	-1.025	-2.034	-1.741	-997
Vaults	-2.393	-2.314	-1.701	-1.452	-589	-427	-739	-116	225
Public Debt	9	276	2	3.082	2.365	1.280	510	1.506	957
Hydrocarbons	07	-631	536	1.264	.976	2.256	1.439	2.948	504
Others	107	80	-91	-125	-508	387	634	-821	-839
NET TOTAL	-411	-1.453	1.762	-1.807	227	721	3.798	702	561
RI (December balance)	3949	2496	4258	2451	2678	3399	7197	7899	8460
RI growth rate	-12 %	-37 %	71 %	-42 %	9 %	27 %	112 %		7 %

Source: Sebastián Carvajal with information from the BCE.

2 During the lockdown, it also helped that export activities continued functioning, and export prices either maintained or slightly increased. However, this doesn't fully explain the extraordinary case of a positive trade balance. For instance, the Ministry of Production's 2022 Accountability Report states: "The non-oil trade balance has shown better performance over the past five years, reducing its deficit from -USD 9.2 billion in 2013 to a surplus value of USD 757 million in 2020, as a result of increased commodity prices due to the global pandemic" (p. 18). Available at: https://www.produccion.gob.ec/wp-content/uploads/2023/05/Informe-gestio%CC%81n-MPCEIP-2022.pdf

International reserves are financial assets in the form of foreign currency, gold, IMF Special Drawing Rights (SDRs), and other liquid assets owned by a country and under the control of the Central Bank. These reserves are primarily used to ensure economic liquidity, support import payments and debt servicing, as well as to address financial crises. International reserves serve as a measure of financial strength and a country's ability to meet its external obligations, while also serving as a tool to maintain economic and financial stability. Movements in international reserves depend on the inflows and outflows of foreign currency from the country.

Thus, in recent years, the balance of international reserves has steadily grown since 2014, increasing from USD 3.9 billion to USD 8.7 billion in 2022. The international reserve assets held by the Central Bank are categorized by sectors. Reviewing net balances, i.e., foreign currency inflows and outflows by sector, reveals the following:

1. Private sector remittances have consistently reduced reserves each year due to money transfers made by resident individuals and companies to the rest of the world for various reasons such as remittance payments and profits abroad, primarily currency outflows related to imports.

2. Public sector remittances have reduced reserves due to transfers from the State budget, particularly for imports (public debt is measured separately).

3. Vaults holding deposits from private banks in the Central Bank have also consistently depleted reserves (with a slight exception in 2022). This flow of funds depends on the cash demand generated by the domestic private sector.

4. The net balance of public debt has been positive since 2014, allowing accumulation of reserves. However, it is important to note that future debt service payments could result in negative balances.

5. The hydrocarbons industry, after adding oil and derivative exports and subtracting derivative imports, is the only industry consistently contributing reserves.

On the other hand, commercial debt in bonds and agreements with banks has gone from 51% to 41% between 2019 and 2023, multilateral debt rose from 27% to 46% in 2023, still remaining the country's main creditors; while bilateral debt fell from 17% to 11%, with the main creditor countries being China with 72% of the bilateral debt, France 14% and Spain 6%.

The increase in international reserves in recent years can be interpreted because of the structural adjustment plan implemented since 2019 under an IMF Extended Fund Facility Agreement, which was concluded in 2023. This plan included fiscal adjustments that mainly affected public investment and economic growth; labor reforms aimed at reducing wage costs for individuals, leading to a recessionary effect on consumption; financial reforms that facilitated the outflow of foreign currency abroad, primarily by private banks and economic groups; and finally, guarantees were established for the exploitation and expansion of oil and mineral resources to ensure debt service payment.



EXTERNAL DEBT BALANCE BY CREDITOR BETWEEN 2019 AND 2023

CREDITOR	THOUSANDS OF USD$		% TOTAL EXTERNAL DEBT	
	MAY-19	MAY-23	MAY-19	MAY-23
BONDS	16.760.582	17.707.739	43	39
DIB	5.484.886	7.060.574	14	15
IMF	646.814	6.572.753	2	14
GOVERNMENT AGREEMENTS	6.688.597	5.187.709	17	11
CAF	3.471.728	4.216.284	9	9
BIRF	639.697	3.622.685	2	8
BANK AGREEMENTS	3.255.161	1.110.072	8	2
TOTAL EXTERNAL DEBT	39.081.229	45.818.846	100	100

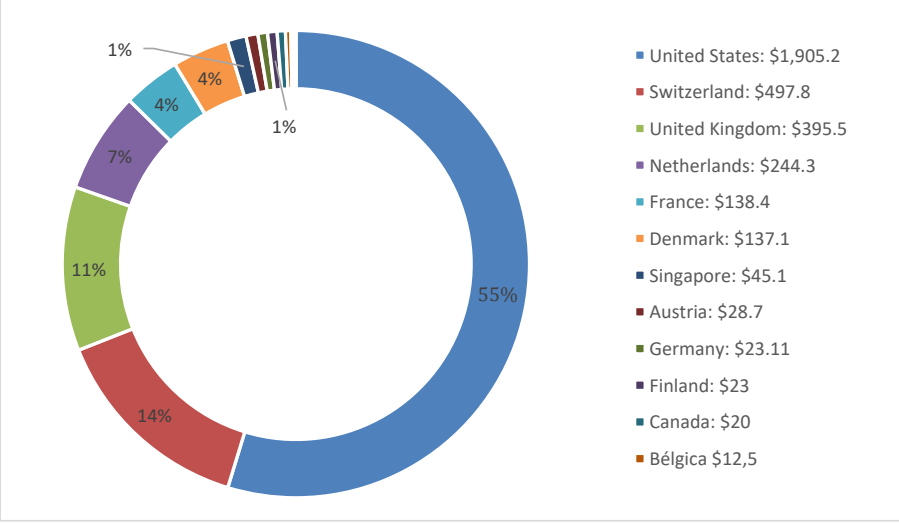
Source: Own elaboration with information from MEF 2023.

It is important to highlight that the period from 2020 to 2022, characterized by a slight decline and a grace period for debt service payments, also coincided with the economic crisis caused by the COVID-19 pandemic and pro-cyclical fiscal adjustment policies. This crisis led to a reduction in imports and improved the trade balance, thereby reducing pressure to incur new external debt to replenish foreign exchange reserves.

The accumulation of international reserves also reveals one of the characteristics of contracting new debt in recent years, which is used to bolster international reserves, specifically by depositing them in a foreign bank in Switzerland. It is not used for investment, as was previously done with debt contracted during the period 2008-2016 with China, for example, where debt was invested in hydroelectric plants or infrastructure projects that enhanced productivity and economic growth. Secondly, it is also used to cover the primary fiscal deficit. This logic of securing reserves for creditors, without prioritizing short-term economic growth, is reflected in the increased burden of the IMF in Ecuador's debt, which rose from 2 % to 14 %, representing the creditor with the highest growth in Ecuadorian debt participation.

It is important to note that Ecuador's creditors include significant financial and industrial centers globally. This encompasses bilateral debt, sovereign bonds, and multilateral debt. In terms of commercial debt, the United States is the largest holder of Ecuador's sovereign bonds, at 55 %, followed by Switzerland (14 %), the United Kingdom (11 %), the Netherlands (7 %), and France (4 %).

COUNTRIES HOLDING ECUADORIAN SOVEREIGN BONDS



Source: Own elaboration with information from Eurodad on their website, Refinitiv data, 2021[3].

Furthermore, in the multilateral sphere, the influence of the United States is predominant, given its veto power in the IMF. With 17 % of voting rights, the United States plays a crucial role in shaping policies and structures at the IMF, where implementing significant reforms requires an 85 % majority (Boston University Global Development Policy Center, 2022). This reinforces inequalities in representation and decision-making, disproportionately affecting lower-income countries and those impacted by climate change who have no opportunity to influence the credit policies that affect them (Bretton Woods Project, 2022).

3 Pudimos procesar esta información gracias a que Eurodad compró bases de datos de la banca comercial que se encuentra atrás de las operaciones de compra de bonos soberanos de economías pequeñas.

In summary, the evolution of Ecuador's public external debt since the beginning of the century is influenced by various factors, and, its trend is closely related to the loss of foreign exchange, reflected in international reserves. This approach provides an alternative model to balance of payments analysis to understand capital outflows and their impact on external debt behavior, while also indicating the financial health and payment capacity of the country.

ECOLOGICAL DEBT OF ECUADOR'S MAIN CREDITORS

In the context of global ecological and climate responsibility, Ecuador's creditors stand out both for their economic development and their significant environmental debt. The United States leads the list with a climate debt of 378.9 gigatons of CO2, representing a 40 % excess over its "just share" of emissions. Additionally, it accumulates an ecological debt of 296.6 gigatons of natural resources, which is 27 % more than its equitable share.

France, on the other hand, has a more moderate climate debt of 29.3 gigatons of CO2, constituting a 3 % excess over its just share, and an ecological debt of 38.1 gigatons of natural resources. Despite its efforts in environmental policies, these numbers reflect a significant impact.

The United Kingdom also shows considerable figures with a climate debt of 66.3 gigatons of CO2, which is 7 % more than just, along with an ecological debt of 37.4 gigatons of natural resources. This historically industrialized country faces the challenge of reconciling its industrial past with its current climate commitments.

Spain, although it is not among the largest climate debtors, has an ecological

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Spain, although it is not among the largest climate debtors, has an ecological debt of 22.8 gigatons of natural resources, which is 2 % more than its just share, demonstrating the impact of its development and consumption policies on natural resources.

In contrast, the Netherlands, although not appearing on the list of major climate debtors, accumulates an ecological debt of 11 gigatons of natural resources, also showing a 1 % excess over its just share.

Finally, China, as one of the leading emerging economies, has accumulated a significant ecological debt. According to available data, the nation has an ecological debt of 167.2 gigatons of natural resources, representing a 15 % excess over what would be equitable under a just distribution of resources.

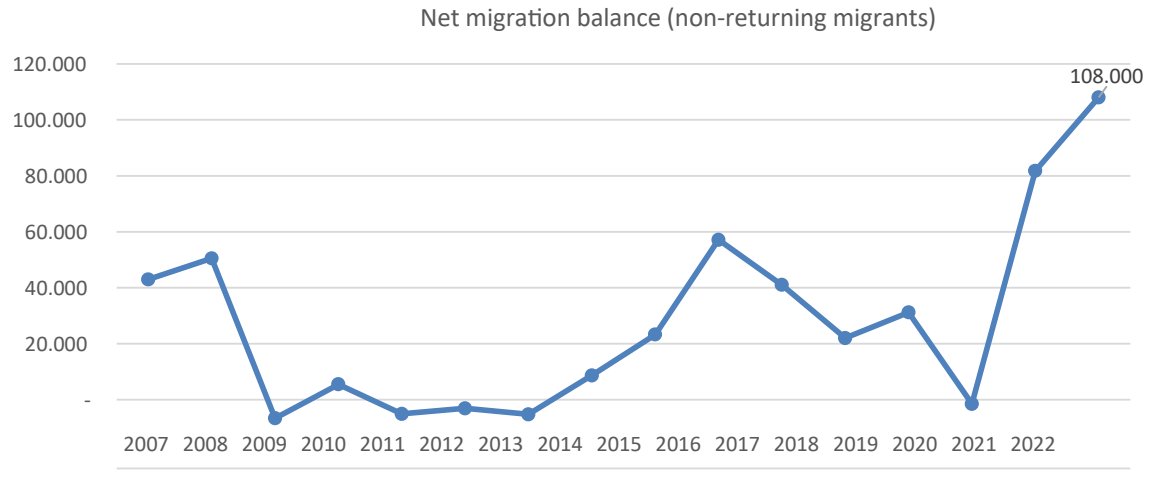
These data illustrate that Ecuador's creditors bear a high level of environmental responsibility.

Source: Lancet Planet Health 2022; 6: e342–49 Goldsmiths, University of London, London, UK. Jason Hickel, Daniel W O'Neill, Andrew L Fanning, Huzaifa Zoomkawala. National responsibility for ecological breakdown.

SOCIAL IMPACTS

Despite the moderate reduction in external debt achieved through adjustment, the social cost has been significant. The decrease in wage mass has led to a decline in average income per worker, dropping from $309 in 2017 to $293 in 2023.

During the same period, underemployment has increased from 46 % to 49.6 %. However, labor precarization would be even more evident in the statistics if labor migration did not reach historical figures as it does now; during this period, more than 108 000 people have emigrated without return. In addition, insecurity figures have also reached historic levels. Although this phenomenon has multiple causes, the weakening of the State contributes to the lack of control. For example, homicides have increased from 970 to 7795.



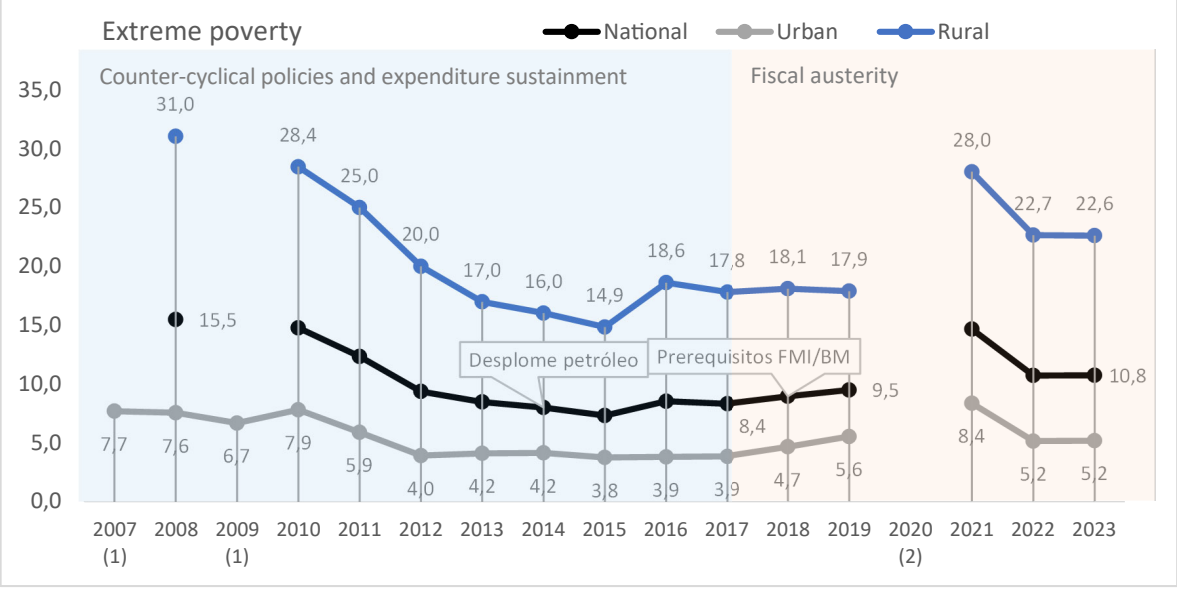
Source: Own elaboration with data from INEC (2023).

Regarding changes in the percentage of the Ecuadorian population living in extreme poverty from 2008 to 2023, the national extreme poverty rate has experienced a steady decline from 15.5 % in 2008 to 8.4 % in 2017. However, since then, fluctuations in extreme poverty have stagnated, reaching 10.8 % in 2023.

Similarly, during the period from 2008 to 2017, extreme poverty in urban areas decreased from 7.6 % to 3.9 %, while in rural areas, extreme poverty dropped from 31 % to 17.8 %. However, from that point onwards, extreme poverty has shown an increase, reaching 5.2 % in urban areas and 22 % in rural areas in 2023.

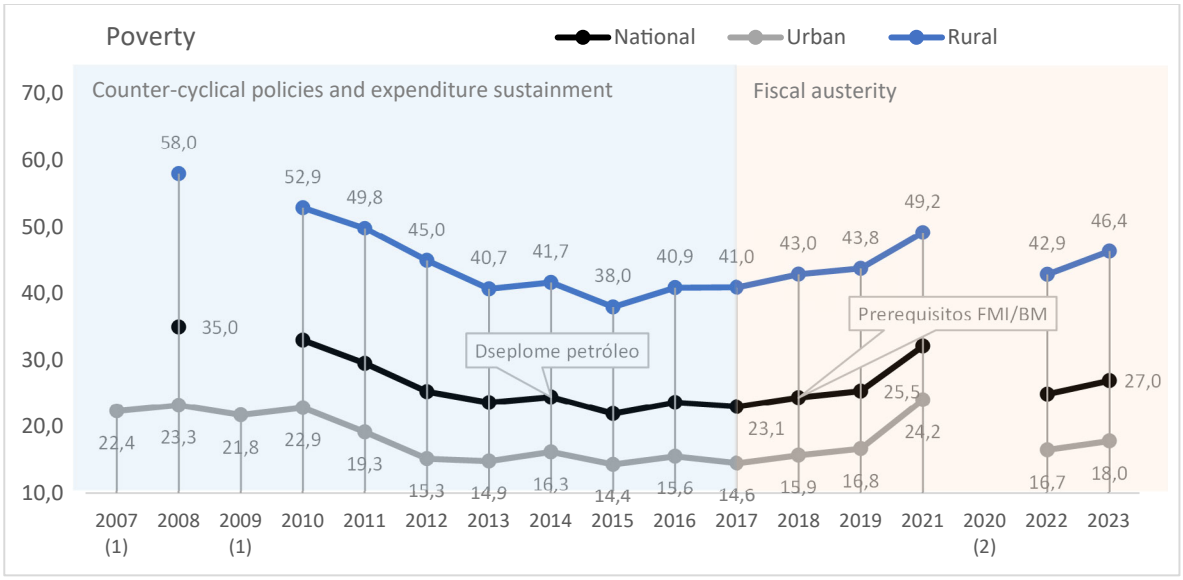
It is also important to note that the deterioration in the extreme poverty indicator began to manifest before the arrival of the pandemic, and so far, previous levels before the health crisis have not been regained.

Between 2008 and 2017, there was a notable reduction in poverty levels nationwide, decreasing from 35 % to 23 %, which corresponds to a significant 12-percentage-point decrease. However, by 2023, the national poverty rate has increased by 5 points, reaching 27 %. Regarding urban poverty, during the same period, it decreased from 23.3 % to 14.9 %, observing a decrease of 8.4 percentage points; however, in 2023,



Source: Own elaboration using the National Survey of Employment, Unemployment, and Underemployment - ENEMDU.INEC.
(1) There is no information available at the rural and national levels for these years.
(2) Due to the lockdown, a telephone survey was conducted, which is not comparable to the in-person ENEMDU survey.

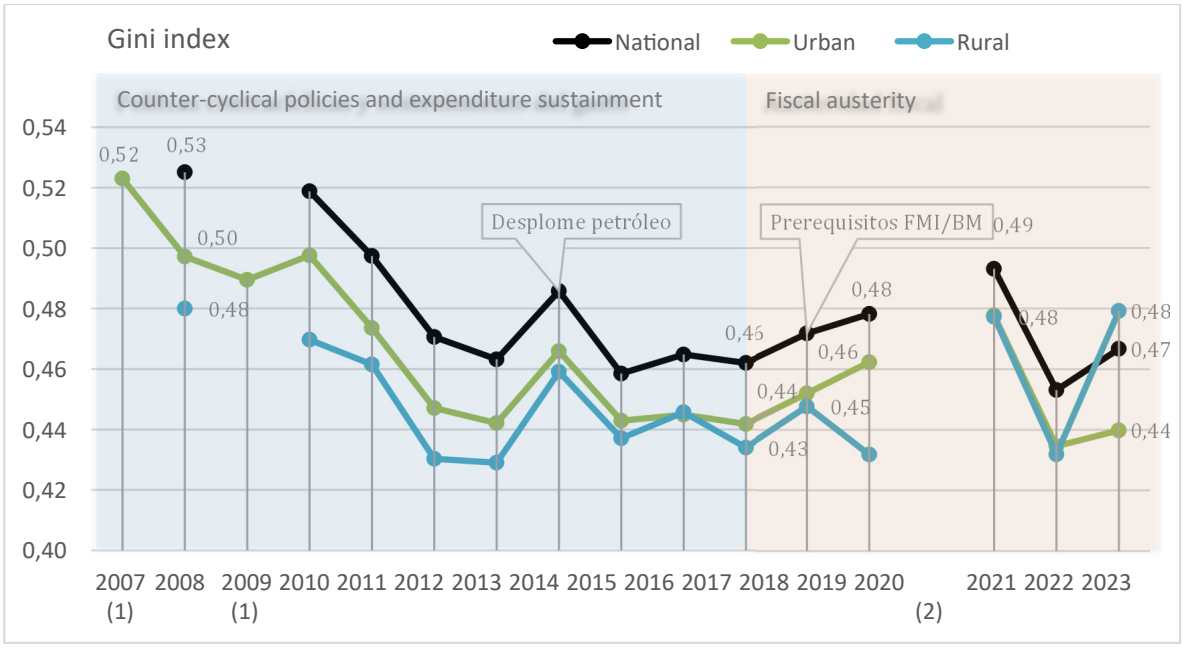
it increased by 2.4 points. On the other hand, rural poverty also showed a notable reduction, dropping from 58.0 % to 40.7 %, which signifies a decrease of 17.3 points. However, in 2023, this rate experienced an increase of 4 points.



Source: Own elaboration using the National Survey of Employment, Unemployment, and Underemployment - ENEMDU.INEC.
(1) There is no information available at the rural and national levels for these years.
(2) Due to the lockdown, a telephone survey was not conducted, which is not comparable to the in-person ENEMDU survey.

The Gini index is a measure of income inequality. A Gini index of 0 means that all income is distributed equally, while a Gini index of 1 means that one person has all the income and everyone else has none. Ecuador's Gini index has been decreasing since 2008, but from 2017 onwards, the index has stalled until 2023, increasing from 0.43 to 0.48 in rural areas, remaining at 0.44 in urban areas, and rising from 0.46 to 0.48 nationwide.

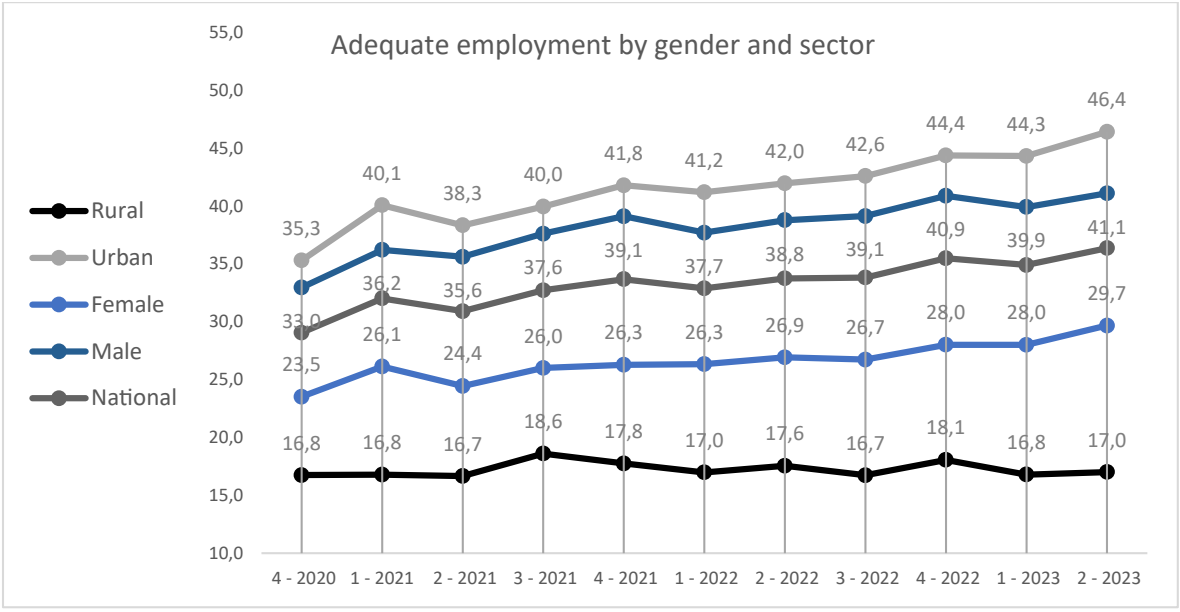




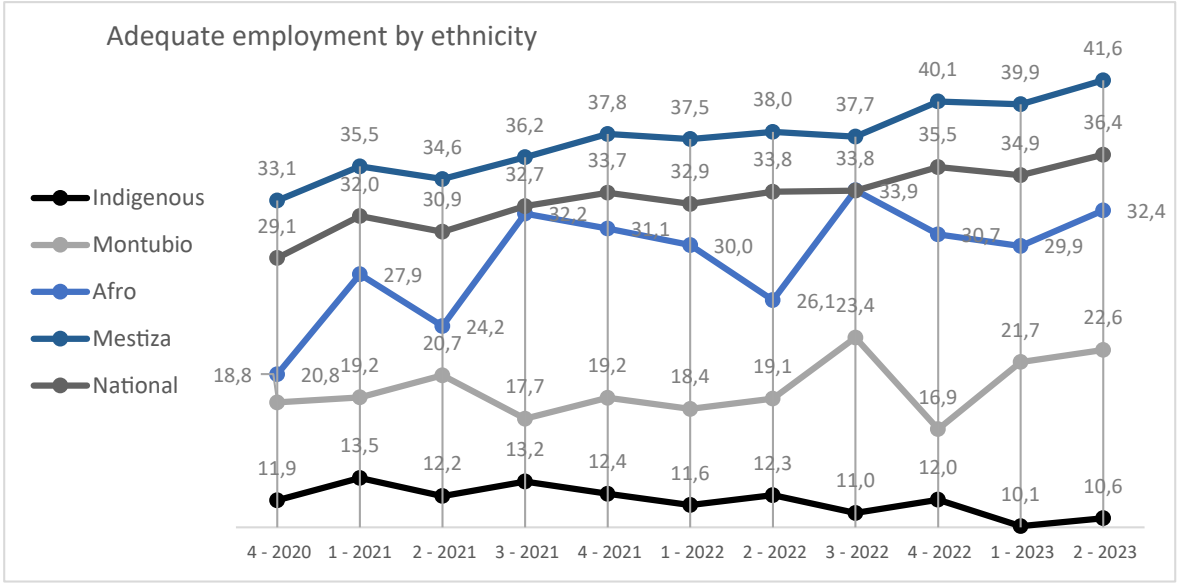
Source: Own elaboration with data from the National Survey of Employment, Unemployment, and Underemployment - ENEMDU.INEC.
(1) No information is available for rural and national levels for these years.
(2) Due to the lockdown, the in-person survey was not conducted.

On the other hand, Ecuador's Gini index is higher than the average for the countries of the Organization for Economic Cooperation and Development (OECD), which is 0.32. This means that income inequality is greater in Ecuador than in most developed countries. There are several factors contributing to income inequality in Ecuador, including rural poverty, lack of employment, and high market concentration.





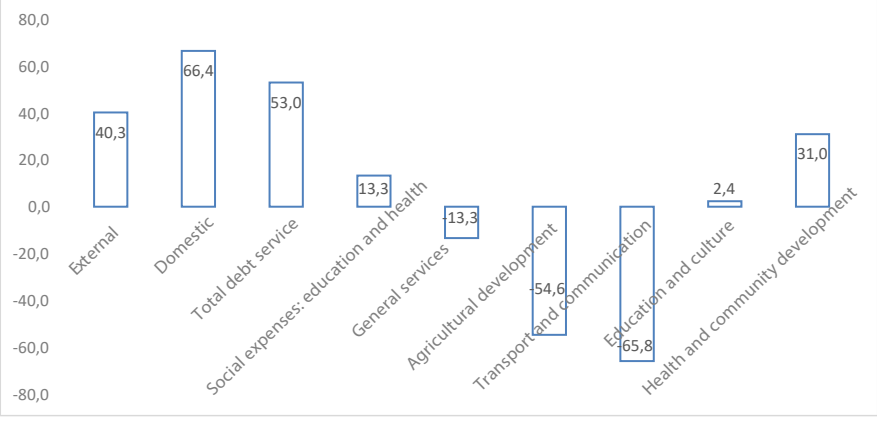
After the lockdown, the data shows a general trend of increasing rates of adequate employment in Ecuador. However, notable inequalities persist between ethnic groups, with significantly lower rates for the Indigenous, Montubio, and Afro-Ecuadorian populations compared to the Mestizo population.



These disparities highlight the urgent need for public policies and economic development strategies that effectively address these inequities and promote equitable employment opportunities for all Ecuadorian citizens. Public policy can have a significant impact on extreme poverty by addressing the underlying causes and providing measures to improve the living conditions of the most vulnerable people.

Another way to assess social sacrifice is to review spending on debt compared to other areas. Therefore, in the following table, we have taken the growth rate of public debt service payments compared to social spending and other areas during two periods: 2014-2018 and 2019-2023. It is observed that the payment of public debt service, both internal and external, was the largest burden on public spending, increasingly absorbing resources and limiting the capacity for investment in other areas such as education, health, agricultural development, and transportation and communications. Health spending would have decreased further if it were not for the obligation to increase expenditures to address the COVID-19 pandemic.

GROWTH RATE OF PUBLIC DEBT SERVICE PAYMENTS VS. SOCIAL SPENDING AND OTHER AREAS, COMPARING THE PERIODS 2014-2018 AND 2019-2023



Source: Own elaboration based on information from the Central Bank of Ecuador (BCE).

B. ANALYSIS OF EXTRACTIVE ACTIVITIES

For Ecuador, mining and the oil industry have been selected as key extractive sectors due to their concentration in the Amazon region. These activities generate significant fiscal revenues that contribute to external debt repayment and are the only sectors with positive net balances that allow for the accumulation of international reserves. In this context, other sectors of the economy such as agriculture or tourism should not be classified as extractive because, unlike mining and oil companies, they do not operate under state concessions to manage Ecuador's strategic resources. The economic contribution of mining and the oil industry to fiscal revenues is higher, not only through tax payments but also because they generate significant royalties and extractive rents for the State .

There are several extractive projects in the Amazon region; three out of the ten strategic mining projects in Ecuador are in the Amazonian provinces of Zamora Chinchipe and Morona Santiago. Additionally, the region hosts 67 oil extraction blocks spread across five provinces, including Sucumbíos, Napo, Morona Santiago, Pastaza, and Orellana. In terms of territorial extension, it is estimated that around 47 thousand hectares out of the 210 thousand hectares concessioned nationwide are in the Amazon, representing approximately 23.7 % of the total mining project area in the country.

This territorial expansion poses significant challenges for the Amazonian provinces and their biodiversity. The detailed distribution of these concessions reveals the diversity and breadth of their impact. For example, in the province of Morona Santiago, the San Carlos Panantza concession covers 1.6 % of the total provincial territory and represents 12.3 % of certain cantons and parishes. In Zamora Chinchipe, the Mirador

4 Ver Transparency International. (n.d.). Extractive Industries: Overview. Retrieved from Transparency.org

and Fruta of the North concessions represent 1.1 % of the provincial territory, but have a larger extent at the parish level, with Mirador covering 24.9 % of the Tundayme parish and Fruta of the North 10.3 % of the Los Encuentros parish.

Regarding the impacts of extractive activities in the Amazon region, data from the Ecociencia Foundation shows significant loss of vegetation cover. Between 2001 and 2020, the Amazon lost an average of 31 000 hectares of forest annually, totaling a loss of 623 000 hectares over two decades. This trend, along with the decrease in forests and non-forest natural formations, demonstrates a continuous threat to biodiversity and the environmental services that forests provide to the world.

Oil exploitation in the Ecuadorian Amazon has been present since the 1970s; in fact, Ecuador is the main Amazonian country of origin for oil exported to the world, with the United States being one of the main destinations. This activity has had significant consequences for both the environment and local communities. Here we highlight the most important impacts:

- Pollution of rivers and water sources: Over the past 50 years, oil operations have been responsible for more than 1000 spills in the Amazon region. These spills have released millions of barrels of oil and toxic substances into the ecosystem (Vaca, 2017).
- Deforestation: The construction of oil infrastructure has led to the deforestation of thousands of hectares of rainforest. In the influence area of Yasuni National Park alone, it is estimated that oil operations have deforested 70 000 hectares since the 1970s (Alvarado, 2022).
- Impact on biodiversity: Yasuni National Park and the Amazon in general where oil operations are conducted, one of the world's most biodiverse regions, hosting hundreds of birds, mammal, and plant species, is at risk due to pollution and habitat alteration (Grist, 2023).
- Effects on local communities: Indigenous communities in affected areas have

reported increased health problems related to pollution, including cancer and other diseases. Additionally, pollution has affected traditional activities such as fishing and agriculture, reducing food sources and income (Vaca, 2017) (Tapia, 2021).

- Legal response and protests: Affected communities have initiated multiple legal actions and protests. A significant example was in 2011, when Indigenous peoples and settlers in the Amazon region won a lawsuit against Chevron-Texaco, awarding them $9.5 billion in compensation for environmental damages. However, the enforcement of this judgment has faced numerous legal and political obstacles (Vaca, 2017) (Tapia, 2021).

Mining has emerged as a key player in the Ecuadorian Amazon, multiplying the surface area allocated to this activity 24 times between 2000 and 2020. This implies direct loss of vegetation cover and significant changes in land use. Additionally, protected natural areas, designed to conserve Amazonian biodiversity, have experienced a loss of 13.8 thousand hectares of natural vegetation cover between 1985 and 2020.



Popular consultation on Yasuni and the Andean Chocó

In Ecuador, through a popular consultation, most of the population voted to suspend oil exploitation in Block 43, also known as ITT, which partially lies within Yasuni National Park, one of the most biodiverse areas on the planet and home to Indigenous peoples in voluntary isolation. The "yes" vote to keep the reserves unexploited garnered 59 % of the votes, while the "no" vote reached 41 %. This consultation took place in the context of Ecuador's presidential and legislative elections in October 2023.

In the same elections, citizens of the Metropolitan District of Quito were also asked about mining exploitation in six of its rural parishes, part of the Andean Chocó biosphere reserve declared by UNESCO. In this case, the majority voted to halt the advancement of mining exploitation, with 68 % of the votes. This decision implied banning mining at various scales in the area and not granting new concessions, although existing projects will remain active.

Both consultations represented significant victories for environmental advocates, particularly the Ecuadorian indigenous movement that led the campaign and convinced most of the country, despite representing only 7 % of the population. This democratic decision also sets a precedent regarding the possibility of achieving environmental and social rights beyond economic interests.

However, several sectors question the financial sustainability of this decision. According to government information, the ITT field contributed revenues equivalent to 5 % of GDP over 6 years. Additionally, it is claimed that non-operation of ITT would impact revenues equivalent to 7 % of GDP. This has raised doubts not only among traditionally conservative sectors regarding the environment, such as business chambers, but also among progressive sectors with a tradition of economic leftism, such as unions and socialists. Credit rating agencies have also viewed the results of the popular consultation unfavorably; for example, Moody's has mentioned a downgrade in the country's risk rating.

On the other hand, environmental sectors have considered alternatives to generate fiscal revenues, such as implementing new direct taxes. However, it is important to note that not even a comprehensive tax reform resolves the main issue and objective of Yasuni's exploitation: generating foreign exchange to support the country's monetary regime and prevent increased external debt due to lack of international reserves. Moreover, simply exploiting Yasuni without changing the model, as proposed by conservative sectors, cannot solve the issues of financial sustainability and accelerated reprimarization of the economy. There needs to be a debate on which stopgap measures to avoid and provide solutions with a structural focus on changing the entire economic model.

Indigenous movement

Between 2019 and 2024, the environmental and economic demands of CONAIE have remained focused and strategic, aiming for structural changes in state institutions. These demands include opposition to structural adjustment policies perceived as harmful to Indigenous communities and the environment. This encompasses resistance against the privatization of state-owned enterprises and the extraction of natural resources without the consent of affected communities (DeGuardi, 2022).

From an ecological perspective, they persist in their opposition to the expansion of mining and oil extraction projects that negatively impact nature and traditional Indigenous territories. These efforts include legal actions and mobilizations against mining concessions and the lack of prior, free, and informed consultation (DeGuardi, 2022).

In recent years, the indigenous movement has effectively integrated ethnic, environmental, and economic demands. During the National Strike of 2022, this movement proposed a series of significant economic and social reforms. Among these, they highlighted controlling speculation in the commodity market and seeking financial relief for families indebted to private banks. They also advocated for increasing the budget allocated to health and education, emphasizing the urgent need for more medicines, personnel, and improvements in educational infrastructure. They called for effective public policies to combat the wave of organized crime violence and other security issues disproportionately affecting Indigenous communities. They proposed a shift towards targeted fuel subsidy models, demanded a pause in mining and oil exploitation, and reclaimed collective rights, including bilingual education and respect for prior consultation.

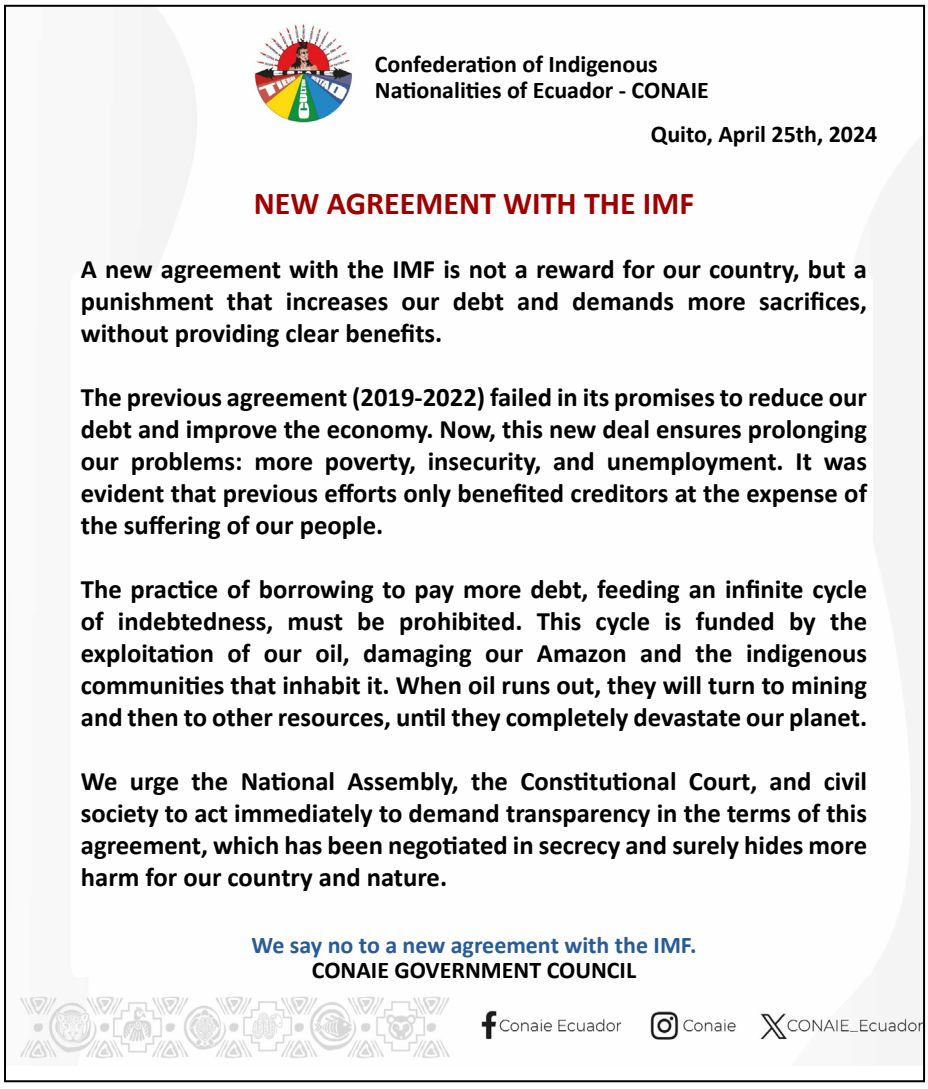
Much of the indigenous agenda has been marked by social mobilizations, strikes, and uprisings. These actions are deeply tied to austerity policies protests aimed at ensuring payments to external debt creditors. In 2019, indigenous communities opposed austerity measures implemented by President Lenin Moreno, including the removal of fossil

fuel subsidies, as part of an agreement with the IMF. These measures were perceived by Indigenous communities as a direct attack on their ways of life and a factor exacerbating inequality. Two years later, in June 2022, CONAIE again called for national mobilizations against the government's economic policies aligned with IMF recommendations. These policies aimed to once again remove subsidies and perpetuated economic conditions that worsened the burden of post-pandemic economic recession on the most vulnerable.

On the other hand, in 2024, a more localized but significant protest occurred in Palo Quemado, challenging the government's proposed mining economy model with intensity. Opposition to a mining project in this area reflects how conflicts over natural resource management are interconnected with global economic policies. The push for mining exploitation in places like Palo Quemado not only poses a threat to the environment and social cohesion of these communities but is also seen as a strategy to generate necessary foreign exchange to repay the country's massive debts, accumulated through previous economic policies and IMF agreements.

This focus on generating short-term revenue through resource exploitation may have medium to long-term consequences for communities and the environment, triggering further resistance and cycles of social conflict.

ECUADORIAN INDIGENOUS MOVEMENT ON THE IMF



Confederation of Indigenous
Nationalities of Ecuador - CONAIE

Quito, April 25th, 2024

NEW AGREEMENT WITH THE IMF

A new agreement with the IMF is not a reward for our country, but a punishment that increases our debt and demands more sacrifices, without providing clear benefits.

The previous agreement (2019-2022) failed in its promises to reduce our debt and improve the economy. Now, this new deal ensures prolonging our problems: more poverty, insecurity, and unemployment. It was evident that previous efforts only benefited creditors at the expense of the suffering of our people.

The practice of borrowing to pay more debt, feeding an infinite cycle of indebtedness, must be prohibited. This cycle is funded by the exploitation of our oil, damaging our Amazon and the indigenous communities that inhabit it. When oil runs out, they will turn to mining and then to other resources, until they completely devastate our planet.

We urge the National Assembly, the Constitutional Court, and civil society to act immediately to demand transparency in the terms of this agreement, which has been negotiated in secrecy and surely hides more harm for our country and nature.

We say no to a new agreement with the IMF.
CONAIE GOVERNMENT COUNCIL

Conaie Ecuador Conaie CONAIE_Ecuador

Source: CONAIE, 2024. Retrieved from: https://twitter.com /CONAIE_Ecuador/status/1783618540701917321/photo/1

C. ANALYSIS ON CLIMATE AND CLIMATE FINANCE

Ecuador, like many other countries around the world, faces significant challenges related to climate change and environmental sustainability. The Fourth National Communication on Climate Change and the Second Biennial Update Report of the Ministry of Environment, Water, and Ecological Transition (2022) of Ecuador reveal that climate investment needs for the period 2021-2030 are estimated at USD 3.6

billion dollars. These funds are strategically distributed across several categories. The Nationally Determined Contribution (NDC) leads with USD 2.7 billion (76.2 %), of which USD 2.6 billion (96.1 %) is allocated to the mitigation component, USD 102.8 million (3.7 %) to adaptation components, and USD 5.3 million (0.2 %) to cross-cutting measures. Additionally, USD 859 million is allocated to Clean Development Mechanism Projects (23.7 %), USD 1.67 million to National Reports to the UNFCCC (0.05 %), and USD 2.10 million to Requirements of the National Climate Change Registry and Verification Reporting Mechanism.

Climate finance is more relevant considering Ecuador's high vulnerability to natural risks. Over a period of 22 years, various hydrological and climatological events such as floods, landslides, and droughts have been recorded. According to the public portal Emdata (2022), between the year 2000 and 2022, there were significant numbers of events severely affecting the population. In the year 2000, deaths and injuries were recorded due to landslides. In 2001, floods affected thousands, with a total of 47 deaths and 30 injuries. The year 2002 was particularly damaging, with over 54 000 people affected by floods and significant costs in terms of damage and reconstruction, highlighting the need for considerable investment to recover from these disasters.

The trend continued in the following years, with floods and droughts impacting both human life and the economy. For example, in 2008, floods affected over 275 000 people, and the cost of damages exceeded 1 million US dollars. The year 2013 saw another large number affected by floods, with over 25,000 people affected.

The frequency of these climate events is notable, with 35 events recorded during the analyzed period. The year 2022 shows a continuation in the severity of impact, including a flood that affected 26 663 people. In total, the adjusted economic damages from these climate events amount to more than 1.3 billion US dollars.

This scenario highlights Ecuador's vulnerability to climate change and underscores the importance of mitigation and adaptation measures to protect populations and critical infrastructure.

Regarding specific actions of Ecuador's National Climate Financing Strategy 2015-2020 (Ministry of Environment, Water, and Ecological Transformation, 2021), which addresses climate risks and impacts, it establishes 83 strategic lines and short, medium, and long-term action lines totaling 22, 51, and 10, respectively. However, the lack of information on the implementation of these strategies hinders accurate assessment, potentially leading to duplicity of efforts. The strategy provides a detailed perspective in six key sections, identifying 240 climate-related activities, divided into 59 for mitigation, 77 for adaptation, and 104 addressing both components. This strategy is crucial in a context of restructuring public entities and budgetary limitations, as it outlines actions and progress in resource management to address present and future climate challenges.

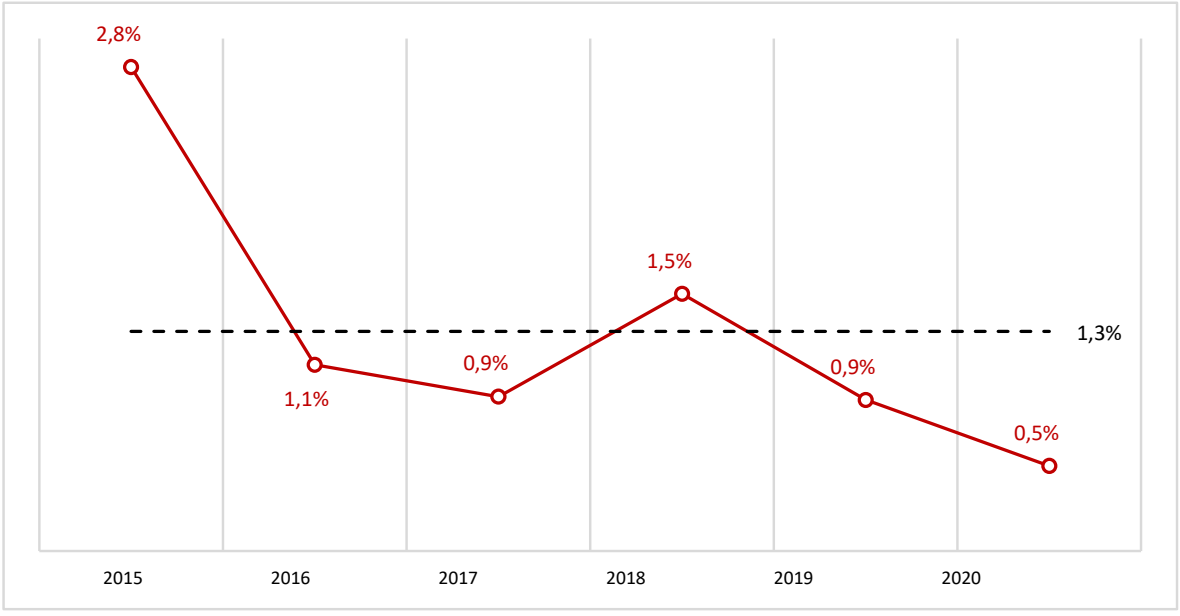
Ecuador's National Climate Financing Strategy, analyzing the period 2015-2020, shows that 183 climate-related projects were approved, with a total financing of $3.3 billion dollars. During this period, 76 % of the financing came from multilateral agencies, while 17 % came from bilateral funds. It is important to note that 79 % of the total funds were provided in the form of loans, unjustly increasing the country's debt levels. Multilateral banks, such as the Inter-American Development Bank (IDB), the World



Bank, and the Development Bank of Latin America and the Caribbean (CAF), played a prominent role in channeling these resources, collectively representing more than 70 % of the financing received.

Regarding the relationship between external climate financing and Ecuador's public debt, it is observed that climate financing averaged 1.3 % of Ecuador's total public debt between 2015 and 2020 (Fiscal Policy Observatory, 2023). Although there were annual fluctuations, this percentage ranged between 0.5 % and 2.8 %. This relationship may indicate changes in the prioritization of debt allocated to climate initiatives over time.

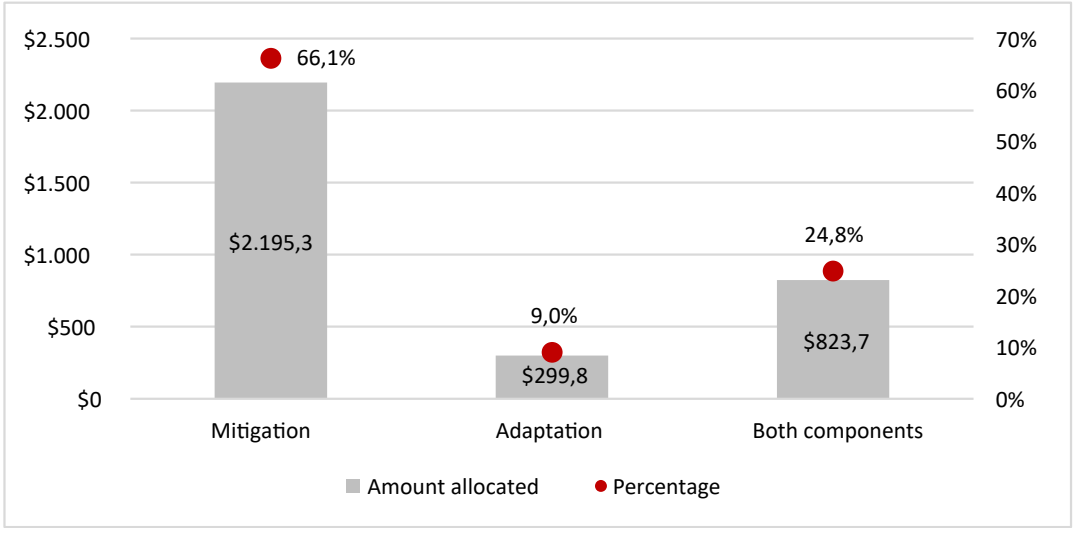
CLIMATE FINANCING IN RELATION TO AGGREGATE PUBLIC DEBT, 2015-2020 (BASE 2007)



Source: Self-produced with information from the Fiscal Policy Observatory and the Ministry of Environment, Water, and Ecological Transformation.

Climate financing received by Ecuador primarily focused on mitigation projects, representing 66.1 % of the total, which amounted to USD 2 billion, followed by USD 299.75 million allocated to adaptation, constituting 9.0 %. This allocation may be considered insufficient, given that Ecuador, as a country vulnerable to climate change, requires significant and costly measures to prevent damages and economic, social, and environmental losses. Projects addressing both mitigation and adaptation components received USD 823.65 million, equivalent to 24.8 % of the total financing of USD 3.3 billion.

INTERNATIONAL FINANCING BY CLIMATE IMPACT AREA, 2015-2020 (MILLION USD - BASE 2007)



Source: Own elaboration with information from the National Climate Financing Strategy.

On the other hand, transitioning to a more sustainable and diversified energy matrix is a key objective for Ecuador, supported by significant financing from the Inter-American Development Bank (IDB). Between 2014 and 2020, the IDB provided around $1.2 billion dollars to support these efforts. While notable progress has been made in energy generation through hydroelectric plants and other renewable sources, the country continues to rely on oil exploitation due to the income generated by this

activity, and in recent years large-scale mineral exploitation has begun to replace oil in the coming years.

Determining the cost of the energy transition is a challenge because there is a lack of detailed information on loans from other multilateral agencies specifically for this purpose. Despite being one of the pillars of the productive matrix change since 2009, Ecuador's energy transition lacks a publicly calculated approximate cost, highlighting the need for research and information dissemination in this regard. In addition to the above, it is necessary to evaluate the impact that the productive and energy matrix change would have. Thus, the labor situation in Ecuador's extractive sectors, especially in the oil sector, faces significant uncertainty amid a potential energy transition.

Although the exact magnitude of the impact of this transition is not yet specified, there are data that provide a current view on employment in these sectors. According to the National Survey of Employment, Unemployment, and Underemployment (ENEMDU, 2022), the branch of activity of "Mining and Quarrying," which includes activities related to oil and minerals, generated approximately 41 000 jobs, representing 0.5 % of total employment in the country. In addition, activities related to renewable energies, such as electricity, gas, and air conditioning supply, contributed around 18 298 jobs, representing 0.2 % of total employment.



Breaking down more specifically by categories of the International Standard Industrial Classification (ISIC), it is observed that crude oil extraction and related support activities employed approximately 7815 people, while mining employed 32 942 people. On the other hand, activities related to electricity, gas, and air conditioning employed 18 298 people. The uncertainty about the labor impact of a possible energetic transition raises crucial questions about the need for effective labor and social policies to ensure a just and equitable transition that does not negatively affect this segment of the employed population. Therefore, it is imperative that the national government supports the search for new sources of employment considering this eventuality.

The shift in the energy matrix is fundamental in a context of record levels of environmental pollution and rising temperatures. Ecuador recorded a total of 80 627 Gg of CO2-eq in greenhouse gas (GHG) emissions in the year 2012, according to available official data. Moreover, if current trends continue, Ecuador could experience a temperature increase of approximately 2°C by the end of the century. This increase would particularly affect the Amazon region and other areas of the country. The energy sector was the main contributor, accounting for 46.43 % of the total with 37 594.03 Gg of CO2-eq, followed by Land Use, Land-Use Change, and Forestry (LULUCF), which contributed 25.35 % (20 435.49 Gg of CO2-eq). These two sectors, along with agriculture accounting for 18.17 % with 14 648.10 Gg of CO2-eq, constitute more than 70 % of the country's total emissions. Industrial processes represented 5.67 % (4571.72 Gg of CO2-eq), and waste contributed 4.19 % (3377.83 Gg of CO2-eq). This sectoral distribution underscores the importance of targeted strategies to reduce emissions and move towards sustainable development. (Ministry of Environment, 2019)

This review of multiple aspects related to the environmental situation in Ecuador highlights the challenges and opportunities facing the country in relation to extractive activities and climate change. Despite significant efforts in international climate financing, the lack of impact studies and the trend towards financing as debt suggest

the urgent need for more effective mitigation and adaptation strategies, as well as the mobilization of highly efficient and concessional resources or debt-free. The duality between oil exploitation and renewable energy sources in the energy transition, along with vulnerability to natural disasters and biodiversity loss in the Amazon region, underscores the importance of policies that promote environmental sustainability and equitable development. The limited availability of information and gaps in available data highlight the need for greater transparency and cooperation to address climate challenges more effectively in Ecuador, which is crucial for all stakeholders, from the public sector to academia and civil society.

DEBT-FOR-NATURE SWAP FOR THE GALAPAGOS ISLANDS.

On November 1, 2021, during COP26 in Glasgow, the Ecuadorian president announced the expansion of the Galapagos marine reserve by 60 000 km². This announcement is part of an agreement signed with Credit Suisse in May 2023 aimed at swapping private external debt for financing dedicated to conservation projects through blue bonds. This strategy, similar to initiatives in Belize and Barbados, represents a growing model of "market solutions" in financing global climate responsibility, though it has faced some scrutiny.

The Galapagos Life Fund (GLF), established in a kind of tax haven, Delaware, will manage approximately USD 12 million annually for 18 years, plus an additional USD 5.41 million for a permanent endowment. These funds represent only a fraction of Ecuador's total external debt, which exceeds $60 billion. However, the trust is managed by a trust in Delaware, USA, known for being a kind of tax haven, which raises concerns about tax evasion and legality, given that Ecuadorian

legislation prohibits these offshore jurisdictions from handling funds related to the State.

Additionally, according to disclosures from civil society organizations (CDES, 2023), the structure of the GLF and the issuance of new bonds to repurchase external debt lack transparency, casting doubt on who truly benefits from these operations and whether conservation goals will be effectively achieved. Locally, although the project has been positively received by some sectors like tourism, it has been criticized for not ensuring transparent management and potentially becoming a "Yasuni 2.0," referring to previous projects where promised conservation did not materialize as expected.

Most positions on the trust's board are held by private actors, potentially limiting Ecuadorian government involvement in key decisions regarding the conservation of one of its most valuable natural resources. Concerns about fund management, transaction transparency, and sovereignty implications suggest that these financial models require rigorous scrutiny and stricter regulation to ensure they meet both economic and environmental objectives.

While blue bonds and debt-for-conservation swaps offer a new pathway for funding environmental protection, the challenges associated with their implementation require careful consideration to avoid compromising national sovereignty and ensure real and lasting benefits for the Galapagos ecosystems and communities. Greater transparency strengthened state regulatory oversight, and the involvement of independent community and experts in the planning and supervision of projects financed through this mechanism are required.

4. MAIN FINDINGS OF THE RESEARCH ON THE CONNECTION BETWEEN DEBT-CLIMATE-EXTRACTIVISM:

Once the data review is completed, we propose to use an extension of Prebisch's thesis (1950) into the ecological realm to interpret the findings of this small-scale research. Raul Prebisch argued that there is an international division of labor where peripheral countries specialize in exporting raw materials (primary goods), while central countries specialize in exporting industrial goods (manufactured and high-tech goods). This structure leads to a deterioration in the terms of trade for peripheral countries, where they need to export more to import less in monetary terms over time.

The ecological perspective (Perez-Rincon, 2006)[6] adds that this unequal exchange is not only monetary but also physical, where peripheral countries export essential resources and energy at low prices, which are crucial to



6 Tomamos como texto principal la tesis de Pérez-Rincón, M. A. (2006). El comercio internacional colombiano desde una perspectiva física: Hacia una "tesis de Prebisch" ecológica. Economía Ecológica.

sustain the economy and an environment with less pollution in the countries of the center. This dynamic perpetuates an ecologically unequal relationship, contributing to the depletion of natural resources in exporting countries and maintaining artificially low prices for these resources, which benefits importing industrialized countries.

Trade, reserves, debt, and the Amazon

An analysis of the link between debt, climate crisis, extractivism, and their impact on the Amazon, particularly on the most vulnerable and historically discriminated groups, requires addressing Ecuador's dependence on oil exports to manage its external debt as a phenomenon associated with the characteristics of its productive structure and its integration into the global economy. The analyzed information shows us that neither dollarization nor fiscal deficit alone explains the cycles of external debt in Ecuador. On the contrary, we observe that the determining variable is the trade deficit, which precedes the need for capital inflows and, in the absence of structural foreign direct investment (FDI), leads to pressures to acquire more external debt.



Like other peripheral countries, Ecuador is a primary exporter that must constantly replenish international reserves by contracting obligations with industrialized countries using strong currencies. This happens due to the external constraint faced by peripheral countries, which struggle to retain economic surpluses that leave national borders due to unequal commercial and financial exchanges with the metropolises. This leads to an asymmetric exchange of currencies that systematically tends to result in difficulties or balance of payments crises, which in turn leads to a systematic depletion of international reserves replenished through further external debt or intensified exploitation of natural resources to obtain petrodollars, as in the case of Ecuador.

It is important to consider that based on Ecuador's case, generalizations can be made for different exchange rate regimes in countries facing external constraints, whether they have a floating, fixed, or dollarized regime (an extreme variant of the fixed rate). The result is the same, leading to the need to acquire more debt. In the case of a floating exchange rate, where market forces determine the currency's value, a country with a trade deficit demands more foreign currency, potentially resulting in depreciation of the national currency. In this scenario, the foreign exchange market adjusts to reflect the imbalance in the trade balance, exerting pressure towards depreciation of the national currency. If depreciation is significant, the central bank has incentives to intervene in the market by selling foreign currencies from its reserves. This intervention aims to prevent excessive depreciation of the national currency, avoiding negative consequences such as a rapid increase in imported goods prices.

In the case of a fixed exchange rate, where the currency's value is tied to another currency or a set of currencies, pressure on international reserves can be more accelerated. In this scenario, the central bank is committed to maintain the established parity, meaning it must use its international reserves to buy its own currency in the foreign exchange market and thus mitigate depreciation. This action also depletes international reserves and eventually may lead to the need to contract more external debt.

In the context of a dollarized economy, such as Ecuador's case, the challenges associated with a high trade deficit take on a particular dimension. Although dollarization provides stability in the exchange rate, the effects of a strong currency stimulate the importation of goods and services, considering a structural tendency of dollar appreciation as has been the case for much of the past two decades. The trade deficit, driven by cheaper imports, leads to a sustained reduction in reserves that at an extremely low level could trigger a liquidity crisis, exacerbated by the lack of monetary issuance instruments.

Therefore, it is important to note that the need for external financing becomes more pressing in small economies with significant trade imbalances. Seeking loans becomes a strategy to cover the deficit and maintain an adequate level of reserves, especially considering that foreign investment financing has always been limited in peripheral countries, particularly in Ecuador. Moreover, the constant decrease in reserves can affect investor confidence and credit risk ratings. If this condition of currency loss via trade becomes structural, it leads to greater dependence on external financing and intensified oil exports.



Thus, whether in a system of floating exchange rates, fixed rates, or dollarization, peripheral countries face a dilemma: the need to maintain economic stability often results in contracting more external debt, which after can only be cancelled out with further exploitation of natural resources or by contracting more debt, perpetuating the cycle of financial dependency, environmental degradation, and inequality in global economic relations.

It is important to note that the reasons for this unequal exchange are diverse, such as the lower price elasticity of primary commodities compared to price changes, international financial deregulation aimed at accumulating currencies in foreign banks or tax havens, repatriation of profits to industrialized centers, and payments for both public and private external debt service. However, we consider here that this list of causes is a manifestation of capital flight possibilities that occur due to a global system shaped by unequal trade, based on deteriorating terms of trade resulting from differences in specialized production regimes in the international division of labor.

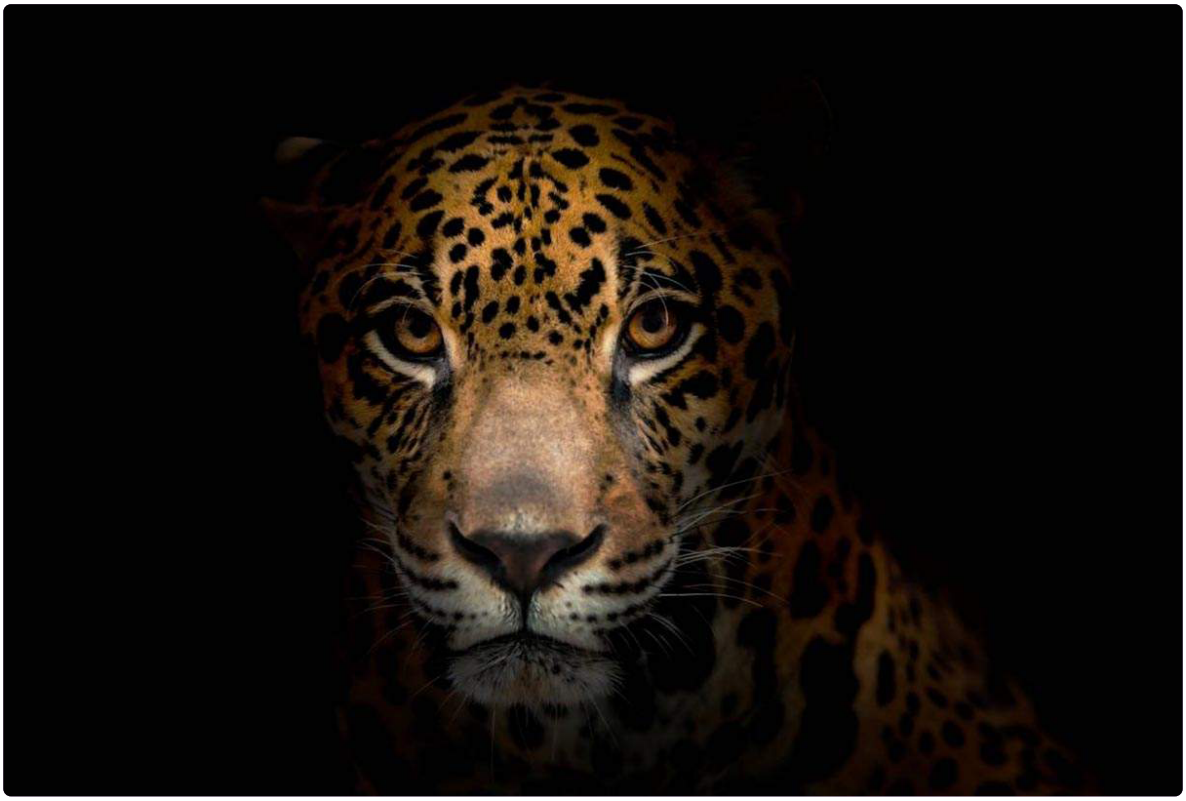
Ecological perspective of unequal exchange

From an ecological perspective, it is possible to expand Prebisch's thesis (1950) on unequal exchange in monetary terms to include considerations on the exchange of natural resources and energy between peripheral and central countries. This extension emphasizes that trade imbalances not only have a monetary dimension but also a significant ecological one. This is evident in the flow of natural materials from primary product-exporting countries to industrialized ones in exchange for high-value manufactured goods. (Peres-Rincon, pag. 59, 519-529, 2006)

Peripheral countries export large quantities of natural resources at low prices, crucial for sustaining economic growth and consumption in industrialized countries.

This trade includes materials such as metals, oil, gas, and biomass, essential for various industries and daily life in developed countries. However, the international trade model not only negatively affects monetary terms of trade but also causes ecological deterioration in exporting countries due to extractive industries. Intensive resource extraction leads to environmental degradation, biodiversity loss, and other ecological damages that are not adequately compensated by the revenues from these exports.

The prices of these resources rarely reflect their true environmental costs of extraction and use, benefiting developed countries with low prices that do not include environmental costs, while peripheral countries bear the environmental and social consequences of unequal trade and nature exploitation. Moreover, there exists an asymmetry between regulatory standards and environmental awareness in Northern compared to Southern countries. The former can afford stricter environmental protection policies and often externalize polluting and extractive activities to countries with less stringent regulations and lower environmental management capacity.



Unequal ecological exchange and external debt

The connection between unequal ecological exchange and external debt is established through various economic and financial mechanisms that perpetuate both ecological and financial dependence. When revenue from peripheral countries' raw material exports is insufficient to cover technological and industrial imports, these countries are forced to resort to external loans, increasing their external debt. This mechanism is reflected not only in the balance of payments but also in the central bank's international reserves account. Once international reserves become insufficient, further debt is required to maintain an adequate level to support international transactions.

Furthermore, the need to generate foreign currency for servicing external debt pushes these countries to increase the exploitation and exportation of natural resources. This increase in exploitation can lead to unsustainable resource management, exacerbating environmental degradation and compromising long-term sustainability. Additionally, international loans often come with conditions imposed by entities such as the IMF and World Bank, including trade and capital liberalization, privatization of state-owned enterprises, and reduction of environmental regulations. These conditions deepen the undermining of possibilities for endogenous development, shifting the production matrix and strengthening primary export dependence. In this way, both economic and ecological unequal exchange limits governments' capacity to invest in cleaner technologies and develop more diversified and sustainable economic sectors.

It can be argued that ecologically unequal exchange not only affects the environmental sustainability of developing countries but is also intrinsically linked to the structure and sustainability of their external debt. This interrelation highlights the need to address trade, monetary, productive, and public debt policies in an integrated manner to promote development with greater autonomy that navigates structural dependence.

5. CONCLUSIONS AND RECOMMENDATIONS

The evolution of Ecuador's external debt reflects the inherent complexities of peripheral economies, where global and local factors interact to shape its trajectory. In this sense, dependence on extractive industry revenues and fluctuations in oil prices have been central determinants in the country's debt dynamics, compounded by the context of climate crisis. However, it is crucial to recognize that debt is not simply a direct consequence of these factors, also connected to governmental policies such as financing strategies and economic policies impacting the domestic market and growth. Additionally, the analysis reveals that dollarization, while providing monetary stability, has become an import stimulus that tends to further re-primarize the economy and increase the trade deficit.

We have also observed that focusing on international reserves as an indicator of the external sector provides a more comprehensive perspective of financial flows and their implications for economic development and stability of the country, clearly demonstrating the link between oil and external debt. These findings highlight that Ecuador’s external debt is determined by the systematic loss of foreign exchange due to deteriorating trade balances, forcing the economy to expand its oil and mining extraction activities primarily concentrated in the Amazon.

It is crucial to recognize that international reserves are an important tool to ensure payments abroad, primarily for imports and external debt payments. However, we must be aware that their accumulation is not an end, but rather a means to ensure economic stability that a dollarized country also relies on to maintain internal liquidity.

Ecuador's significant dependence on international climate finance through loans underscores the urgent need to diversify sources of financing and reduce the burden

of public debt. This suggests the importance of prioritizing grants and subsidies over loans to mitigate associated financial risks and increase the country's financial flexibility, as should be demanded within the framework of the principle of Common But Differentiated Responsibilities (CBDR), which recognizes that countries in the Global North are and have historically been primarily responsible for the climate crisis.

The principle of common but differentiated responsibilities, enshrined in the United Nations Framework Convention on Climate Change (UNCCC), establishes that all countries have a responsibility to address climate change, but this responsibility should be differentiated according to each country's capacities and circumstances. It acknowledges that developed countries, especially those in the Global North, bear greater responsibility due to their historical contribution to greenhouse gas emissions and their capacity to address climate change, while developing countries may require support to adapt to and mitigate its impacts.

Data on Ecuador's climate and ecological debt from major creditors reveal the urgent need for these countries to assume significant responsibility in mitigating climate change and responsibly managing natural resources. Creditors such as the United States, China, Spain, France, and the United Kingdom, with their high levels of pollution and significant environmental footprints, must acknowledge their debt to the planet. In this context, it is crucial to consider the renegotiation or restructuring of Ecuador's debt, a country that holds valuable ecological reserves, especially in the Amazon. This action would not only be a step towards repairing its global environmental impact but also strengthen conservation efforts in critical regions for global biodiversity. Shifting towards a more sustainable economy in Ecuador represents a significant challenge that requires a thorough evaluation of long-term costs and benefits. While notable progress has been made in generating energy from renewable sources, continued dependence on oil exploitation raises questions about the long-term viability of this transition. Detailed research is essential to determine

the exact cost of energy transition and assess its impact on both employment and the environment. Furthermore, effective labor and social policies must be implemented to ensure a just and equitable transition that protects workers' rights and promotes new job opportunities in sustainable industries.

Ecuador's high vulnerability to natural events underscores the urgent need to strengthen mitigation and adaptation strategies, especially in the context of a climate crisis where real solutions are not being promoted internationally, and where there is no political will to advance the implementation of climate commitments that could promptly halt the planet's temperature rise. It is crucial to prioritize investment in resilient infrastructure and early warning systems to reduce the impact of these events and protect the most vulnerable communities, including indigenous peoples, families with limited resources, women in all their diversities, children, youth, and older adults, among others. Additionally, national, and local-level risk management measures must be implemented to improve response capacity and recovery from natural disasters. Strengthening coordination and collaboration among government entities, civil society, and the private sector is also essential to ensure an effective and coordinated response to extreme events.

Returning to external debt management, it is crucial to establish legal reforms that require legislative approval and prior constitutional oversight for agreements with institutions such as the International Monetary Fund (IMF) and the contracting of significant external credits. This will ensure greater transparency and accountability in debt management to prevent adjustment measures that undermine national interests and the environment.

Reforming rules on internal financing to allow the use of liquidity surpluses from other public institutions at the national level is necessary. This will help reduce pressure to increase debt with private banks or contract external debt.

It is also important to institutionalize cyclical processes of citizen audit of international financing procedures, including a human rights and environmental perspective. Strengthening rules for public access and transparency of public credit contracts is essential to ensure more transparent and responsible debt management.

Governments should be urged to promote mechanisms for debtor countries to establish an international framework regulating sovereign debt restructuring processes. This would include defining international principles of just treatment, controlling abusive clauses in debt contracts, and establishing mechanisms to facilitate agreements between creditors and borrowers.

For instance, a proposal to address sovereign debt in the context of the climate and ecological crisis could be the creation of an international fund dedicated to restructuring the debt of developing countries most affected by the impacts of climate change and environmental degradation. This fund could be financed through



contributions from developed countries, acknowledging their historical responsibility for greenhouse gas (GHG) emissions and their capacity to address climate challenges. Additionally, clear and transparent criteria could be established for the eligibility of debtor countries and conditions for debt restructuring, including consideration of their performance in climate change mitigation and adaptation. This would simultaneously address sovereign debt burdens and climate and environmental challenges, promoting a comprehensive and equitable approach to international debt management. Finally, concerns raised by the indigenous movement in Ecuador highlight the importance of promoting dialogue and inclusive participation in decision-making on environmental and extractive policies. It is essential to recognize and respect the rights of indigenous communities over their ancestral territories and ensure their active participation in processes of prior consultation and free, prior, and informed consent. Additionally, demands of the indigenous movement related to environmental protection and promotion of sustainable agricultural practices should be addressed, integrating their traditional knowledge into the formulation of environmental policies and programs.

We believe that these recommendations will contribute to improving the management of Ecuador's sovereign debt, strengthening transparency, accountability, and the long-term financial sustainability of the country.



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