Alternative Development in Ecuador: Prospects for Equitable Growth

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The story of development in Ecuador is one of peaks and crises, amid economic inequality and political instability. Ecuador is in many ways distinct from other Andean and Latin American countries in terms of the history of its economic growth. Some Latin American countries have successfully sustained growth even after applying development strategies such as import substitution industrialization (ISI) and neoliberal structural adjustments. However, these strategies have not successfully ended economic inequality in Ecuador, where development levels are still relatively poor compared to the rest of the region. In 2007, Ecuador's literacy rate among adults stood at 84%, less than that of nearly all other countries in Latin America.[1] Ecuador's gross national income per capita in 2009 was $3,970, well below that of Costa Rica and the Dominican Republic, other small Latin American countries, as well as below that of many of its larger neighbors.[2] On the other hand, Ecuador is among the countries with the greatest biodiversity in the world, and as a result benefits from an enormous degree of tourism potential. Ecuador faces the challenge of meeting basic human needs and economic growth while preserving this incredible biodiversity. As the theoretical analysis of this paper will suggest, however, development should be thought of in terms beyond addressing basic human needs. Economic growth is an insufficient metric of development, and participation and opportunity should be considered as fundamental human needs.

Ecuador is in need of development alternatives; prior strategies have not worked and, in the face of global climate change, sustainable solutions are of the utmost importance. Alternative

[1] The World Bank. "Literacy Rate, adult total," The World Bank Group, http://data.worldbank.org/indicator/SE.ADT.LITR.ZS?display=default, Accessed March 28, 2011.
[2] The World Bank, "GNI per capita, Atlas Method," The World Bank Group, http://data.worldbank.org/indicator/NY.GNP.PCAP.CD?display=default, Accessed March 28, 2011.

development strategies are more likely to be successful if they are presented by popular sectors and civil society, institutions made up of those individuals who will likely be the beneficiaries of development-related projects. Furthermore, state and international support are critical to the success of alternative models that go beyond dominant neoliberal conceptions of development. This paper aims to prove Ecuador's particular need for alternative solutions and to analyze the potential of such solutions for success given levels of support from civil society, the state, and from the international community. In addition to an economics context, it is important to understand the political context's impacts on these forces and the shaping of development strategies. The scope of this paper will focus on the present political context, presenting a case study of a proposal for complementary currencies as a response to dollarization.

Theory

Before advocating alternatives to development, one must define the ideal end goal of development and present how one best measures the success of development strategies. Classic development theory, perhaps best represented by the work of Rostow, maintains that development denotes a linear trajectory all countries pass through - from a traditional society to a society of mass consumption.[3] For Rostow, development can be defined as economic growth. Neoliberal theory does not consider freedom or the quality of life of all of the individuals living in a country; rather, development is measured in more macro terms such as economic output. Furthermore, in practice, the reductionist elements of the theory do not hold up; inequality between countries is in fact increasing following the implementation of neoliberal reforms.[4]

[3] W.W. Rostow, "The Five Stages of Growth", in Mitchell Seligson and John Passé-Smith, edit., *Development and Underdevelopment: The Political Economy of Global Inequality: Second Edition*, Boulder, Colorado, Lynne Rienner, 2003, p. 10.
[4] John T. Passé-Smith. "The Persistence of the Gap Between Rich and Poor Countries", in Mitchell Seligson and John Passé-Smith, edit., *Development and Underdevelopment: The Political Economy of Global Inequality: Second Edition*, Boulder, Colorado, Lynne Rienner, 2003, p. 25.

Some countries are clearly not following Rostow's trajectory, and not by their own choice or for lack of implementing development strategies.

Neoliberal theory holds that perfect competition, arrived at via an unregulated market, leads to an efficient use of resources.[5] In practice, neoliberals call for export-oriented production. Other details of neoliberal strategy are broadly presented in the so-called "Washington Consensus", a package of reforms including privatization and the deregulation of financial systems, all meant to open targeted countries to international markets.[6] The impacts of neoliberal reforms on Ecuador will be explored below; however, before exploring other theoretical approaches to development, it bears mentioning that neoliberal reforms in Latin America in general did not help Latin American countries converge with developed countries.

Proponents of endogenous theory, such as Joseph Stiglitz, critique neoliberal theory in a globalized context, noting that developed countries are hypocritical in that they often don't practice the policies of free trade that they attempt to promote in developing countries.[7] Endogenous theory maintains that economic growth is determined by production within the country, rather than forces outside.[8] Thus, the theory promotes policies that support research and development, leading to innovation. However, endogenous theory fails to explain the divergence between developed and developing countries. Theories of international dependence are perhaps more appealing, as they account for the rigidities produced by the dominant position of wealthy countries with respect to developing countries. While dependency theories offer a compelling explanation of the reasons for existing economic relationships between countries, no reasonable

[5] Louis Lefeber, "¿Qué permanece aún de la teoría del desarrollo?" *Desarrollo Económico*, Vol. 31, N. 122, July-September, 1991, p. 2.
[6] John Williamson, "The Washington Consensus Revisited", in Louis Emmerij, edit., *Economic and Social Development into the XXI Century*, Washington D.C., IADB, 1997, p. 60-61.
[7] Joseph E. Stiglitz, *El rumbo de las reformas: hacia una nueva agenda para América Latina*, Quito, CEN, 2004, p. 33.
[8] Michael P. Todaro and Stephen C. Smith, *Economic Development*, 9th ed., New York, Longman, 1994, p. 142.

development solutions are offered. Promoting autarky, for example, led to economic stagnation in China and India (M. Todaro and S. Smith, 1994: 119). Neo-marxist theories such as the theory of unequal exchange also grew out of an understanding of “core” and “periphery” countries, critiquing neoclassical and linear theory for disregarding the relevance and persistent impacts of historical events and pointing out that cheap labor in periphery countries drives the global capitalist system.[9] Writers like Amin believe that radical societal changes such as a switch to socialist forms of organization are necessary for development successes (S. Amin, 1976: 48).

If we are to accept “the sustainable satisfaction of human needs, including basic needs as well as the free participation of persons in creating their own destiny”[10] as a reasonable definition of development, then it becomes clear that neoclassical theories are insufficient. However, many revisions of neoclassical theory – such as the endogenous theory of development use many of the same assumptions and fail to assess individual quality of life in their development models. Even dependency theorists seem to consider the relationships between countries, rather than formulating an in-depth analysis as to what should be appropriate indicators of development. Furthermore, proposed solutions such as a switch to socialism around the world, as proposed by Amin, seem far-fetched in the near term. For these reasons, Amartya Sen’s *Development as Freedom* offers a compelling alternative conception of development that can be applied in the current global political context. Sen argues that with guaranteed political liberties and transparency, social opportunities, protection, as well as access to economic services, individuals will have the opportunity to charter their own destiny and help one another.[11] Sen’s work initially met criticism for failing to offer realistic solutions along the lines

[9] Samir Amin, *La Acumulación a Escala Mundial*, Mexico, Siglo XXI, 1976, p. 18.
[10] Carlos Larrea, *Pobreza, dolarizacion y crisis en el Ecuador*, Quito, Abyayala, 2004, p. 67.
[11] Amartya Sen, *Desarrollo y Libertad*, Barcelona, Espana, Editorial Planeta, 2000, p. 27-28.

of his theory.[12,13] However, in collaboration with Martha Nussbaum he elaborated on the specific human capacities necessary to ensure individual opportunity and liberty. Among them, political participation, health, safety, and critical reflection regarding one's own life.[14] Indeed, Sen's work helped to shape the metrics used in the United Nation's Development Programme's Human Development Index (HDI), a metric development practitioners now commonly prefer as an alternative to GDP to understand the relative development position of countries.

I will accept Sen's theory as the best basis for contemplating development in Ecuador. While petroleum and inflows of remittances from abroad may improve the economic position of the country in terms of GDP, and while investment in industrialization and exploitation of natural resources may further improve Ecuador's economic situation, this will only be sustainable if it is done in a way that is inclusive and participatory. Though economic growth may be a means to development, one must articulate the end goal of development. Investment in human capital through education and basic human needs will improve productivity and lead to further technological innovation and diversification. Indeed, the market is important for growth and development, but only if everyone has economic liberty and can access it (A. Sen, 2000: 25). Furthermore, Sen stresses that the market will not bring about growth and development on its own – there is an important role for state institutions to play (A. Sen, 2000: 24).

In that current context of climate change and globalization, participation, opportunity, and freedom continue to be important considerations, but we also must consider the environment. Given that the resources of the planet are finite, development clearly cannot be

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[12] Robert Sugden, "Welfare, Resources, and Capabilities: a review of *Inequality Reexamined* by Amartya Sen." *Journal of Economic Literature*, Vol. 31, n. 4, 1993, pp. 1947-62.
[13] John Roemer, *Theories of Distributive Justice*. Cambridge, MA, Harvard University Press, 1996.
[14] Martha Nussbaum and Amartya Sen, eds.. *The Quality of Life*. Oxford University Press; New York, New York, 1993.

defined as simply growth. Development, in my view, can be defined as improving quality of life and human opportunity through creative, sustainable alternatives.

Development Strategies in Ecuador

In light of Sen's theory of development as freedom, development strategies in Ecuador seem to have put an emphasis on meeting basic needs such as education and increased income, but have not sufficiently promoted the political and economic participation of popular sectors.[15] This section will analyze the failures of the import substituting industrialization model (ISI) strategy, neoliberal reforms, and dollarization, as well as present the precarious situation of the civil society in Ecuador and other obstacles to development.

The first principal economic development strategy in Ecuador was in fact exports – well before neoliberal reforms promoted export-driven economies. Ecuador's economy was dominated by three export products that had booms in three distinct phases: cocoa (early 1900s), bananas (1948-1965), and petroleum (1972-1982).

The production methods surrounding the export economy facilitated the consolidation of an Ecuadorean elite. Up until 1964, the *hacienda* and *huasipungo* systems, a way of tying peasant laborers to land, was permitted.[16] Economically powerful elites in Ecuador were able to form regional producers' associations that controlled political access and labor (C. Larrea and L. North, 1997 : 922). Since these elites were involved in the export sector, their businesses later greatly benefitted from neoliberal policies, which only helped them to consolidate political and economic power. Elites have historically been able to co-opt development policies, shaping them

[15] A later section will explore the recent political moves of President Rafael Correa, which have increased spending on social programs.

[16] Carlos Larrea and Liisa North, "Ecuador: Adjustment Policy Impacts on Truncated Development and Democratisation", *Third World Quarterly*, Vol. 18, No. 5, 1997, p. 923.

to their needs. Equalizing political and economic participation, in line with Sen's theory, should be a goal of development in Ecuador.

The ISI model was applied in Latin America from 1950-1980. It was spurred largely by the United Nations Economic Commission for Latin America (ECLA). According to the ECLA leaders who formulated the "Prebisch thesis", productivity gains in the production of primary materials in periphery countries were not as significant as the productivity gains from technological advancements in industry.[17] Thus, Latin American – a part of the periphery – needed to industrialize to escape a pattern of merely producing primary exports.[18]

While GDP and manufacturing in the region did increase, a number of social issues remained unaddressed. For example, the neglect of the agricultural sector reinforced regional differences in income and productivity.[19] Furthermore, the model was vulnerable to unfavorable terms of trade on the international level and failed to generate diversification to produce manufactured exports (C. Larrea, 1990: 35). In Ecuador, there was some degree of diversification and domestic market expansion following the implementation of the ISI model.[20] However, as explored below, Ecuador did not industrialize as much as neighboring countries.

Much of the application of the ISI model was funded through debt, at staggering amounts in countries like Argentina that were among the strong industrializers (Thorp, 1998: 169). In addition, deteriorating international terms of trade eventually made it impossible to sustain the ISI model in Ecuador and other Latin American countries. The end of the application of the ISI model came about as developed countries began to raise interest rates in response to the global

[17] Rosemary Thorp, *Progress, Poverty, and Exclusion*, New York, NY, Inter-American Development Bank, 1998, pp. 132-133.
[18] Octavio Rodriguez, *La teoría del desarrollo de la CEPAL*, Mexico, Siglo XXI, 1993, p. 40.
[19] Carlos Larrea, *Industrialization, Employment and Crisis in Contemporary Latin America*, Toronto, CERLAC Occasional Papers N. 1, York University, 1990, p.36
[20] Carlos Larrea, "The Mirage of Development: Oil, Employment, and Poverty in Ecuador (1972-1990)", Ph.D Dissertation, York University, 1992, p. 28.

recession. Mexico suspended its interest payments on debt in 1982, the final trigger to spark a debt crisis in the entire region (C. Larrea, 1990: 34).

Neoliberal reforms followed the perceived failure of the ISI model. In Ecuador, The debt crisis of 1982 was further exacerbated by drops in petroleum prices in 1987 and 1998. Following conditions imposed by the International Monetary Fund (IMF) to resolve the crisis, structural adjustment programs were realized in Ecuador beginning in 1981. Unlike other Latin American countries, structural adjustment in Ecuador was a very gradual, rather than “shock”, process that took place over the course of 20 years.[21] Following neoliberal reforms, per capita income in Ecuador in fact decreased. In addition when the growth of the petroleum industry is excluded, economic growth in Ecuador was nearly negligible (C. Larrea, 2006: 108).

Thus, neoliberal reforms left much lacking. Larrea and North argue that neoliberal reforms exacerbated social, economic, and political inequalities in Ecuador (C. Larrea and L. North, 1997: 914). Indeed, these persistent inequalities are likely among the principle obstacles to development in Ecuador. The authors also identify a weak civil society and political exclusion of the indigenous populations as reasons political and economic changes have not been realized in Ecuador (North and Larrea p. 925).

Comparison to Other Latin American Countries

Considering inequality opens a comparison of Ecuador to other Latin American countries. Understanding development in Ecuador is complicated by the fact that neighboring countries with many similar characteristics have fared comparatively well. From 1980 onward, Ecuador had a GDP per capita significantly lower than other Latin American countries, with the exception of Bolivia (C. Larrea, 2004: 12).

[21] Carlos Larrea, *Hacia una historia ecológica del Ecuador*, Quito, Corporación Editora Nacional, 2006, p. 104-106.

Larrea identifies rapid urbanization generally concentrated in two major cities per country and land ownership concentration as development problems typical of Latin American countries (C. Larrea, 1990: 5, 9). Economic inequality and regionalization in Ecuador have been particularly acute. This is due in part to historical trends of development. In Argentina, Colombia, and Chile, urbanization and the expansion of the middle class began as early as the late 1800s. In Ecuador, however, urbanization and the expansion of a middle class are not seen until after World War II (C. Larrea, 1992: 32).

Ecuador has among the worst levels of structural unemployment in Latin America.[22] Further, not only does Ecuador's economy lack diversification, it also has the greatest share of primary products in its exports as compared to other Latin American countries (C. Larrea, 2006: 109). Most value-added from production is found in finished products; thus, focusing on primary products limits economic growth and widespread wealth distribution.

This can in part be explained by the differences in the development of export-oriented economies. Until the banana boom in 1948, which led to some considerable infrastructure and redistributive advances, Ecuador's export-economy was dominated by cocoa production, which used traditional hacienda systems for production. Thus, prior to WWII land concentration and low-technology production were the norm (C. Larrea and L. North, 1997: 916). The very cyclical nature of Ecuador's economy sets it apart from other Latin American countries. Most neighbors have significantly developed one export, and used revenues from that export to considerably fund diversification: Colombia (Coffee), Venezuela (Petroleum), and Chile (Copper), as examples. Ecuador, however, never developed a long-standing association with a particular

[22] Carlos Larrea y Ana Isabel Larrea, "Nueva izquierda, cambio social y sustentabilidad en el Ecuador," Seminario sobre "Poverty, Inequality, and the 'New Left' in Latin America," Santiago de Chile, Woodrow Wilson Center – FLACSO Chile, 2008, p. 4.

product, and as a result did not have significant inflows to invest in diversification.[23] Indeed, during the ISI period, Ecuador's level of industry began low and did not rise as much as countries like Brazil, Argentina, and Chile, indicating a lack of political will for industrialization and continued preference for export production in Ecuador (Thorp, 1998: 161) This may change with the growth of the petroleum industry. Beginning in 1972, the extraction of petroleum in Ecuador led to an economic bonanza, which allowed the government, particularly the current presidential administration, to increase social investment. Given the finite amount of petroleum in the country and calls to combat climate change, a new, sustainable, alternative cycle must be initiated.

Despite the petroleum inflows, Ecuador remains less developed than its neighboring countries along some indicators. In the 1970s, Ecuador had the highest Gini Index of all Latin American countries, an indication that it had the greatest economic inequality (C. Larrea, 1990: 11).[24] From 2005-2008, Ecuador maintained a constant Gini Index of 54. Prior to dollarization in 1998, Ecuador's Gini Index was also 54. In 2003, the country's Gini coefficient jumped to 62. Though the Gini Index has since returned to 54, economic inequality is still clearly a large problem for Ecuador. However, Ecuador's position relative to other Latin American countries has improved somewhat. In 2005, Brazil, Honduras, and Bolivia all had Gini Indices greater than 54.[25]

Land reform among Latin American countries during the ISI period varied considerably as well. Reforms in Ecuador under military dictatorships affected only a small amount of the

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[23] Carlos Larrea, Lecture, Universidad Andina Simon Bolivar, March, 22, 2011.

[24] A Gini index measures the extent to which income distribution deviates from a perfectly equal distribution. Indices are determined based on a Lorenz curve plot of total percentage of income received vs. number of recipients; a Gini Index of 0 denotes perfect equality, while a Gini Index of 100 denotes perfect inequality. Thus, the closer an Index is to 100, the more unequal income distribution is in that country.

[25] The World Bank. "Data: Gini Index", The World Bank Group, http://data.worldbank.org/indicator/SI.POV.GINI/countries/1W?display=default. Accessed March 28, 2011.

population, where as in Mexico, Chile, Peru, and Colombia greater quantities of land were expropriated (Thorp, 1998: 155). A more equitable land distribution policy thus would be key a element to a strategy for resolving economic inequality. Thus, development strategies applied across Latin America have, in combination with a variety of historical factors, led to great development potential in some Latin American countries, but not in Ecuador. This comparative analysis highlights the need for alternatives in Ecuador – alternative economic development strategies that grow out of grassroots movements and Ecuador's particular political and economic context.

Dollarization

A subsequent proposed solution to Ecuador's economic woes was dollarization. Ecuador was the first Latin American country to use the U.S. dollar as its national currency (C. Larrea, 2004: 2). During the presidency of Jamil Mahuad in 2000, Ecuador replaced the *sucre* with the U.S. Dollar in response to the devastating impacts of the El Niño disasters in 1997 and 1998, as well as the international financial crisis (C. Larrea, 2004: 20). The goal of the move was to control hyperinflation, creating price stability that would put Ecuadorean interest rates on par with those internationally. Additionally, it was hoped that dollarization would reduce transaction costs for international capital coming into the country, incentivizing investment (C. Larrea, 2004: 3).

At first glance, dollarization seems to have benefitted Ecuador. Poverty in Ecuador's major cities has declined overall since 2000 and inflation was virtually non-existent by 2005 (C. Larrea, 2004: 38, 52). However, as Carlos Larrea identifies in his analysis of dollarization, recent economic conditions have been particularly favorable for dollarized economies. The United States government, for example, devalued the dollar with respect to the Euro, which has benefitted the Ecuadorean economy. In addition since 2000, international interest rates have fallen considerably, lightening Ecuador's debt burden. Stable gas prices and inflows of remittances have been major contributors to Ecuador's economic growth as well (C. Larrea, 2004: 4). However, these conditions are not guaranteed in the long term. While recent years have revealed benefits of a dollarized economy, Ecuador has essentially ceded its capacity to shape monetary policy. In other economic climates, this could put Ecuador at a disadvantage if it is unable to have an impact on exchange rates and terms of international trade. In addition, following dollarization, imported goods have become relatively cheap, sparking an increase in imports and a growing balance of trade deficit in Ecuador (C. Larrea, 2004: 41). Larrea also highlights a credit crisis; following the financial crisis of 1999 when many banks closed their doors, banks have become wary of financial instability and charge high interest rates, making it difficult to procure capital investments to start or expand businesses within Ecuador (C. Larrea, 2004: 41).

Dollarization in this sense can be considered yet another development strategy in Ecuador that has failed to bring about necessary social changes. Development indicators such as education, level of institutionalization, and corruption are still poor (C. Larrea, 2004: 5). Additionally, as presented in the analysis of Ecuador's Gini Index, economic inequality remains a significant problem. Alternative finance institutions, such as savings and credit cooperatives, have grown in response to financial difficulties and lack of available credit, but they have not entirely met existing needs (C. Larrea, 2004 : 69). Civil society organizations, thus, have emerged in response to failed government policies. However, as will be explored in the case study, supportive state structures are necessary for the civil society to thrive and have a voice.

Alternative Theory of Development

Larrea suggests that an alternative inward-oriented model of development in Latin America might be one based on significant income and land redistribution, as well as simultaneous investment in agriculture and manufacturing (C. Larrea, 1990: 45). However, as Larrea points out, the realization of such a strategy depends largely on political will, something that makes change seem unlikely as Latin American countries are increasingly dependent within the globalized world. Indeed, by dollarizing their economy, Ecuador has realized a loss of economic independence. Like all civil society organizations, in order for NGOs working for social change to be effective in Ecuador, they will need the Ecuadorean government to provision supportive laws and institutions (C. Larrea and L. North, 1997: 929). Larrea and North also argue that an alternative model requires international support, citing a proposal to swap debt in exchange for investment in social services (C. Larrea and L. North, 1997: 929). Alternative proposals to achieve redistributions could be possible if the civil society is strengthened and if reforms have the support of not only the national government, but also the international community.

Community organization and restructuring power relations, however, are certainly not easy projects in the short term. The case analysis of complementary currencies in response to dollarization will evaluate an effort to restructure local economies in Ecuador. I further believe that both national and international level support are needed for such micro-development strategies as well, both in terms of funding and giving validation to grassroots ideas for change.

Political Context of Ecuador

The failed development strategies presented were largely implemented prior to the presidency of Rafael Correa. Through the implementation of a new constitution and the *Plan*

Nacional para el Buen Vivir[26], Correa has ostensibly set the tone for a new, inclusive development methodology. As a response to the failure of the neoliberal model, Correa has redefined the role of the state as an active body built on a base of collective participation, with expanded limits on private property (C. Larrea and A.I. Larrea, 2008: 5). Indeed, the oft-repeated slogan of Correa's administration is *La Revolución Ciudadana*, or the Citizen's Revolution.

Correa changed contracts with oil companies so that the state government would have more control over oil inflows (C. Larrea and A.I. Larrea, 2008: 5). Furthermore, the administration has realized a great deal of social investment, giving credits and training to small and medium businesses and increasing the *Bono de Desarrollo Humano*, a welfare program for the poorest of Ecuador's population. Indeed, as a result of such policies, Correa's administration has arguably been successful in reducing the level of invisible underemployment, as well as reducing the national poverty level from 52% in 2005 to 42% in 2007 (C. Larrea and A.I. Larrea, 2008: 6). In terms of economic inequality, reforms of income and estate taxes may help to reduce income inequality in the country, though land reform is yet to have a prominent role on the agenda (C. Larrea and A.I. Larrea, 2008: 6).

Despite this progress, two qualifications must be noted. First, this social spending was realized during a time of particular economic stability. Petroleum prices were favorable, and Ecuador has benefitted from ever growing inflows of remittances (C. Larrea and A.I. Larrea, 2008: 10). Indeed, statistics show reductions in underemployment and increases in real salary at least five years prior to Correa's election in 2006 (C. Larrea, 2004: 56-63). This may suggest Correa's policies were not necessarily wholly responsible for improvements and upward trends; economic conditions were, too. Much like the conditions that have made dollarization appear

[26] Buen Vivir, or Sumak Kawsay in Quechua, can be loosely translated to "well-being". The *Plan Nacional para el Buen Vivir*, published in 2009, offers a comprehensive plan for development in Ecuador that articulates roles for the civil society and the state.

favorable, it is unclear if such spending levels are sustainable given Ecuador's persistently undiversified economy.

Second, Correa's administration has been criticized for reducing the freedom of civil society organizations, despite advocating a more participatory society. For example, Correa issued a decree that would allow the government to shut down NGOs compromising the interests of the state.[27] A recently proposed Law of Popular and Solidarity Economy will require Savings and Credit Cooperatives to change their statutes and follow a common model, with the goal of reducing competition among cooperatives, something that has shaken up current Cooperative networks and sparked debate.[28] Savings and Credit Cooperatives and Complementary Currency Initiatives, both of which will be explored below, can be thought of as a part of Ecuador's rich social and solidarity economy movement, which has been greatly promoted by the Ministry of Economic and Social Inclusion (MIES) and employs 65% of Ecuador's working population.[29] The proposed new law represents increased regulation on a group of organizations that makes up civil society. While laws and standardization can reduce corruption and improve provision of services, often too much control can result in a lack of freedom and reduced potential to realize true social change. Rather than centralized control, it is important that a collaborative decision-making process occur between the presidency, the cooperatives, and other relevant institutions like MIES, which ideally should have some autonomy.

Correa is making important strides to reassert the role of the state, particularly following the weak position of the Ecuadorean government under neoliberal policies and an ever-powerful elite sector. However, in keeping with opportunity, participation, and freedom as end goals of

[27] The International Center for Not-for-Profit Law, "Ecuador", Available: http://www.icnl.org/knowledge/ngolawmonitor/ecuador.htm, Accessed April 4, 2011.
[28] Geovanna Melendres, "Emprendimientos locales propician el desarrollo regional", *El Telégrafo*, April 10, 2011.
[29] Eduardo Ruiz, "Economía popular genera el 65% del empleo", *El Telégrafo*, April 10, 2011.

development, it is important that NGOs and other civil society organizations are permitted an active role in challenging the policies of the state, particularly if the state is in a compromised financial position to provide services.

Case study: Complementary Currencies in Ecuador

The analysis of dollarization reveals a number of key roles that civil society organizations – particularly Savings and Credit Cooperatives – can play. Coopera, a Savings and Credit Cooperative principally in the Azuay region of Ecuador, with several agencies on the coast, has over 80,000 members. In addition to offering loans to local producers, which they might not be able to get at private banks, Coopera has a number of warehouses and stores where cooperative members bring their goods to sell and be distributed by the cooperative. The cooperative also has experimental farms where producers can work together with cooperative staff to develop more efficient methods of production and to expand product offerings.[30] Furthermore, cooperatives offer an appealing form of organization – one in which all members have a vote, thus inviting participation from all stakeholders. In the face of dollarization, thus, at least some cooperatives are playing a role in stimulating local production, in lieu of relying on imports, as well as provisioning credit to Ecuador's population. Along with two other savings and credit cooperatives in Ecuador, Coopera is exploring a new project and alternative strategy for development that further seeks to promote production and trade at the local level.

The National Network of Popular and Solidarity Economy in Ecuador (RENAFIPSE), with the technical support of the Fundación Pachamama and the Social Trade Organisation (STRO) from the Netherlands, is working with Coopera and two other cooperatives to explore the viability of a complementary currency system that uses vouchers as a form of payment.

[30] Fundación Pachamama, "Estudio de Factibilidad: Fortaleciendo la Economía de la Parroquia San Joaquín con un Sistema de Vales", Fundación Pachamama, Quito, 2010.

Complementary, community, or local currencies are terms used internationally to refer to alternative systems of payment that seek to promote local economic development. STRO has developed two models in this vein; one in which the cooperatives lend vouchers at a lower interest rate, as the vouchers do not have the same financial costs of the conventional currency, and another in which vouchers are backed by production, that is producer cooperatives will pay producers in vouchers. The idea then is that networks of local businesses will accept the vouchers, incentivizing local consumption and creating more liquidity for the community. The models have been successfully applied by STRO in Honduras, Brazil, El Salvador, and Costa Rica, among other countries, though unfortunately few studies have been undertaken to assess economic impact. The persistence of the systems and a growing number of participating businesses, however, indicates that participants likely draw some benefits, perhaps direct economic benefits or simply enjoying a more participatory economic system in their community.

Should the pilot project in Ecuador once fully developed prove to be successful in a few years, a number of Ecuadorean communities may be interested in exploring the feasibility of complementary currencies themselves. In order for the implementation of systems on a larger scale to become a reality, however, government and institutional support would be necessary. Banco Palmas operates one of the most established complementary currency systems in Latin America, with credits having benefitted around 2,500 families between 2007 and 2009.[31] The organization has the support and funding of a variety of public, private, and non-profit sector institutions, ranging from the National Secretary of Solidarity Economy in Brazil to OXFAM to, ironically, the Walmart Institute.[32] Following the approval of the Law of Popular and Solidarity

[31] Banco Palmas. “O Banco Palmas em números”, http://www.bancopalmas.org.br/oktiva.net/1235/secao/23742 Accessed April 2, 2011.
[32] Banco Palmas. “Parceiros governamentais e Não Governamentais”, http://www.bancopalmas.org.br/oktiva.net/1235/secao/2583 Accessed April 2, 2011.

Economy in Ecuador in May of 2011, in which Article 132.6 states "Organizations that form part of the Popular and Solidarity Economy can use complementary forms of payment,"[33] government ministries in Ecuador have expressed some interest in learning more about the complementary currency initiative. The promoters are currently awaiting specific regulations from the Central Bank of Ecuador before advancing with the pilot project.

In the case that US monetary policy and terms of trade might change, dollarization in Ecuador would prove to be a problematic strategy. Complementary currencies are appealing in that they promote local-level production and local exchanges, rather than imports. However, local communities still will use the dollar for purchasing products that are not available in their community, or for some luxury products that are not produced in Ecuador. A network of complementary currency systems could be a proposal to promote local production in communities throughout Ecuador. It is also likely, given the attention of President Correa, that the SUCRE (Unique System for Monetary Compensation), will become active as a complementary regional currency for international transactions among Ecuador and ALBA countries.[34] Even with a new regional currency, complementary currencies could coexist, continuing to emphasize the importance of local production.

In order for the feasibility of complementary currencies to be ascertained, a pilot project across several years will need to run its course. Increased restrictions on Savings and Credit Cooperatives, civil society, and centralized development strategies may curb the initiative and prevent its potential from being realized. Alternative solutions, which Ecuador needs and which

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[33] Asamblea Nacional del Ecuador, "Ley Orgánica de la Economía Popular y Solidaria y del Sector Financiero Popular y Solidario," Registro Oficial, Quito, 10 de mayo 2011. http://www.asambleanacional.gov.ec/leyes-asamblea-nacional.html Accessed June 1, 2011.

[34] Banco Central del Ecuador, *SUCRE: Sistema Unitario de Compensación Regional de Pagos*, Banco Central del Ecuador, 2011.

civil society are calling for, require experimentation and participation from all sectors of the population. The Ecuadorean administration would be wise to open these channels. In addition, the complementary currency project in Ecuador has benefitted from the involvement of a number of well-established Ecuadorean and international institutional partners. The Ecuadorean government might help grassroots organizations not in such a position to forge international connections for funding and support. Finally, in moving beyond neoliberal strategies, it is important to involve major international organizations such as the World Bank and IMF, informing them of the successes and challenges of alternative strategies, such that new ideas and an openness to alternatives could become part of their portfolio.

Conclusion

Complementary currencies are just one alternative proposal that seeks to promote development in Ecuador and address the negative outcomes of failed development strategies. A number of other interesting alternative proposals are gaining substantial support in Ecuador and abroad. The Yasuní-ITT proposal, for example, plans to protect an area of the Ecuadorean Amazon that is rich in oil reserves. The proposal asks the international community to contribute half of the foregone oil revenue to a UN-administered fund that will be used to invest in alternative energy in Ecuador.[35] This is a creative proposal to respond to climate change and alter the predominant economic model related to natural resource exploitation, not only in Ecuador, but also perhaps in other countries around the world. The proposal, like that of complementary currencies and any other alternative, however, depends greatly on international and state support.

Development strategies since independence have failed to bring about dramatic social change and economic development in Ecuador. It is time to explore alternative development

[35] Carlos Larrea et al. *Yasuní-ITT: una iniciativa para cambiar la historia*, Quito, Gobierno Nacional de la República del Ecuador, 2010, p. 13.

strategies that go beyond the neoliberal model. In order for such proposals to gain traction, however, they will need political institutions that allow for participation and collaboration on the state and international level. In the spirit of Sen's theory of Development as Freedom, alternative development strategies and policies to promote them should be aimed at improving the freedom, participation, and opportunities of Ecuadoreans. Active involvement of a variety of population sectors, civil society organizations, government agencies, and international partners will likely lead to creative alternative proposals for development and ultimately to equality, inclusion, and sustainability.

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