

# Debt: Ecuador at a historic turning point

Monday 28 May 2007, by [MILLET Damien](#), [TOUSSAINT Éric](#) (Date first published: 24 May 2007).

## **The response of Rafael Correa's government to the debt issue**

Ecuador is the country in South America that has to dedicate the highest percentage of its budget to servicing its debt. The contribution expected in 2007 is unsustainable since the foreseeable repayments amount to about US\$2,800 million (i.e. 38 % of its budget) [1] President Rafael Correa's new government, established since early January, has already been forced to pay substantial amounts to its creditors (nearly US\$1,000 million) and consequently is attempting to staunch the haemorrhage in order to be able to serve its people. The new government intends to use the money which thus becomes available in order to improve the social conditions of the population, particularly in the area of health care. Already some 600 new health workers have been employed in order to immediately improve the quality of health services to those members of the population who are most in need. It aims at improvements in other areas too.

This radical stance of President Correa and Ricardo Patino, his Minister for Economy and Finances, has led to various attempts at destabilising the current government by local and international financial groups as well as by right-wing parties. Anything goes in order to harm them.

## **A process is being set up to cancel the debt**

The new government aims to identify those elements of the country's debt which incontestably can be denounced and repudiated. Starting from the results produced by the audit commission of the former government, a new audit commission is being set up which should take investigations much further and consists of both national and international experts. Ricardo Patino's aim is to set up a commission consisting of at least six experts, three of them international personalities. [2] The commission would rely on a research group of several dozen people who would identify illegitimate debts, whether to multilateral creditors (such as the WB, the IMF, the InterAmerican Development Bank) or to bilateral creditors (mainly Spain, Japan, Brazil and Italy). There are in fact over 15 bilateral creditors for a total US\$2 billion, i.e. 20% of Ecuador's public external debt. The government would also wish to audit debts held by private creditors in the form of bonds so as to determine which part is illegitimate and warrants cancellation. The same applies to public internal debt for which cancellation measures are already being implemented.

The current Ecuadorian government wants to be quick about it. This is why international experts on the debt issue are ready to go back to Ecuador as soon as possible. Anyway, several ministers have in-depth knowledge of the debt issue and many citizens' associations have been working for years on auditing the debt. This is why the Ecuadorian authorities are ready to take measures based on well documented research.

## **Which way forward ?**

Unilateral action is necessary because were Ecuador to wait for the international community to set up an international settlement court, it would take years before any outcome was reached. The situation is critical. In so far as debt issues are concerned, unilateral action is legitimate and far more efficient. It is preferable to take the sovereign decision to denounce and stop servicing some

debts even if it were subsequently decided to take up negotiations again with some creditors on some of them. In this case the government would be in the favourable position since it is the creditors who would be wanting payment to be resumed and would be more inclined to talk and tune down their demands. Ecuador thus has excellent reasons to undertake a unilateral action and decide on the basis of an audit that a large part of the external debt is illegitimate. A sovereign decision of the Quito authorities to stop servicing debts would be based on various arguments of internal and international law.

### **What are the arguments in favour of cancelling the debts ?**

Many contracts include usurious interest rates. Ecuador has to pay for projects that were never carried out or the outcome of which does not meet requirements. Debts were contracted to pay back debts contracted by dictatorships in the 1970s. A detailed analysis of the projects on which those debts are based thus yields several reasons for cancellation. Actually this concerns most of Ecuador's debt.

We should now establish which debts can be called off and move on to the next stage, i.e. suspending payments. This could be done in the coming months, as early as summer 2007, the government and the President making the final decision.

### **How is the new audit commission going to proceed ?**

The transparency policies of the new government mean that this newly created auditing commission will make all its results public. The auditing commission's offices will be open, accessible to any member of the public who would like to contribute to their work or could testify in order to identify embezzlements, projects that were not carried out or various types of fraud which Ecuadorian citizens have been victim to while being expected to pay the resulting debt.

In accordance with the transparency policy the committee will open a website on which most contracts will be displayed. If this stage is carried out, CADTM along with other associations demanding the cancellation of the debt will launch an international call for witnesses. It is likely that some former World Bank, IDB or IMF consultants or officials, creditors, or agents of private creditors will be ready to bring up dubious, illegal or criminal practices among creditors so as to help the Ecuadorian authorities not to pay their illegitimate debt.

### **An important testimony: John Perkins'**

This is for instance the case of John Perkins, whose book *The Confessions of an Economic Hit Man* [3] has turned into an important event. He clearly explains what his mission was, namely "to encourage world leaders to become part of a vast network that promotes US commercial interests. In the end, those leaders become ensnared in a web of debt that ensures their loyalty. We can draw on them whenever we desire-to satisfy political, economic, or military needs. In turn, they bolster their positions by bringing industrial parks, power plants, and airports to their people. The owners of U.S. engineering/construction companies become fabulously wealthy." He happened to work in Ecuador for President Jaime Roldos : "Jaime Roldos was moving forward. He took his campaign promises seriously and he was launching an all-out attack on the oil companies. [...] The oil companies reacted predictably - they pulled out all the stops. [...] They tried to paint the first democratically elected president of Ecuador in modern times as another Castro. But Roldos would not cave in to intimidation. [...] He delivered a major speech at the Atahualpa Olympic Stadium in Quito and then headed off to a small community in southern Ecuador. He died there in a fiery airplane crash, on May 24, 1981.

An accident, really as in the case of the president of Panama, Omar Torrijos, at the same time? Perkins never believed there was anything accidental about it: *"They were assassinated because they opposed that fraternity of corporate government, and banking heads whose goal is global empire. We Economic Hit Men failed to bring Roldos and Torrijos around, and the other type of hit men, the CIA-sanctioned jackals who were always right behind us, stepped in."*

The conclusion is obvious: *"Ecuador is awash in foreign debt and must devote an inordinate share of its national budget to paying this off; as a consequence the only way Ecuador can buy down its foreign obligations is by selling its rain forests to the oil companies"*. This means that utterly disregarding Ecuadorian sovereignty *"the global empire demands its pound of flesh in the form of oil concessions..."* John Perkins was back in Ecuador on 22 May 2007 to apologise to the Ecuadorian people. Other officials involved in the country's illegitimate debt might wish to follow suit.

### **Action is also needed in the North**

In order to complete the process, auditing committees need to be created to investigate the debt repayments claimed by the governments of the North from countries in the South. Belgium for instance is demanding US\$16 million from Ecuador, most of which was loaned within tied-aid projects. Even a cursory analysis of those projects shows that Belgium's loans to Ecuador were conditional to Ecuador buying equipment from Belgian companies, and more specifically electrical equipment. However, Belgium itself claims that it relinquished any tied-aid policies years ago as being illegitimate. We the CADTM (Committee for the Abolition of the Third World Debt [www.cadtm.org](http://www.cadtm.org)), along with the CNCD (Centre National de Coopération au Développement) and other NGOs will produce a detailed analysis of the contracts signed between Ecuador and Belgium so as to determine whether Belgium can still legitimately demand any payment or whether the debt should be purely and simply cancelled, as Norway did in 2006, notably for five fishing ships it sold Ecuador over twenty years ago at a time when the transaction did more good to the Norwegian naval industry than to Ecuador's economy.

### **Notes**

[1] Total social spending is only 22% of the country's budget, unless the government manages to radically reduce the percentage devoted to the debt and change the situation.

[2] Eric Toussaint might be one of them. He was invited, and he accepted. It still has to be confirmed by presidential decree. See the daily paper El Universo, Quito, sábado 28 abril 2007, p. 5. [www.eluniverso.com](http://www.eluniverso.com)

[3] San Francisco, Berrett-Koehler Publishers, 2004.

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\* Translated by Christine Pagnouille.