

Social Protection in Ecuador: A New Vision for Inclusive Growth

By Ryan Nehring

I. Introduction

Like many new Latin American governments, Ecuador is revamping social spending and developing a specific strategy to enhance social protection and alleviate poverty. The country has already made and continues to make important strides in the implementation of inclusive social policies to combat inequality while supporting productive employment opportunities. Notably, the country's Conditional Cash Transfer (CCT) programme, the Human Development Grant (*Bono de Desarrollo Humano*, BDH), has been highlighted as an innovation in effective targeting and substantial coverage.¹ Since the election of Rafael Correa as President in 2006, recent changes have ushered in new development strategies and the adoption of a national development plan (*Buen Vivir* in Spanish; *Sumak Kawsay* in Quichua) for four years (2009–2013). Likewise, the new constitution drafted in 2008 by the Constitutional Assembly passed with over 80 per cent of the popular vote and created a new constitutional foundation for the expansion of innovative social protection policies and a fundamentally new approach for more inclusive economic growth.

The theoretical underpinnings of the *Buen Vivir* strategy look beyond the quantitative measurements of economic performance and establish a new vision for economic inclusion, transparency and citizen participation (Secretaría Nacional de Planificación y Desarrollo, 2010). The objective is not to provide a detailed roadmap of national development but rather to offer a vision of Ecuadorian society with a rights-and-opportunities approach. This is accomplished by establishing legal statutes to social, ethical, cultural and economic rights and is realised through a "territorialised social economy" (Secretaría Nacional de Planificación y Desarrollo, 2010). Due to high levels of inequality within communities and not necessarily between communities, the government sees a local 'territorial' approach as most effective in combating high levels of inequality and inputs the 'social' component of the economy to incorporate social actors in the development process.

Founded on a rights-based approach, the underpinning document of *Buen Vivir*, namely the 2008 constitution, established numerous ministries, secretariats and quasi-governmental institutions with the legal authority to carry out policies and planning to fulfil the outlined objectives as the rights of citizens.² Although the objectives and complementary institutions are relatively young, they have begun to collaborate on related goals and push their individual strategies to achieve a comprehensive social protection scheme that promotes inclusive growth.

The objective of this paper is to present Ecuador's social development project as implementing a non-contributory social protection scheme.³ Primacy is placed on the federal government's role in outlining objectives, developing policy interventions and implementing those policies. Ecuador has numerous government stakeholders responsible for various stages of policy formation and implementation, and this will be highlighted for two reasons: 1) the numerous institutions carry out their own objectives, specialised in certain areas; and 2) the large bureaucracy created by these institutions inhibits coordination and clearly defined objectives.

II. Social Protection in Ecuador: Strategies and Policies

The large bureaucratic machine appears to be a barrier to the efficient and timely implementation of policies. To put the institutional structure of Ecuador's social development and inclusive growth briefly into perspective, the non-contributory social policies are primarily articulated by the following:

- The National Secretariat for Development Planning (**SENPLADES**) organises government goals and constitutional rights into policy and development plans.
- The Ministry of Economic and Social Inclusion (*Ministerio de Inclusión Económica y Social*) (**MIES**) develops policy and initiates complementary programmes to oversee the implementation of specific policies in line with development goals.
- The Ministry of Social Development Coordination (*Ministerio Coordinador de Desarrollo Social*) oversees monitoring of social policies, coordinates different social institutions within the government and serves as the liaison between those ministries and the presidency.

- The Social Protection Programme (*Programa de Protección Social, PPS*) is a subsidiary of the MIES and designs and oversees the implementation of specific public social protection policies.
- Lastly, a new National Institute of the Popular and Inclusive Economy (*Instituto Nacional de Economía Popular y Solidaria, IEPS*) has been created under the MIES to articulate a new economic vision for inclusive growth that has its own autonomy in developing a strategic objective that will be elaborated on below.

Such a complex institutional framework presents obvious difficulties in coordination and integration. This was evident when trying to visit the various ministries and programmes while in Quito. Most of them have their own building in different locations throughout the city and carry out their own mandate.

Ecuador has initiated a new strategy in social protection that addresses objectives as outlined by the *Buen Vivir* strategy and implements specific policies to combat poverty and promote economic inclusion. As an umbrella organisation, the MIES was created to provide the institutional framework and capacity to oversee the inclusive growth process of the country (Republic of Ecuador, 2011). The philosophy behind the creation of the MIES stems from the idea of establishing solidarity through a social market economy based on a number of principles:

- each citizen has the right to 'good living' with adequate food, work and living conditions through the government's prioritisation of labour over capital;
- the law outlines fair trade principles for producers, with ethical and responsible consumption essential to fulfilling the country's economic objectives;
- the MIES strives for gender equality and the respect of cultural identity; and

III. Policies and Programmes in Ecuador

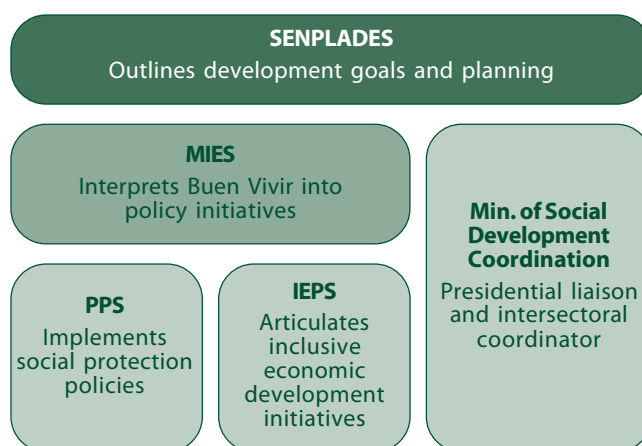
Table 1
Social Policy Programmes in Ecuador

| Objective | Social Policy Agenda | Programme | |
|-------------------------------|--|--|---|
| Social and economic inclusion | Implement strategies and actions that reduce poverty, protect household consumption and support capacity-building and productive inclusion | Bono de Desarrollo Humano | Monthly transfer of US\$35 conditional on children's school attendance and health check-ups |
| | Develop and strengthen the solidarity economy | Institute of Popular and Solidarity Economy, IEPS | |
| | Cover necessary private medical costs for specialised treatments for patients without private health insurance | Red de Protección Social | PPS works with the Ministry of Health and local hospitals to ensure proper coverage of specialised treatment at a transparency in diagnosis |
| | Monthly pension for disabled and elderly people | Pensión Asistencial | Unconditional monthly transfer of US\$35 |
| | Provide a one-time transfer to families that lose a member of the household and cover conditional funeral costs for a proper burial | Coberatura de Protección Familiar | One transfer of US\$500 and funeral expenses |
| | Support the vulnerable population during emergencies of natural disasters | Bono de Emergencia | Two emergency transfers each of US\$45 |



Source: Ministerio de Coordinación de Desarrollo Social, Republic of Ecuador (2010).

Figure 1
Ecuador Social Development Institutions



Source: PPS, 2012.

- the government is accountable through environmental and social responsibility along with an equitable and inclusive distribution of state surplus (Republic of Ecuador, 2011).

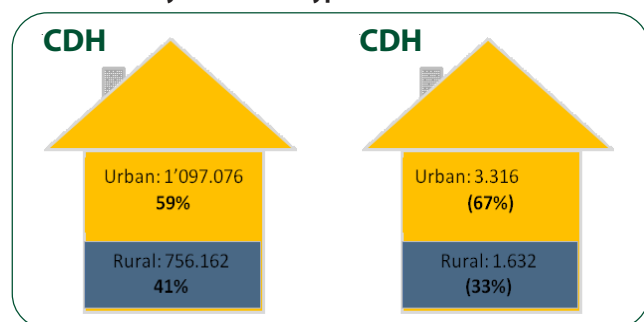
Through the MIES and the *Buen Vivir* strategy, Ecuador has been revitalising social protection programmes and creating a comprehensive and countrywide strategy for alleviating poverty and promoting human development. This is being realised through a rights-based approach to improving livelihoods by improving access to water, living conditions, reversing malnutrition and expanding access to and quality of education and health. To improve living conditions, the MIES created the **PPS**, which is responsible for the transparency and implementation of all non-contributory social protection programmes in the country.

Ecuador's flagship programme in social protection is modelled after the popular CCT schemes throughout the region. Now named the BDH, it was created in 2003 after combining an unconditional cash transfer programme (*Bono Solidario*) and two specific cash transfer schemes (*Beca Escolar* and *Programa de Alimentación Escolar*).

Similar to other countries' CCT programmes, the BDH provides a transfer of US\$35 per month, conditional on 75 per cent school attendance and monthly health check-ups of the beneficiaries' children (Gonzalez-Rozada et al., 2011).

Targeting for BDH and other social programmes is the responsibility of the *Sistema de Identificación y Selección de Beneficiarios* (SELBEN) that uses proxy means testing to separate households into quintiles. The BDH is available to quintiles 1 and 2, which comprise approximately 45 per cent⁴ of the households in the country (Salazar, 2009). The overall objectives of the BDH are to ensure a minimum amount of consumption for the country's poor people and to strengthen investment incentives for human capital (education and health through conditionalities).

Figure 2
Beneficiaries by Household Type



Source: Programa de Protección Social, MIES, 2012.

A recent addition to the BDH has been the Human Development Credit (*Crédito de Desarrollo Humano*, CDH) that provides an annual loan of up to \$420 with a 5 per cent interest rate. By accepting a CDH loan, beneficiaries are able to use their monthly BDH transfers as a repayment mechanism, and the CDH requires no collateral. This loan offers poor people access to convenient and affordable capital. However, the programme has been criticised as having an urban bias, with some 70 per cent of the beneficiaries living in urban areas despite almost 60 per cent of the country's poor people located in rural areas (PPS, 2012; Salazar, 2009).

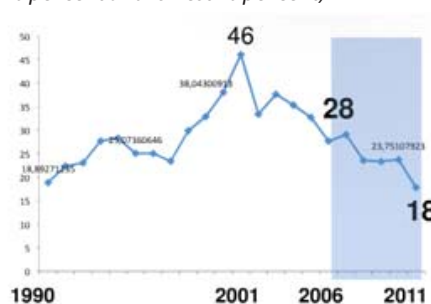
Ecuador's CCT experience is unique in that it allows payments to be made through private banks for a minimal fee to the government per transaction.⁵ Policymakers note that this strategy has ensured significant coverage, as the public-private partnership has resulted in over 5000 payment locations through private bank branches or ATMs. Additionally, the BDH payments can be transferred directly into a savings account arranged through a bank (PPS, 2012).

Currently, the BDH targeting strategy is focusing on the population living near the poverty line and not necessarily on extremely poor people as is the case in many other countries (Chile, Mexico, Colombia etc.). An interview with a

Results:

Ecuador's social protection programmes have been instrumental in reducing the number of people living below the poverty line from **49 per cent in 2002 to 37 per cent in 2010** (ECLAC, 2011: 13). Additionally, the ratio of income inequality has been in a steady decline since 2003.

Figure 3
Ratio Between Rich and Poor Income
(Highest 10 per cent and lowest 10 per cent)



Source: SENPLADES, 2012.

PPS official revealed that their focus on the population living near the poverty line will result in a higher incidence of "graduation" from the program. In this sense the PPS intends to have an explicit exit strategy for graduation and have a minimum of 150,000 families exit the program at the end of the fiscal year in 2013 (Castro, 2012).

In conjunction with the BDH, the PPS is implementing and amplifying numerous other social protection policies. Notably, their objective includes a rights-based approach to providing universal coverage for pensions along with a network of solidarity protection (*Red de Protección Solidaria*, RPS) and a family insurance scheme (*Cobertura de Protección Familiar*, CPF). The RPS is a mechanism that utilises a public-private partnership to support families facing a serious illness or disease. In the case of a serious disease⁶ that cannot be treated by the public health system, the RPS will cover the expense of private health care for the necessary operation or treatment.

The CPF is a programme available to all families participating in the BDH. In the case of the loss of a family member, the CPF provides a life insurance transfer of \$500 and conditional funeral expenses. Currently, the government has a pension programme (*Pensión Asistencial*) for elderly and disabled people who do not have a private social security pension scheme. Like the BDH, the pension programme utilises the same private payment mechanism through banks and is also a transfer of US\$35 per month. In times of emergency or natural disasters, the PPS has implemented an emergency grant (*Bono Emergencia*). This grant provides vulnerable households two transfers of US\$45 each when affected by disasters such as floods, earthquakes, volcanic eruptions etc.

However, increases in the amounts of the transfers—not only the BDH but the entire social protection network—are heavily criticised. Central to this criticism is the clientelistic nature of using CCTs to secure votes in upcoming elections. Such was the case with the inauguration of Correa in 2007, when he immediately increased the monthly transfer amount from \$15 a month to \$30 and later to \$35.

The Correa government also created the large bureaucracy responsible for social development that is cumbersome and lacks a well-defined structure.

IV. Social Protection through the Popular and Inclusive Economy

The Organic Law of Inclusive and Popular Economy (*La Ley Orgánica Economía y Popular*) was passed in 2011 and established the **IEPS**, administered by the MIES.

The IEPS has outlined three strategic objectives:

- Create the conditions for the development of the actors in the popular and inclusive economy⁷ through coordination and joint actions and rules that drive and/or run the institutions of the State, autonomous decentralised governments, social and development organisations, universities and the community in general.
- Create opportunities and spaces for the strengthening and streamlining of production processes, distribution, circulation, finance and consumption of goods and services of the actors in the popular and solidarity economy.
- Build the capacity of the actors of the popular and solidarity economy to consolidate as subjects involved in the economic, social, political and developmental process in the new regime (Instituto Nacional de la Economía Popular y Solidaria, Republic of Ecuador, 2011).

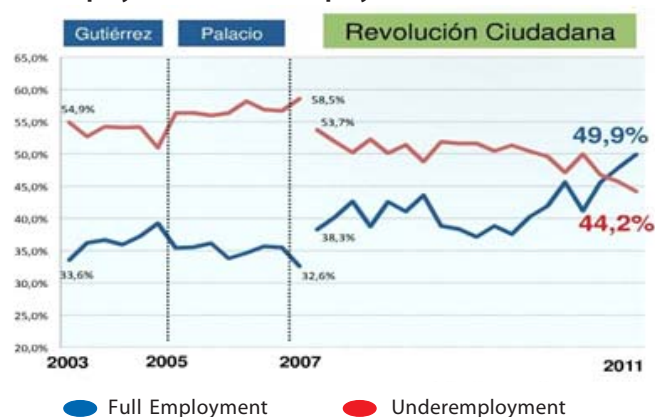
The theoretical underpinnings of Ecuador's IEPS are based on the assumption that the labour units of production are underrepresented by capital and tend to participate in the informal economy. As opposed to accumulating capital, the solidarity or popular economy aims to accumulate collective resources and assets such as social and human capital, land, infrastructure etc. Therefore, the IEPS establishes the superiority of labour over capital in defining public policies. In the case of Ecuador, this typically includes and maintains broad cultural movements that embrace various cultural norms, traditions and philosophical economic systems. The popular and inclusive economy is a state function that intends to build an economy through the solidarity of existing social organisations and labour and to strengthen their potential as a social good.

The IEPS defines four types of organisations as productive economic units: community sectors, associations, cooperatives and "popular economic units". While the first three are collective, the final unit comprises a family, household or individual craftsman. Along with the definition of economic units as defined by the IEPS, social protection programmes (such as the CDH) are utilising the framework as a foundation to target beneficiaries and implement new approaches to alleviate poverty and promote inclusive growth. Much of this strategy has yet to be realised, since the IEPS has yet to complete a full year of operation.

Although the IEPS is technically an institution under the jurisdiction of the MIES, its function is not related to specific policymaking or implementation but rather fulfilling an institutional role that outlines a framework to carry out the *Buen Vivir* strategy. This is realised through the institute's capacity-building and promotion of partner agencies at national, regional, municipal and communal levels. At the same time, however, the IEPS utilises existing policies

such as the CDH as a medium for offering training. The IEPS offers a CDH loan to groups under the conditions that they have a project idea or productive service, are eligible for the BDH (quintiles 1 and 2) and have a bank account through a PPS-accredited financial institution. After meeting the requirements, the recipients agree to attend training sessions organised by local IEPS leaders until the loan is repaid. It is important to consider that the IEPS was only created in 2011 and has little to no evidence on the outcomes of its interventions. Its broad mandate also means few actual concrete interventions exist outside coordinating and enhancing the capacity of existing institutions.

Figure 4
Full Employment vs Underemployment



V. Ecuador's Social Protection Network: Protection, Prevention and Promotion

Despite the recent financial crisis in 2008, Ecuador has continued to show strong employment indicators. Notably, full employment⁸ has shown continual growth from under 33 per cent in 2007 to under 50 per cent in 2011. At the same time, underemployment rates have fallen from around 53 per cent in 2007 to under 45 per cent in 2011 (see Figure 4).

Likewise, due to the expansion of social protection programmes, notably the BDH, educational attainment is on the rise, and the average number of monthly health check-ups has more than doubled since 2006 (INEC, 2012; Schady and Araujo, 2008). However, beyond the positive social indicators, the programmes and policies implemented by the Ecuadorian government have gone beyond quantitative results. The objectives of the entire social protection scheme coupled with a focus on the inclusive economy encapsulate a crucial lifeline for poor people and better opportunities through inclusive growth.

An effective and comprehensive social protection scheme is vital to protect poor people from vulnerability in this era of financial volatility and to prevent them from falling into the trap of generational poverty. The expansion and extensive coverage of the country's CCT is a crucial component that ensures poor people not only a minimum level of consumption but also strengthens the vulnerable population's ability to participate in the labour market. Ecuador's BDH and *Bono de Emergencia* offer **protection** from destitution while at the same time improving the country's overall economic growth possibilities with a healthier and better-educated population.

The country's non-contributory pension scheme (*Red de Protección Solidaria, Pensión Asistencial*) is a necessary **prevention** safety net that guards the vulnerable population from expenditure shocks and unanticipated financial and infrastructure emergencies and ensures general well-being. In the case of Ecuador, the complementary capacity-building through the IEPS provides access to economic opportunities and the labour market to previously marginalised groups. This 'solidarity' approach aims to strengthen the previously untapped labour pool and increases access to labour markets for poor people through the **promotion** of opportunities and livelihoods.⁹ In this sense the government attempts to go beyond the implementation of a multisectoral policy approach to expand opportunities for poor people. Ecuador's inclusive growth approach is apparent, as GDP grew by 8 per cent in 2011, while at the same time poverty and inequality dropped, coupled with expanded employment opportunities (INEC, 2011).

Recent changes under the Correa administration continue to evolve and expand to fulfil the goals outlined in the *Buen Vivir* national development plan. Likewise, the newly formed IEPS is in the process of planning for enhanced integration within numerous ministries to collaborate on supporting inclusive growth with policy measures. The upcoming election year should provide a window into the future plans for Ecuador's social protection scheme and its electoral implications as a mechanism to garner votes.

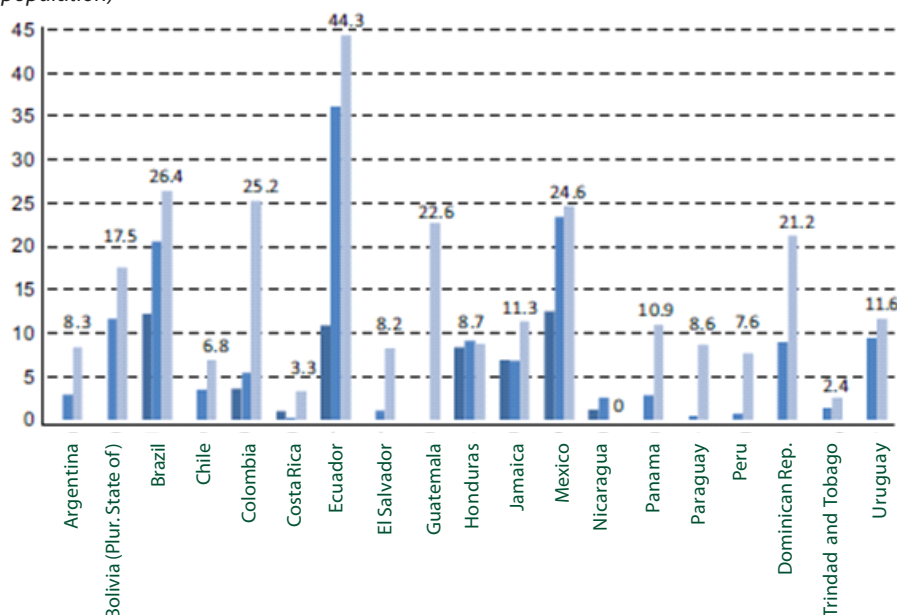
With continued economic growth and a new 'graduation' strategy for the BDH, one would imagine that the percentage of the population living below the government's identified and targeted poverty line should decrease. However, better integration and communication should be established between the government's overall social protection planning schemes and the institutions responsible for implementing policies.

Additionally, the numerous institutions that have been created should have better-articulated objectives and clearer delegated responsibilities. Ecuador's social protection scheme provides an interesting example of a scheme with extensive coverage. Moreover, the newly established constitution and national development plan (*Buen Vivir*) provide a fundamentally new approach to developing rights-based social policies. Future trajectories of this approach should be followed closely to accurately assess the development planning process, the effectiveness of policy implementation and subsequent poverty alleviation. ■

1. The *Bono de Desarrollo Humano* covers over 44 per cent of the population. See Table 2.
2. See article No. 275 of the Constitution of the Republic of Ecuador, established 20 October 2008.
3. This paper does not present or analyse any of the contributory social protection policies or programmes such as private insurance or pensions and only focuses on non-contributory social protection for human development and poverty alleviation strategies.
4. This figure also includes the beneficiaries of the social pension.
5. From its inception, the programme made transfers through a network of private banks (Banred) or through the national development bank (*Banco Nacional de Fomento*). The commission paid to banks for delivering the transfer (delivered as cash inside their branches) corresponds to US\$0.38 per transaction, compared to US\$0.70 in Brazil. See International Finance Corporation (2011), *IFC Mobile Money Study 2011: Brazil*. Washington, DC, International Finance Corporation in Cooperation with the Republic of Korea, <<http://www1.ifc.org/wps/wcm/connect/f43621804a0550ab8ecffdd29332b51/MobileMoneyReport-Brazil.pdf?MOD=AJPERES>> (accessed 30 July 2012).
6. Diseases covered by RPS: cancer, brain tumors, kidney failure, heart defects, organ transplants, serious burns, various disabilities.
7. There is a lack of distinguishing the "territorialised social economy" from the popular and inclusive economy approach other than a geographical definition by territories in the former. This presents an example of the lack of coordination between institutions and their respective strategies. Despite many apparent intersections in institutional responsibilities and goals, little intersection appears to be happening between the various levels of development planning, implementation and monitoring.
8. The percentage resulting from dividing the total Full Occupied (OP) and the economically active population (EAP). This percentage represents the Fully employed population which consists of employed persons aged 10 and over, who work at least the legal working hours and have incomes above the unified wage law and do not work more than the legal limit of weekly hours (without made arrangements). For more details see *Evolución del Mercado Laboral a Septiembre 2009*: <www.inec.gob.ec>.
9. Numerous examples are illustrated on its website at: <www.ieps.gob.ec>.

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Table 2
Latin America and the Caribbean (19 countries):
Coverage of Conditional Cash Transfer Programmes, around 2000, 2005 and 2010
(Percentages of total population)



Source: ECLAC, on the basis of official figures.

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