



Social protection systems

**in Latin America
and the Caribbean**

Ecuador

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Social protection systems in Latin America and the Caribbean: Ecuador

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Foreword

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This report is part of a series of national case studies aimed at disseminating knowledge on the current status of social protection systems in Latin American and Caribbean countries, and at discussing their main challenges in terms of realizing of the economic and social rights of the population and achieving key development goals, such as combating poverty and hunger.

Given that, in 2011, 174 million Latin Americans were living in poverty —73 million of which in extreme poverty— and that the region continues being characterized by an extremely unequal income distribution (ECLAC, 2012), the case studies place particular emphasis on the inclusion of the poor and vulnerable population into social protection systems, as well as on the distributional impact of social protection policies.

Social protection has emerged in recent years as a key concept which seeks to integrate a variety of measures for building fairer and more inclusive societies, and guaranteeing a minimum standard of living for all. While social protection can be geared to meeting the specific needs of certain population groups —including people living in poverty or extreme poverty and highly vulnerable groups such as indigenous peoples—, it must be available to all citizens. In particular, social protection is seen a fundamental mechanism for contributing to the full realization of the economic and social rights of the population, which are laid out in a series of national and international legal instruments, such as the United Nations' 1948 Universal Declaration of Human Rights or the 1966 International Covenant on Economic, Social and Cultural Rights (ICESCR). These normative instruments recognize the rights to social security, labour, the protection of adequate standards of living for individuals and families, as well as the enjoyment of greater physical and mental health and education.

The responsibility of guaranteeing such rights lies primarily with the State, which has to play a leading role in social protection —for it to be seen as a right and not a privilege—, in collaboration with three other major stakeholders: families, the market and social and community organizations. Albeit with some differences due to their history and degree of economic development, many Latin American and Caribbean countries are at now the forefront of developing countries' efforts to establish these guarantees, by implementing various types of transfers, including conditional cash

transfer programmes and social pensions, and expanding health protection. One of the key challenges that the countries of the region face, however, is integrating the various initiatives within social protection systems capable of coordinating the different programmes and State institutions responsible for designing, financing, implementing, regulating, monitoring and evaluating programmes, with a view to achieving positive impacts on living conditions (Cecchini and Martínez, 2011).

Social protection is central to social policy but is distinctive in terms of the social problems it addresses. Consequently, it does not cover all the areas of social policy, but rather it is one of its components, together with sectoral policies —such as health, education or housing— and social promotion policies —such as training, labour intermediation, promotion of production, financing and technical assistance to micro— and small enterprises. While sectoral policies are concerned with the delivery of social services that aim at enhancing human development, and promotion policies with capacity building for the improvement of people’s autonomous income generation, social protection aims at providing a basic level of economic and social welfare to all members of society. In particular, social protection should ensure a level of welfare sufficient to maintain a minimum quality of life for people’s development; facilitate access to social services; and secure decent work (Cecchini and Martínez, 2011).

Accordingly, the national case studies characterize two major components of social protection systems —non-contributory (traditionally known as “social assistance”, which can include both universal and targeted measures) and contributory social protection (or “social security”). The case studies also discuss employment policies as well as social sectors such as education, health and housing, as their comprehension is needed to understand the challenges for people’s access to those sectors in each country.

Furthermore, the case studies include a brief overview of socio-economic and development trends, with a particular focus on poverty and inequality. At this regard, we wish to note that the statistics presented in the case studies —be they on poverty, inequality, employment or social expenditure— do not necessarily correspond to official data validated by the Economic Commission for Latin America and the Caribbean (ECLAC).

Introduction

This report describes the current situation and recent evolution of social protection and promotion in Ecuador. It provides a comprehensive overview of the public policies and programmes implemented in the period 2000-2012; reports on the level and composition of social investment; describes the basic structure of the protection system and more recent social measures; and discusses the coverage of these policies and programmes.

The report is organized as follows. Chapter I presents the main economic and social trends. Chapter II describes the level and composition of social spending under different areas of the budget. In addition to the commonly used concept of social spending by the central government, the paper employs a broader concept of social spending by the non-financial public sector (NFPS), and its quantification constitutes an important contribution not available in other studies. The report also quantifies social spending within the general State budget (GSB) and disaggregates all the sectoral components of social spending.

Chapter III presents a historical overview of the social protection system and describes the current situation. It provides a detailed look at the intervention strategy currently being applied in each sector, including the delivery mechanism and coverage of benefits, and describes the financing schemes in the sectors that make up the Ecuadorian social protection matrix, namely, contributory and non-contributory social protection, education, health care, housing and urban development, economic and social inclusion and employment. The chapter also discusses other relevant income distribution policies that complement the welfare matrix in Ecuador.

Chapter IV reviews changes to the institutional framework of the social protection sector. The findings reveal that important reforms have been introduced into the Ecuadorian State social apparatus, especially since 2007 when the current government took office.

Finally, chapter V presents a comprehensive assessment of social protection in Ecuador, its possible trends and the sustainability of current policies.

The study finds that while the current government announced its intentions to make changes when it took office in 2007 and has made efforts to improve the physical infrastructure and facilities for social services and to strengthen its human resources, it has not introduced substantive reforms to the service delivery systems in order to increase their effectiveness and reorient the Ecuadorian social protection system in practice.

Thus, while the country has substantially restored its macroeconomic priorities in the social area, it has not yet achieved an efficient social protection system. The shortage of care, the lack of relevance and the poor quality of social services continue to be sources of dissatisfaction for users and an ongoing issue for current social policy.

In the 1980s and 1990s, the declared intentions of the government were typically to reduce welfare policy. In contrast, targeted programs have grown as a share of the budget in the current century, reaching an annual average of 10% in 2000-2012, with the highest growth recorded in 2007-2012 (8% annual average).¹ These trends have been reinforced by the growth of a bureaucratic-centralist government apparatus, where resource allocation practices emphasize budget execution over earnings or the level of social efficiency and favour consumption over productive investment.

Under the broader concept of social spending, Ecuador is fairly progressive. For example, the level and composition of income transfers qualify Ecuador as a country that assigns a high fiscal and macroeconomic priority to social policy.

However, the changes introduced to the social protection system have assigned to the State the functions of regulation, financing, provision and oversight, while reducing the role of the corporate sector, the private sector and other agents (NGOs, churches, international cooperation agencies, the communities and the beneficiary population). This does not appear to be generating the expected quality-of-life results under the current government.

In contrast to other countries in the region, Ecuador has not yet implemented major changes in the social protection system. Whereas other countries have moved forward with substantive reforms of their anti-poverty policies —especially cash transfer programmes— and health and education systems, Ecuador has made little progress to reform these systems in practice and thereby achieve a visible impact on the well-being of the poor population.

¹ In 2000-2006, the average annual growth rate was less than 4%.

I. Main economic and social indicators

In Ecuador, the social protection matrix has shifted in parallel with the nature of economic measures. The crisis and economic instability of the 1980s resulted in a drastic reduction in social spending, a slowdown in advances in service coverage and growing problems with the quality of supply. In the 1990s, despite a relative increase in social spending and relative economic stability (starting in 1992), there were clear signs of deterioration in the education and health systems and in the living conditions of Ecuadorians.

In addition to the changes in the orientation and magnitude of social investment, the implementation of social policies over the last 30 years has featured both reversals and considerable inertia. The main changes have to do with the general focus and explicit objectives of the policies. At the same time, however, the country has maintained the same intervention modalities and instruments, such as the massive free delivery of education and health services, the centralized planning of public supply and the organization of public intervention by sector, financed with fiscal resources. Similarly, an important group of welfare programmes has become a permanent component of social policy.

The economic growth of the last decade (2002-2012) was accompanied by a steady increase in social investment, with no clear evidence of improvements in service quality or progress in the living conditions of the target population (nutritional status, health condition, education level). The cumulative effects of these changes have not materialized in the short and medium terms, despite the vast resources invested and the new attempts to reform the Ecuadorian social protection matrix.

At the national level, the incidence of poverty measured by income declined from 63% in December 2000 to 27.3% to December 2012. While the drop is substantial, the level remains high, and the rate of decrease has slowed significantly. Specifically, the national poverty level fell 25.3 percentage points in 2000-2006 (from 62.9% to 37.6%), versus 10 percentage points in 2007-2012 (from 36.7% to 27.3%). The situation is even worse in rural areas: in December 2012, 49% of the rural population had an income below the poverty line. The magnitude of rural poverty and of poverty in marginal urban areas, and the social inequalities prevailing in other areas of social inclusion, are indicators of the insufficient capacity of the current State apparatus and public policies to adequately promote well-being and social cohesion.

According to the Human Development Index (HDI) published by the United Nations Development Programme (UNDP), Ecuador ranked 89th out of a total of 187 countries in 2012. Within Latin America, Ecuador is far behind Chile and Argentina, which rank 40th and 45th, respectively. It also lags behind Uruguay, Cuba, Panama and Mexico, which all lie between 51st and

60th. Moreover, whereas Latin America as a bloc improved its HDI, Ecuador has stagnated since 2011, when it ranked 83rd. At the same time, Ecuador does qualify as a “high” human development country, despite its low ranking.

For more than three decades, the social infrastructure grew and the health and education levels of the population improved. Nevertheless, the redistributive effect of social policies has been limited, especially in the rural population and the marginal urban areas of the country’s main cities. Although efforts to increase the population’s income and decrease inequality in 2002-2012 brought the income Gini down from 0.56 to 0.48 at the national level, income data are not a satisfactory measure of inequality in a country where a third of the economically active population (EAP) is producing for self-consumption in a subsistence economy.

Since President Rafael Correa took office in January 2007, the government has sought to revive the protagonist role of the State in the design and implementation of social policy and to establish new social policy institutions and modalities. Article 14 of Ecuador’s Constitution, approved in 2008, stipulates that development must be oriented towards achieving good living (*sumak kawsai*).

Actions have been aimed at replacing the targeted or “focused” delivery system, which was decentralized and included participation by the private sector, with a universal provision of public services that is centralized and sectoral. This implies introducing regulation and strengthening the State supply, as opposed to relying on market criteria in the provision of social services.

Changes have also been made to the social development institutional framework. The regular bureaucratic structure has been reinforced, while the para-ministerial agencies that were created in the 1990s have been eliminated. These agencies have undergone a process of institutional reorganization and mergers to integrate them into the governing policy councils for each sector.

The financing of social actions represents another key difference in the new social policy. Current interventions hinge on strengthening the public production and financing of free social services, which have replaced mixed alternatives (either private production with public financing or private production with mixed financing, shared by the State and the beneficiaries).

With regard to application, the social services infrastructure and facilities have improved, but gaps remain in terms of quality, relevance, availability and timeliness, which contributes to the perpetuation of inequality. Consequently, public policies face new and complex challenges. Although the current government’s intention to change and the measures it has adopted point in a different direction, it has not succeeded in establishing a new social policy model. The regulatory and institutional changes introduced in the last six years, while substantial in terms of focus and planning, have yet to manifest in terms of policy execution or the well-being of excluded populations.

Similarly, the issue of accountability, evaluation and public scrutiny has not yet materialized in government action. This objective has not been achieved despite being defined in the institutional structure of the State’s social responsibilities, including the National Secretariat for Planning and Development (SENPLADES), coordinating ministries and the fifth power. For the purposes of this report, it was not possible to obtain information from official sources on the results and impacts of the applied social policies and programmes, based on population quality-of-life indicators; in fact, there is a lack of this type of information starting precisely in 2007.

While the current government’s efforts are noteworthy, the changes in policy implementation in 2007-2012 have mainly been provisional and only to a lesser extent structural. The old operating scheme has essentially been maintained with the addition of some new measures, as outlined in table 1.

Few innovations have been introduced in the Ecuadorian social protection system in the last five years. In particular, the changes in social security and economic and social inclusion are provisional and can thus be considered temporary measures. The majority of the applied changes constitute adjustments to existing sectoral policy instruments, rather than real innovations to the systems themselves.

TABLE 1
NEW SOCIAL POLICY MEASURES IN ECUADOR, BY SECTOR, 2007-2012

Social security	<ul style="list-style-type: none"> • Facilities for accessing the Unemployment Fund, advances from the Reserve Fund and unsecured loans. • Home loans for affiliates at subsidized interest rates, channelled through private financial institutions. • Very active incorporation of the Ecuadorian Social Security Institute (IESS) as an instrument for financing the fiscal budget (through the placement of sovereign bonds); supplying liquidity to the financial system through the opening of credit for affiliates and the purchase of the mortgage portfolio from financial institutions supervised by the Superintendency of Banks; and providing a cushion for families through advances from the Reserve Fund and short- and long-term loan facilities.
Education	<ul style="list-style-type: none"> • Implementation of a new selection process for teaching staff in the National Education System. • Creation of the Evaluation and Social Accountability System (SER) for the education system. • Reduction of the power of trade unions in the education sector, through the last reform to the law governing the teaching profession. • Elimination of the autonomous implementation units for education services.
Health	<ul style="list-style-type: none"> • Elimination of the pre-allocation of maternity care (and other pre-allocations). • Elimination of the autonomous implementation units for health services. • Outsourcing of the administration of health care and other services.
Economic and social inclusion	<ul style="list-style-type: none"> • Introduction of micro programmes for economic inclusion. • Integration of existing programmes. • Expansion of subsidy schemes.
Employment	<ul style="list-style-type: none"> • Elimination of outsourcing and part-time employment. • Restoration of the governing and regulatory role in public and private employment.

Source: Prepared by the author.

A. Poverty and inequality

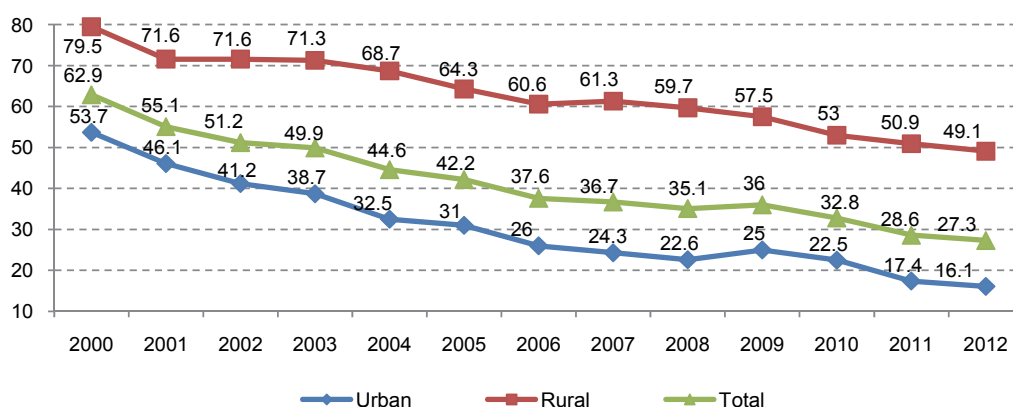
At the national level, the incidence of poverty measured by income declined 35 percentage points between December 2000 and December 2012, from 62.9% to 27.3%. In urban areas, poverty fell around 38 points in the period (from 53.7% to 16.1%), while in rural areas the drop was 30 percentage points (from 79.5% to 49.1%) (see figure 1). Poverty in Ecuador is thus higher in the rural sector than in urban centres.

Income poverty has declined throughout the current century, but the decrease has slowed in the last five years. At the national level, the poverty rate decreased 6.7% a year from 2000 to 2006, but only by 5.1% from 2007 to 2012.

The slowdown in poverty reduction suggests that the anti-poverty measures being applied by the current government are having trouble achieving their objectives. There are at least two factors behind the slowdown in poverty reduction: (i) the global financial crisis of 2008-2009, which affected all countries (urban poverty rose in Ecuador in that period); and (ii) the issue of “hard-core poverty”—namely, as poverty is reduced from very high levels, it becomes increasingly difficult to continue reducing it further, as illustrated in figure 1.

Given the nature and effectiveness of the social protection system, the reduction of poverty in the current century appears to be driven mainly by the macroeconomic environment, which has benefitted from dollarization; economic growth deriving from the “new oil boom” since 2002; and the vast resources arriving to poor families in the form of remittances from abroad, which have supported the consumption of hundreds of thousands of Ecuadorian households that need this income to live.

FIGURE 1
RATE OF INCOME POVERTY AT THE NATIONAL, URBAN AND RURAL LEVELS, 2000-2012
 (Percentages)

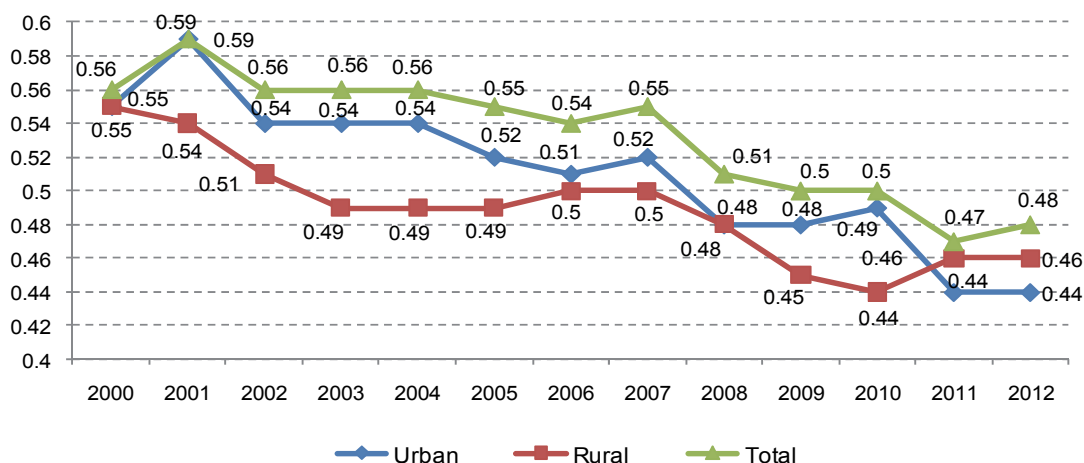


Source: National Institute of Statistics and Censuses (INEC), Urban Employment and Unemployment Surveys (*Encuestas Urbanas de Empleo y Desempleo*, EUED), 2000-2006; National Institute of Statistics and Censuses (INEC), Employment and Unemployment Surveys (*Encuestas de Empleo y Desempleo*, ENEMDU), 2007-2012.

The improvement in poverty is much less a reflection of the social policies and programmes implemented by the government. The one exception is the Human Development Grant, which studies show has had a positive impact on poverty reduction (Naranjo, 2008; Fiszbein and Schady, 2009).

With regard to the evolution of income inequality at the national level, the Gini coefficient improved substantially between December 2000 and December 2012, but it remains high. Specifically, the national Gini coefficient fell from 0.56 to 0.48 in the period, while the urban Gini dropped from 0.55 to 0.44 and the rural Gini from 0.55 to 0.46 (see figure 2).

FIGURE 2
GINI COEFFICIENT OF HOUSEHOLD INCOME AT THE NATIONAL, URBAN AND RURAL LEVELS, 2000-2012



Source: National Institute of Statistics and Censuses (INEC), Urban Employment and Unemployment Surveys (*Encuestas Urbanas de Empleo y Desempleo*, EUED), 2000-2006; National Institute of Statistics and Censuses (INEC), Employment and Unemployment Surveys (*Encuestas de Empleo y Desempleo*, ENEMDU), 2007-2012.

The downward trend in the Gini coefficient also dates to the implementation of dollarization. In the rural sector, however, the reduction of inequality has not been sustained. As shown in figure 2, the trend in the Gini coefficient has turned back upward since 2010 (0.46 in 2012); while the urban income Gini has tended to stabilize at 0.44 since 2011.

As in the case of poverty, the results on average monthly income from the household surveys carried out by the National Institute of Statistics and Censuses (INEC) point to a reduction of inequality in the income distribution between 2000 and 2012, although large gaps remain. The average monthly income of households in all the quintiles increased in the period under study, and the improvements were largest for the poorest quintiles. In 2012, the average monthly income was US\$ 120 in the first quintile and US\$ 1,859 in the fifth quintile (see table 2).

TABLE 2
AVERAGE MONTHLY HOUSEHOLD INCOME,^a BY INCOME QUINTILE,
2000, 2006, 2009 AND 2012
(Number of households and United States dollars)

Quintile	2000		2006		2009		2012	
	Number of households	Monthly income	Number of households	Monthly income	Number of households	Monthly income	Number of households	Monthly income
I	518 083	31	592 708	78	619 456	87	682 423	120
II	517 786	75	592 438	189	620 021	217	675 447	302
III	518 246	120	593 164	312	619 735	355	664 429	485
IV	518 173	197	593 004	503	619 433	586	671 181	782
V	518 341	610	592 848	1 352	620 148	1 478	660 643	1 859

Source: National Institute of Statistics and Censuses (INEC), Integrated Household Survey System (SIEH-ENEMDU), December 2000, December 2006, December 2009 and December 2012.

^a Includes all sources of household income.

The gap between the poorest and richest quintiles narrowed between December 2000 and December 2012. In 2000, the income share of the richest quintile was 20 times greater than the share of the poorest quintile; in 2012 the difference was 15 times. This shows an improvement in the equality of the income distribution (see table 3).

TABLE 3
SHARE OF TOTAL HOUSEHOLD INCOME,
BY INCOME QUINTILE, 2000 AND 2012

Quintile	2000		2012	
	Total income	Percentages	Total income	Percentages
I	16 060 573	3.0	81 890 760	3.5
II	38 833 950	7.3	203 984 994	8.6
III	62 189 520	11.6	322 248 065	13.6
IV	102 080 081	19.1	524 863 542	22.2
V	316 188 010	59.1	1 228 135 337	52.0
Total	535 352 134	100.0	2 361 122 698	100.0

Source: National Institute of Statistics and Censuses (INEC), Urban Employment and Unemployment Surveys (*Encuestas Urbanas de Empleo y Desempleo*, EUED), 2000; National Institute of Statistics and Censuses (INEC), Employment and Unemployment Surveys (*Encuestas de Empleo y Desempleo*, ENEMDU), 2012.

Two of the factors that appear to have contributed to reducing inequality are the wage policy of giving systematic raises throughout the decade and the significant direct subsidies (cash transfers) provided to the poorest groups.

While official income data indicate that inequality has fallen, the data in table 3 show that the changes in the distribution structure by quintile are small, especially in the poorest two quintiles. Despite the strong growth of subsidies, expanded social spending, wage increases, economic growth and the spectacular growth of the State budget over the last decade, the share of the poorest quintile increased a mere 0.5% of the total income distribution, which illustrates that income concentration continues to be a problem.

According to the 2012 household surveys, 26% of total income is distributed among the 60% poorest households, 22% among households in the fourth income quintile and more than half among households in the richest quintile. Policy actions are urgently needed to address this inequality.

Income is not the only measure of social inequality. Other important components include inequality in access to health, education, nutrition, housing, employment, livelihoods, etc. It was not possible to examine changes in these components, however, due to the lack of current data.

B. Economic growth

The improvement of the population's well-being —the primary object of development— is the result of several interrelated factors, as shown by the following examples:²

- A better distribution of wealth among the population derives, in part, from economic growth and macroeconomic stabilization;
- Increased international competitiveness is a precondition of growth, but securing competitiveness in turn requires the introduction of better technologies that contribute to increasing factor productivity;
- Technological change requires a base of human resources that can understand and learn change; “human resources” is another term for the population, and their participation in technological change is reflected in productivity;
- Increased productivity implies increased earnings, which in turn could promote equality if the benefits of change are distributed more heavily in favour of the poorest segments of the population;
- Ensuring the availability of highly productive human resources requires overcoming deficits in education, labour training and health;
- Deficits in the population's education level, training, and health have repercussions on the family income distribution.

Consequently, an analysis of the social protection system requires an adequate understanding of the interactions between the different factors that determine the population's well-being. This section therefore provides a brief review of some of the main national economic indicators during the dollarization period, as background for explaining the influence of economic factors on policies affecting quality of life and social inclusion.

In response to a severe economic, social and political crisis in the country, in January 2000 the Government of Ecuador decided to implement a new economic scheme based on the official dollarization of the monetary system and the promotion and introduction of macroeconomic and

² This follows the argument in ECLAC-CELADE (1999).

financial structural reforms. There are a number of striking features of the behaviour of the real sector in the post-dollarization period (2000-2012).

In the current century, the gross domestic product (GDP) has shown clear signs of growth, but it has not been steady due to the unstable behaviour of output. Despite the systematic increase in crude oil prices in the international market in the last ten years,³ annual GDP growth has been erratic. The average growth rate fell to 3.3% in 2003, then jumped back up to 8.8% in 2004; it fell to 2% in 2007 and 0.4% in 2009, before rising again to 7.8% in 2011 and finally ending the period around 5% in 2012.

In the 2000-2006 subperiod, GDP grew at an average annual rate of 5%, versus an average annual rate of 4.3% in 2007-2012. In 2012, GDP per capita was US\$ 1,895 in constant dollars (see table 4).

TABLE 4
ECUADOR: MAIN MACROECONOMIC INDICATORS, 2000-2012

Indicator	2000	2001	2002	2003	2004	2005	2006	Average
GDP (in millions of US\$ at constant 2000 prices)	16 283	17 057	17 642	18 219	19 827	20 966	21 962	18 851
GDP per capita (US\$ at constant 2000 prices)	1 324	1 367	1 393	1 419	1 522	1 587	1 638	1 464
GDP growth	4,2	4,8	3,4	3,3	8,8	5,7	4,8	5,0
GFCF growth rate (%)	12,1	23,5	18,9	-0,2	4,9	10,9	3,8	10,6
Inflation (annual average)	95,9	37,7	12,5	8,0	2,6	2,1	3,3	23,2
Unemployment (end-of-year, Dec.)	7,3	4,4	5,2	6,0	4,4	4,3	3,9	5,1
Minimum wage, real average in US\$ (December)	88	125	138	158	166	175	187	148
Minimum wage, nominal average in US\$ (December)	88	91	89	95	97	100	103	95
Indicator	2007	2008	2009	2010	2011	2012	Average	
GDP (in millions of 2000 US\$)	22 410	24 032	24 119	24 983	26 928	28 227	25 117	
GDP per capita (in 2000 US\$)	1 647	1 741	1 722	1 725	1 834	1 895	1 761	
GDP growth	2,0	7,2	0,4	3,6	7,8	4,8	4,3	
GFCF growth rate (%)	2,5	16,1	-4,3	10,2	12,3	6,7	7,3	
Inflation (annual average)	2,3	8,4	5,2	3,6	4,5	4,1	4,7	
Unemployment (end-of-year, Dec.)	5	6,0	6,5	5,0	4,2	4,1	5,1	
Minimum wage, real average in US\$ (December)	198	233	254	280	308	340	269	
Minimum wage, nominal average in US\$ (a December)	107	116	120	128	135	143	125	

Source: Central Bank of Ecuador (BCE), Monthly Statistics Bulletins, 2000-2012.

GDP growth is largely explained by the increase in international oil prices. Non-oil GDP recorded an average annual growth rate on the order of 4%. All economic sectors grew, but not with a stable trend.

In the period, the growth rate of gross fixed capital formation (GFCF) dropped from 10.6% (2000-2006) to 7.3% (2007-2012). This essentially reflects a slowdown of private investment, which has been falling since 2003 and which implies a loss in the development of the country's productive capacity.

³ Since late 2002, the upward trend in the oil price has not eased off: starting at US\$ 24.36 a barrel in late 2002, the price per barrel has closed each year at a higher average, ending at almost US\$ 99.50 a barrel in 2012 (weighted average price in the year).

With regard to inflation, the general price level, measured by the annual change in the consumer price index (CPI), hit a historical low in the 2000-2012 period. Inflation fell systematically from 96% at the beginning of 2000, to 2.1% in 2005. An inflationary process began in 2006, and greater inflationary pressures began to be felt in the second half of 2007. Inflation intensified in 2008 and then stabilized at around 4% in 2012, reflecting greater price stability in the economy.

This trend reflects, in particular, the following factors: (i) the increase in public spending since 2007, since the excess money supply puts pressure on the prices of products that become scarce; (ii) the hike in international food prices in 2009; and (iii) the depreciation of the dollar against Ecuador's main trading partners. This pressure caused the prices of basic necessities to escalate: the prices of food and non-alcoholic beverages, which represent 25.1% of the CPI, grew 78% between 2007 and 2012.⁴

The expenditure groups that are still recording high inflation rates of over two digits are food and beverages; education (16.5%); and rent, water, gas, electricity, etc. (12%). The price growth in the latter category derives mainly from housing rents, given that utility rates (electricity, potable water, telecommunications and transportation) have been stable since 2002.

This situation has had an impact on the population's purchasing power, especially the hundreds of families that receive remittances from abroad, whose purchases are concentrated mainly in non-durable consumer goods.

C. Employment, underemployment and unemployment

1. Economically active population by education level

Table 5 shows that in both 2008 and 2012, the majority of the economically active population (EAP) had only completed primary education (33%) or secondary education (31%), while a substantially smaller share had received post-secondary education (20%). Men have a higher education level than women, although for post-secondary education there is no difference between men and women. Only 5% of the EAP has no education at all, while 1% has post-graduate studies.

TABLE 5
ECONOMICALLY ACTIVE POPULATION, BY EDUCATION LEVEL, 2008 AND 2012
(Percentages)

Education level	2008			2012		
	Men	Women	Total	Men	Women	Total
None	3	2	5	3	2	5
Literacy centre	0	1	1	0	0	1
Primary	23	13	35	21	11	33
Elementary education	4	2	6	3	2	5
Secondary	17	11	29	19	12	31
High school	3	2	5	3	1	4
Non-university post-secondary	0	0	1	1	0	1
University	9	9	18	10	10	20
Post-graduate	1	0	1	1	1	1
TOTAL	60	40	100	60	40	100

Source: National Institute of Statistics and Censuses (INEC), Integrated Household Survey System (SIEH-ENEMDU), December 2008 and December 2012.

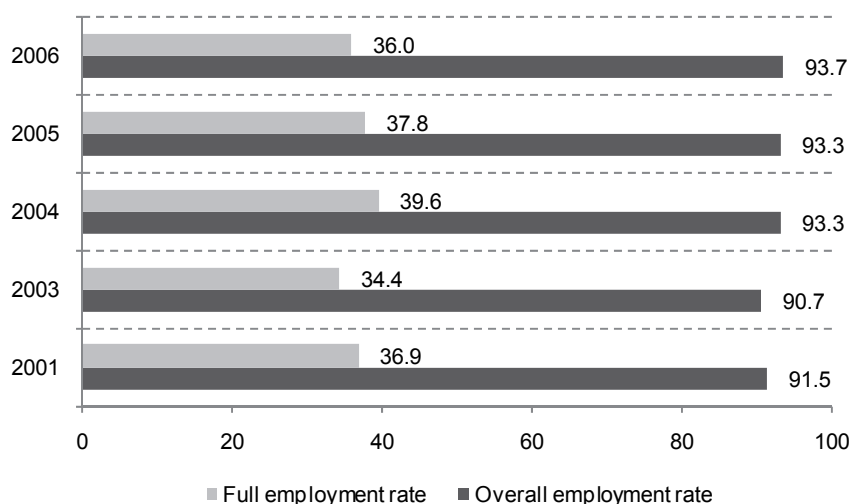
⁴ The annual per cent change of food and beverages prices was 3.2% in 2002 and 5.8% at year-end 2012 (ECB, 2012).

These statistics are indicative of the limitations the country is still facing in terms of improving the average education level of the population in general and the EAP in particular, which is at the root of the low productivity levels.

2. Full employment

According to the National Employment, Unemployment and Underemployment Surveys, the average annual full employment rate at the national level rose from 36.0% in 2001 to 36.9% in 2006; that is, there was a slight improvement (see figure 3).

FIGURE 3
FULL EMPLOYMENT RATE AND OVERALL EMPLOYMENT RATE, 2001-2006
(Percentages)



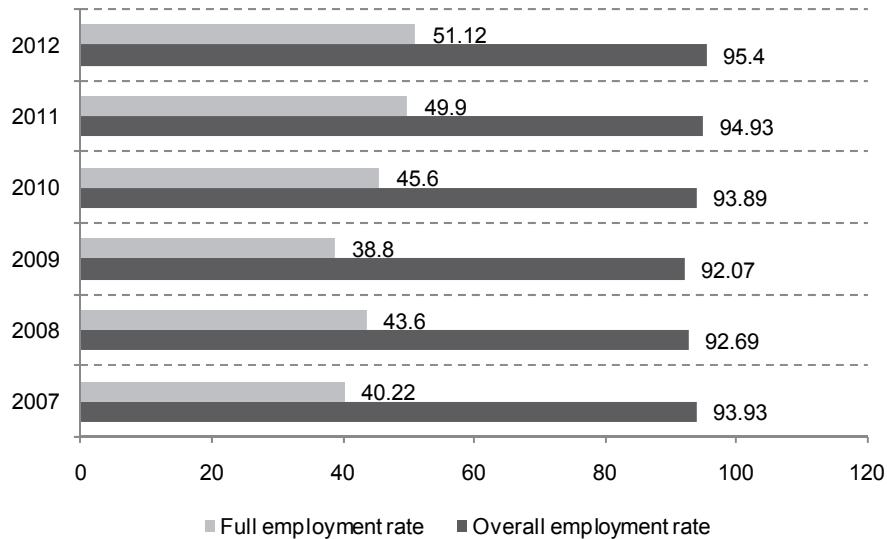
Source: National Institute of Statistics and Censuses (INEC) (2008), “Encuesta Nacional: Empleo, Desempleo y Subempleo, Periodo 2000-2006”, Publicaciones INEC, Quito, August.

Data for 2007-2012 are not comparable with the earlier series, given that in September 2007 the National Institute of Statistics and Censuses (INEC) changed the methodology used in the employment surveys in terms of segmentation, coverage, classification of job categories,⁵ updating the definitions⁶ and the reference period. It is therefore not possible to accurately determine whether the current labour situation has improved or worsened relative to 2000.

⁵ The methodological change encompassed the following adjustments: (i) the new market segmentation identifies the formal sector, the modern sector, the informal sector and domestic service, whereas the previous breakdown was the modern sector, the informal sector, agricultural activities and domestic service (that is, agricultural sector jobs are now classified as either formal or informal); (ii) the measure of the informal sector is now based on legality (taxpayer identification numbers and full accounting records), which could lead to an under-recording of informal employment; (iii) the size of the business is now 10 employees or more, whereas earlier surveys included businesses with five employees or more (that is, the sample was restricted to exclude small enterprises); (iv) the definitions of open and hidden unemployment were updated, reducing the search period from five to four weeks; (v) the classification of employment categories was reorganized, with the introduction of a subdivision for unskilled workers and the modification of the breakdown of underemployment (previously, underemployment was categorized as visible, invisible and informal, whereas the new breakdown is underemployment due to lack of hours or visible and other forms of underemployment); (vi) the reference period for the job search is four weeks, versus five weeks under the old methodology; and (vii) the calculation of hidden unemployment excludes the category “not looking for work due to opposition from family or partner”. See National Institute of Statistics and Censuses, “Nueva Metodología de la encuesta de empleo”.

⁶ The new methodology updated the definition of open unemployment, including people 10 years and over who are looking for work but are unemployed (where the job search implies availability), who have made concrete efforts to find a job or to set up some business in the last four weeks (the previous definition was people who did not have a wage job or independent employment in the reference week and who also met some of the following conditions: conducted an active job search in the last five weeks prior to the interview, are waiting for a response to start up their own business, are waiting for a response from an employer or

FIGURE 4
FULL EMPLOYMENT RATE AND OVERALL EMPLOYMENT RATE, 2007-2012
(Percentages)



Source: Central Bank of Ecuador (2012), Monthly Statistical Information (*Información Estadística Mensual*, IEM) No. 1930, 31 December 2012.

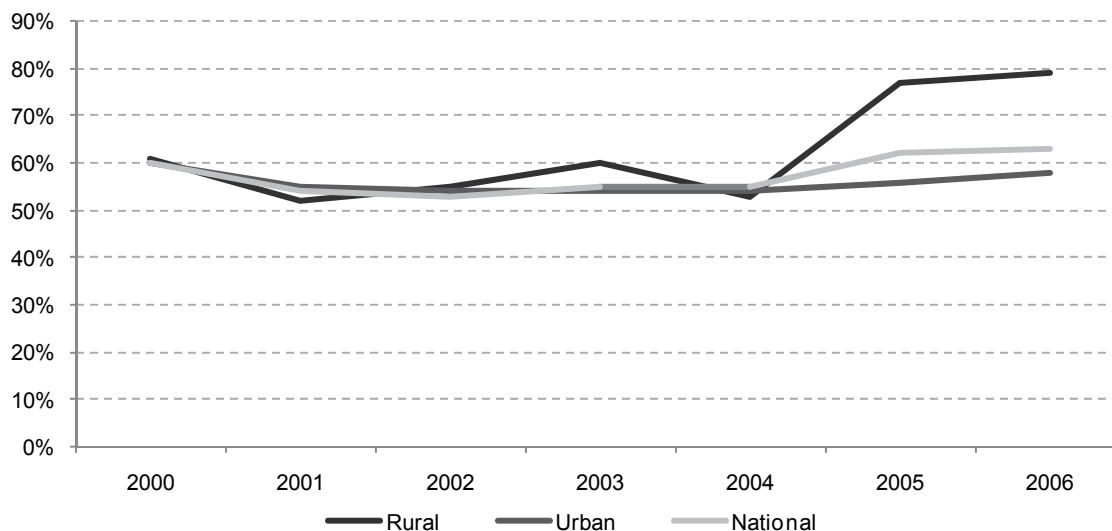
Nevertheless, full employment improved at the national level between 2007 and 2012, rising from 40% to 51%. This type of employment is most common in urban areas.

3. Underemployment

Between 2000 and 2006, the governments in office did not implement innovative formal job creation policies, so self-employment was the only option for many, despite its low productivity. The underemployment rate increased at the national level, from 60.3% in 2000 to 64.0% in 2006. The expansion was greatest in rural areas, where the gross unemployment rate grew 17.3 percentage points. In contrast, urban areas recorded a decrease of 3.8 percentage points (see figure 5).

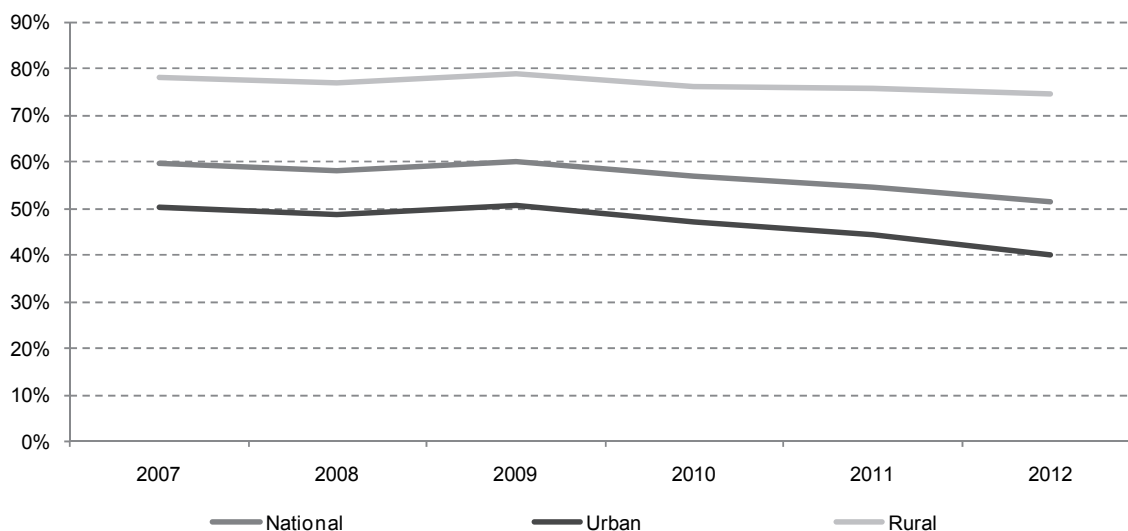
other efforts to find a job, are waiting for the harvest or seasonal work and are available to work). The definition of hidden unemployment was also updated. The previous methodology defined hidden unemployment as people 10 years and over who met all the following conditions in the reference week: unemployed, did not work in the last week, did not look for work in the five weeks prior to the interview, has sporadic or occasional work, thinks no one will give him or her a job or got tired of looking; does not believe he or she will find a job; and the family or partner does not allow it. Under the new methodology, hidden unemployment is the same, but now the individuals did not look for work in the four weeks prior to the interview for the following reasons: they have a job that will start immediately, are waiting for a response to start up their own business, are waiting for a response from an employer or other efforts to find work, re waiting for the harvest or seasonal work, think that no one will give them a job or got tired of looking, do not believe they will be able to find work, and are available to work.

FIGURE 5
GROSS UNDEREMPLOYMENT RATE, BY GEOGRAPHICAL AREA, 2000-2006
(Percentages)



Source: National Institute of Statistics and Censuses (INEC) (2008), “Encuesta Nacional: Empleo, Desempleo y Subempleo, Periodo 2003-2008”, Publicaciones INEC, Quito, August.

FIGURE 6
GROSS UNDEREMPLOYMENT RATE, BY GEOGRAPHICAL AREA, 2007-2012
(Percentages)



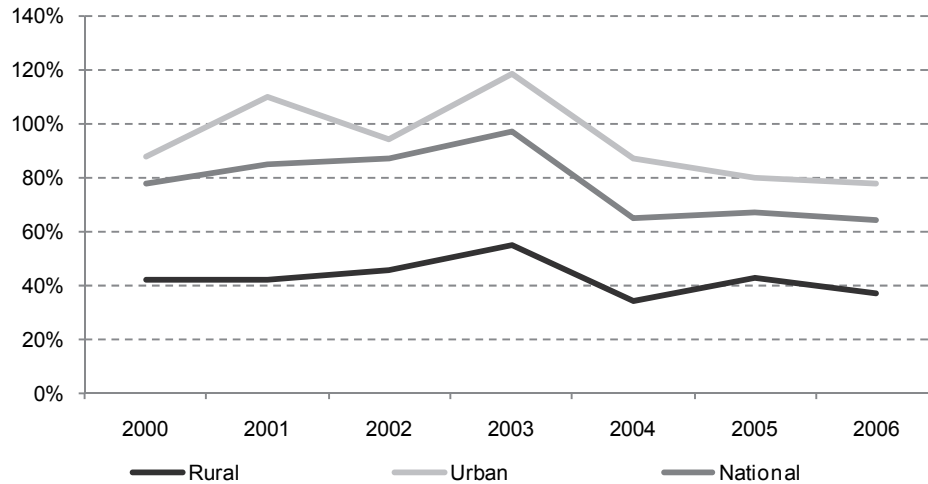
Source: National Institute of Statistics and Censuses (INEC) (2008), “Encuesta Nacional: Empleo, Desempleo y Subempleo, Periodo 2007-2012”, Processing Unit (UP) of the Statistical Studies Division (DESAE).

The trend changed in 2007-2012, when there was an improvement in the quality of the labour market insertion of the EAP. Underemployment fell from 59.8% in 2007 to 50.0% in 2012 at the national level, from 50% to 40% at the urban level and from 78% to 75% at the rural level (see figure 6). The decline in underemployment at both the urban and rural levels is explained by the elimination of labour outsourcing, which forced a lot of employers to offer full-time jobs to their underemployed workers.

4. Unemployment

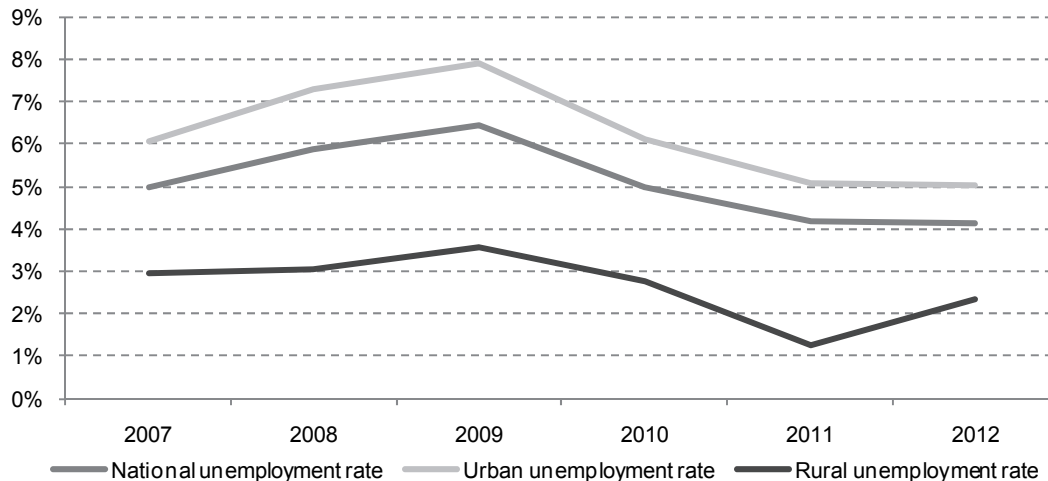
In 2000-2006, the average annual open unemployment rate was around 7.5% at the national level. As shown in figure 7, unemployment peaked in 2003 (9.3%), but the trend was decreasing, and the open unemployment rate fell to 6.4% by 2006. The differences between urban and rural areas show that the problem is greatest at the urban level (9.3%), whereas the rural sector recorded an average annual open unemployment rate of 4.2%.

FIGURE 7
UNEMPLOYMENT RATE, 2000-2006
(Percentages)



Source: National Institute of Statistics and Censuses (INEC) (2008), “Encuesta Nacional: Empleo, Desempleo y Subempleo, Periodo 2000-2006”, Publicaciones INEC, Quito, August.

FIGURE 8
UNEMPLOYMENT RATE, 2007-2012
(Percentages)



Source: National Institute of Statistics and Censuses (INEC) (2008), “Encuesta Nacional: Empleo, Desempleo y Subempleo, Periodo 2007-2012”, Processing Unit (UP) of the Statistical Studies Division (DESAE).

Using the new methodology of 2007, the national unemployment rate decreased from 5% in 2007 to 4% in 2012; the reduction was recorded at both the urban and rural levels.

II. Social spending in 2000-2012

The expansion of the public sector in Ecuador can be seen in the increase in public social spending, which grew more than production and was supported by oil income and tax revenues. Given the ease with which the government was able to change the budget rules, the increased spending was financed by the use of existing savings, the placement of internal debt with entities such as the Ecuadorian Social Security Institute (IESS) and the acquisition of new external credit in the form of prepayment for future oil sales.

Public social spending grew substantially in 2000-2012. The level of fiscal effort in the period and the structure of both total spending and spending by programme reflect the importance assigned to social policy, especially after 2007.

In 2007-2012, the average annual growth rate of social spending in the general State budget (GSB) was on the order of 15%, versus 5.6% in 2000-2006. This expansion has been supported by the availability of resources: large oil revenues, increased tax collection, and the issue of significant internal and external debt.⁷

Achieving the objectives of social policies and programmes depends strongly on the allocation of resources. Consequently, an analysis of the Ecuadorian social protection matrix needs to establish the level and composition of resource allocation. The data in table 6 are disaggregated into three components of social spending based on their functional classification:

- (a) Social spending on regular policies, implemented by the ministries in the social protection sector (central government);
- (b) Social spending on targeted programmes, implemented by para-ministerial agencies (decentralized autonomous entities); and
- (c) Social spending in the form of subsidies, granted through public companies and/or autonomous agencies.

As shown in table 6, three features stand out in the evolution of social spending in Ecuador:

⁷ Between 2007 and 2012, the State issued domestic bonds for more than US\$ 1 billion, contracted debt with the Central Bank, the IEES and the State Bank for another US\$ 1 billion, and contracted new external debt for nearly US\$ 3 billion. In December 2008 —without the repurchase of the 2012 and 2030 bonds— the balance of external public debt was US\$ 10.089 billion. In December 2012 —after the repurchase of US\$ 2.3 billion worth of 2012 and 2030 bonds in 2009— the balance was around US\$ 11 billion.

- (i) The magnitude of social spending under the expanded definition (the non-financial public sector, or NFPS);
- (ii) The recovery of social spending in the current century, especially in the last six years (2007-2012); and
- (iii) The changes in the composition of expenditures by jurisdiction (administrative level: central government, decentralized entities, non-financial public companies, etc.).

TABLE 6
EVOLUTION OF ACCRUED SOCIAL SPENDING, EXPANDED TOTAL,
2000, 2006, 2009 AND 2012
(Percentages of GDP and United States dollars)

Category of expenditure	2000	2006	2009	2012 ^a
1. Expanded social expenditure on regular sectoral policies (GSB)				
Central government (CG)				
Education	2.3%	2.3%	4.1%	4.6%
Health	0.8%	1.0%	1.5%	2.1%
Economic and social inclusion	1.5%	0.9%	1.4%	1.4%
Housing and urban development	0.1%	0.2%	0.4%	0.6%
Employment	0.0%	0.0%	0.0%	0.1%
(a) Subtotal of social spending by the central government	4.7%	4.5%	7.4%	8.7%
Decentralized entities				
Education	1.1%	1.0%	0.5%	0.2%
Health	0.0%	0.1%	0.0%	0.0%
Economic and social inclusion	0.0%	0.1%	0.0%	0.0%
Housing and urban development	0.0%	0.1%	0.0%	0.0%
Employment	0.1%	0.1%	0.1%	0.1%
(b) Subtotal of social spending by decentralized entities	1.2%	1.4%	0.5%	0.2%
THE GENERAL STATE BUDGET (GSB)				
Education	3.4%	3.4%	4.6%	4.8%
Health	0.8%	1.2%	1.5%	2.1%
Economic and social inclusion	1.5%	1.0%	1.4%	1.4%
Housing and urban development	0.2%	0.3%	0.4%	0.6%
Employment	0.1%	0.1%	0.1%	0.1%
(c) Subtotal of general State social spending (a+b)	5.9%	5.9%	7.9%	9.0%
2. Social Spending on targeted programmes (within the CG)				
Education	0.2%	0.3%	0.5%	0.2%
Health	0.1%	0.2%	0.3%	0.2%
Economic and social inclusion	1.0%	0.7%	1.0%	1.2%
Housing and urban development	0.1%	0.1%	0.3%	0.2%
Employment	0.0%	0.0%	0.0%	0.0%
Subtotal of spending on targeted programmes	1.4%	1.3%	2.1%	1.8%
Subtotal of CG expenditure – Spending on targeted programmes	3.3%	3.1%	5.3%	6.9%

Table 6 (concluded)

Category of expenditure	2000	2006	2009	2012 ^a
3. Social spending on subsidies for consumption (through public companies)				
Pensions	0.7%	1.0%	1.3%	1.3%
Oil derivatives	1.3%	2.9%	2.1%	3.5%
Electricity sector	0.0%	0.5%	0.4%	0.1%
Other subsidies	0.8%	0.4%	1.5%	1.2%
(d) Subtotal of subsidies	2.8%	4.9%	5.3%	6.2%
Subsidies excluding pensions	2.1%	3.8%	4.0%	4.9%
(e) Total expanded social spending (c+d) ^b	8.7%	10.7%	13.1%	15.0%
Total public expenditures (GSB) in US\$ millions	4 259,8	9 927,6	20 610,4	36 109,3
Expanded social spending as a percentage of total public expenditures (GSB)	23.3%	21.2%	33.5%	44.6%
Population, in millions	12.3	13.5	14.0	15.0
GSB social spending per capita (excl. subsidies) in US\$	88.0	107.3	161.1	186.3
Expanded social spending per capita (excl. subsidies) in US\$	130.0	195.9	269.0	315.2

Source: Ministry of Economic Affairs and Finance (MEF), SIGEF, Institutional Budget, database provided by the Department of the Budget, OFICIO No. MINFIN-SP-2012-0191, Quito, May 2013.

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^a Provisional data.

^b Expanded social spending is the total value of central government budget (CGB) + PED + subsidies via public companies.

A. Expanded social spending (NFPS)

(i) Under the expanded definition,⁸ the magnitude of social spending is noteworthy when all the components and implementation areas are included: in 2012 social expenditure represented 15% of gross domestic product (GDP), which is on line with the corresponding level in Chile. This contrasts with the country's usual rate of 8.7% of GDP.

This expenditure level is so striking because most studies of social spending in Ecuador focus exclusively on the expenditure series for the central government. These series, however, account for only a part of the total expanded social spending, as outlined in table 6. Under this definition, social spending in Ecuador is close to the average social spending levels of Latin America reported by Economic Commission for Latin America and the Caribbean (ECLAC) in its annual Social Panorama publications.

(ii) With regard to the recovery of social spending in the period under study, social spending declined steadily for almost two decades before recovering significantly in 2000-2012, when it rose from 8.7% of GDP in 2000 to 15.0% of GDP in 2012 (equivalent to 37.5% and 34.0% of the general State budget, respectively).⁹

In per capita terms, expanded social spending (NFPS) grew from US\$ 130 in 2000 to US\$ 315 in 2012, which places Ecuador in an intermediate position relative to other Latin American countries. This increase is strongly related to the following two factors: (a) the increase in teachers' and doctors' salaries; and (b) the drop in the birth rate, with the relative decline in the population growth rates.¹⁰

(iii) With regard to changes in the composition of social spending by jurisdiction, many of the social actions that were previously carried out by decentralized entities¹¹ or local governments¹² were transferred to the central government. Currently, there are very few social interventions that are implemented outside the central government, and the weight of direct subsidies in total social spending has increased, especially cash transfers. In the early years of the current administration, the higher level of social spending is explained by the emergency allocation of resources to the social area, using funds from the former Savings and Contingency Fund (FAC), and the greater availability of resources in the fiscal coffers, due to measures adopted by the government with regard to the management of public resources. These measures included the following:

- (a) The elimination of the special oil funds: namely, the Special Account for Productive and Social Reactivation, Scientific-Technological Development and Fiscal Stabilization (CEREPS); the Ecuadoran Energy and Hydrocarbons Investment Fund (FEISEH); the Oil Stabilization Fund (FEP); and the Ecuadoran Energy and Hydrocarbons Investment Fund Commercial Trust (FIMFEISEH), whose funds are allocated to current expenses and investment;
- (b) The combining of oil resources within the general State budget; and
- (c) The transfer of the Block 15 oil field from private hands to the State in 2007 (PETROAMAZONAS Ecuador S.A.).¹³

⁸ Expanded social spending (ESS) = Central government expenditures + Expenditures by decentralized institutions + Subsidies channelled through public companies (Petroecuador and electric companies). It is equivalent to the social spending of the non-financial public sector (NFPS).

⁹ While expanded social spending (ESS) almost doubled in GDP terms, the growth rate was smaller in terms of the general State budget (GSB). In fact, ESS now accounts for a smaller share of the GSB, since the GSB has grown more than ESS.

¹⁰ The changes in the age composition of the population are reducing the pressure on the health and child education systems, which facilitates compliance with the targets.

¹¹ Such as the agency in charge of implementing the Free Maternity Act, which managed substantial resources for reproductive health care outside the ministerial structure.

¹² For example, the Ministry of Health absorbed all the costs of the Universal Insurance Programme in the Municipalities of Quito, Guayaquil and Cuenca.

¹³ PETROAMAZONAS Ecuador S.A. is the State operator that took over production from the privately owned Occidental Petroleum, after the contract was terminated by the Ecuadorian government in 2006.

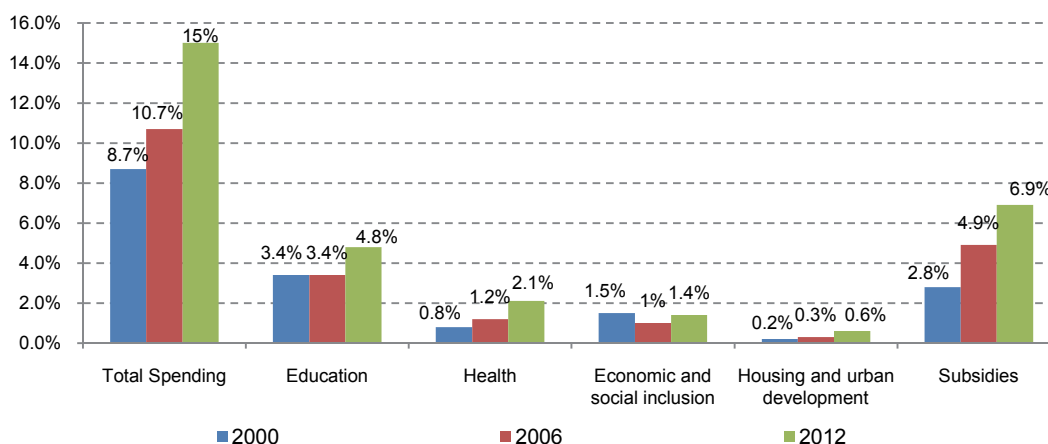
The government also eliminated the public para-ministerial agencies, which implemented the main social programmes from outside the regular ministerial management structure, and terminated the para-fiscal mechanisms (funds and trusts), incorporating these resources into the general State budget. All these mechanisms created a fiscal cushion between 2007 and 2009. Since 2010, tax increases, the presale of oil and an aggressive internal debt programme have allowed the government to expand and sustain social spending to date.

In 2012, universal services were the main component of social policy in Ecuador: 47% of expanded social spending was used to finance regular services in education, health, social inclusion, housing and employment promotion. This was followed by cash transfers from the State, which include social security pensions for retired public sector workers and subsidies for fuel, electricity and small farmers. These payments are not usually included in measures of social spending, despite representing 41% of expanded social spending. Finally, interventions through targeted social programmes accounted for 12% of the total.

An analysis of expanded social spending by jurisdiction reveals that in 2012, social spending by the central government (CG) represented around 58% of total expanded social spending. A mere 1% was channeled through decentralized entities. Social spending in the form of subsidies administered by public companies made up approximately 41% of total NFPS social spending (see table 6).

Total expanded social investment reached 15% of GDP in 2012. By destination, social spending was allocated as follows (in order of importance): subsidies,¹⁴ education, health, economic and social inclusion,¹⁵ housing and sanitation (see figure 9), and employment.

FIGURE 9
EVOLUTION OF ACCRUED SOCIAL SPENDING, EXPANDED TOTAL
AND BY SECTOR, 2000-2012
(Percentages of GDP)



Source: Central Bank of Ecuador (BCE) and Ministry of Finance (MF), December 2012.

Note: Total social spending includes subsidies for oil derivatives, the electricity sector and other pro-poor subsidies.

¹⁴ Includes subsidies for oil derivatives, the electricity sector and other pro-poor subsidies.

¹⁵ Includes the sector traditionally known as social welfare, which helps vulnerable groups through various mechanisms, in particular social assistance programmes for children, the elderly, persons with disabilities, and very poor segments of the population, who receive the Human Development Grant or housing grants. In Ecuador, such social protection activities are called “social inclusion” and are currently implemented by the Ministry of Economic and Social Inclusion. That is, in Ecuador social inclusion is one of the sectors of the social protection system, as are health, education and labour.

As shown in table 6, central government spending equaled 8.7% of GDP in 2012; within that amount, the education sector absorbed 4.6% of GDP. Subsidies channeled through state-owned companies had a relative share of 6.2% of GDP, where subsidies for oil derivative consumption accounted for the main social expenditure (3.5%). Social spending by decentralized entities was marginal, at just 0.2% of GDP in 2012.

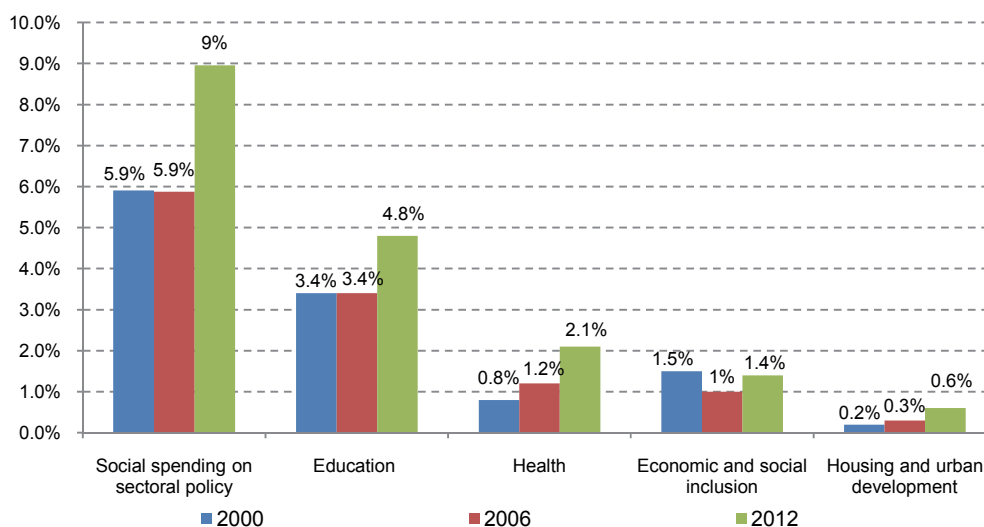
Like other countries in the region, Ecuador has gradually given a higher priority to social allocations, thereby reversing the downward trend of past decades. Little can be said, however, about the effect on the population's well-being, as there are no official statistics on the results and impact of the increased social spending. From 2007 to the present, there is no information on the population's health and nutritional status, educational achievement or advances in child development.

To flesh out the data summarized in table 6, the following subsection analyses the three components of expanded social spending by administrative jurisdiction.¹⁶

1. Social spending in the general State budget (GSB)

This jurisdiction of social spending encompasses central government spending plus spending by decentralized entities in the social protection sector. As shown in figure 10, social investment in the GSB recorded a strong expansion in 2000-2012, growing from 5.9% of GDP in 2000 to 9% in 2012. In real terms,¹⁷ social investment grew at an average annual rate of 13.2%, while total public spending grew at an even faster rate of 18.9%. In the same period, GDP grew at an average annual rate of 5.9%, or much less than the growth rate of spending.

FIGURE 10
EVOLUTION OF SOCIAL SPENDING IN THE GSB AND BY SECTOR, 2000, 2006 AND 2012^a
(Percentages of GDP)



Source: Central Bank of Ecuador (BCE) and Ministry of Finance (MF), December 2012.

^a Accrued expenditures.

¹⁶ The administrative jurisdictions are the central government, the decentralized governments, non-financial public companies, and so on.

¹⁷ The series are deflated to 2000 prices.

The behaviour of public spending varies in the two subperiods. In 2000-2006 total public spending was procyclical: the average annual growth rate of GDP was 5.8%, versus 3.8% for total public spending. Social spending increased more than total public spending: 5.6% versus 3.8%.

In contrast, social spending grew less than total public spending in 2007-2012 (average annual 15% versus 25%), while GDP grew at an average annual rate of 4.8%. That is, the contribution of social spending to growth has been modest. Thus, despite the vast public resources injected into the economy, GDP grew at a slower rate than in the earlier subperiod, which suggests that the spending increases in this subperiod were essentially oriented towards current expenses.

By sector, education accounts for the largest share of the total, on average, in the period under analysis: 56% of total social spending was on education, 19% on health, 19% on economic inclusion, 5% on housing and sanitation and 1% on employment.

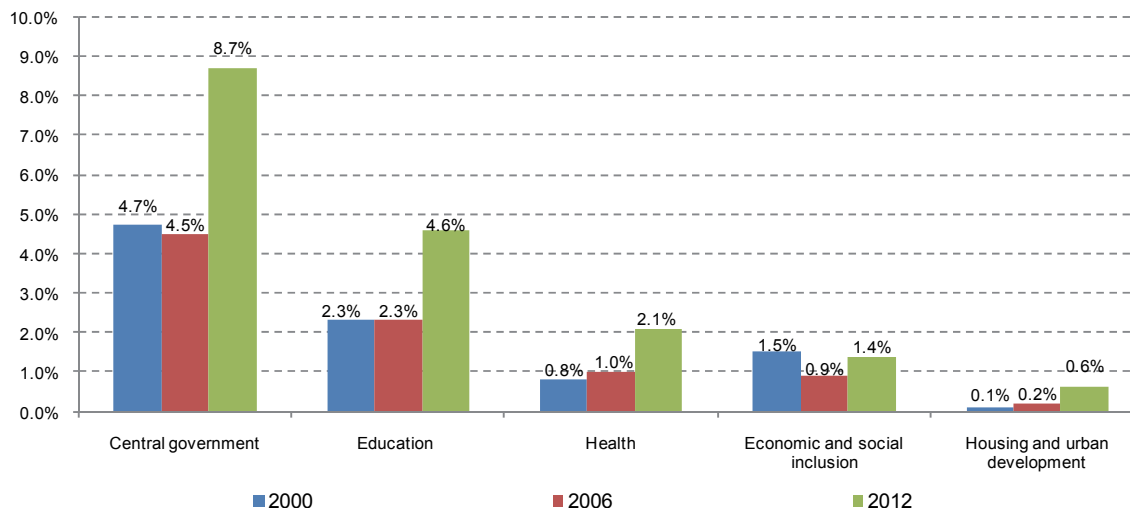
Based on this definition of social spending, Ecuador is not lagging far behind the other Latin American countries, as most comparative analyses of the region have concluded. This highlights the importance of correctly quantifying social investment in the different areas of the public sector.

B. Central government spending on regular sectoral policies

The changes in the level of social spending by the central government reflect two factors: (i) increases in the actual level of spending; and (ii) changes in composition, deriving from the jurisdictional reforms (administrative level).

Up until 2008, before the unification of the country's budget, central government spending represented only around 50% of total social spending. The remainder was divided fairly evenly between social programmes implemented by the decentralized entities, which accounted for approximately 24% of social spending, and subsidies channeled through state-owned companies, which represented 26% of total social spending by the NFPS.

FIGURE 11
EVOLUTION OF ACCRUED SOCIAL SPENDING BY THE CENTRAL GOVERNMENT,
TOTAL AND BY SECTOR, 2000, 2006 AND 2012
(Percentages of GDP)



Source: Central Bank of Ecuador (BCE) and Ministry of Finance (MF), December 2012.

Starting in 2009, with the implementation of the budget unification and the institutional restructuring of the social protection sector, the central government's share has gradually increased, while social spending by the decentralized entities has contracted.

To illustrate social spending at this administrative level, which is the definition normally used in domestic and international studies due to the availability of information, figure 11 presents the sectoral distribution of social spending in this jurisdiction.

In 2012 social spending by the central government represented around 58% of total expanded social spending and 8.7% of GDP, which equals approximately 97% of expenditures in the general State budget.

The sectoral breakdown of central government social spending reveals the same pattern found in the breakdown by GSB area, due to the weight of these expenditures in the GSB as a result of the changes in composition described earlier.

These changes in the composition of social spending also reflect the change in how the main social programmes are implemented. When the para-ministerial agencies were eliminated after operating for nearly a quarter of a century (1982-2007), the social programs were incorporated into the regular ministerial structure. Given their importance within the Ecuadorian social protection system, the next section looks at targeted programmes.

C. Social spending on targeted programmes

Social investment via targeted programmes accounted for around 23% of total social spending in the GSB throughout the period under analysis. These programmes, which complement universal services, are mostly in the traditional sectors of economic and social inclusion (the former Ministry of Social Well-Being) and in housing and sanitation. These programmes are fundamentally based on cash transfer mechanisms: the Human Development Grant and the Housing Grant.

The data in table 7 show that in 2012, spending on specific targeted programmes accounted for a fifth of the total GSB expenditure. Thus, a substantial volume of resources (almost US\$ 1.500 billion) is allocated through this channel.

TABLE 7
TOTAL SOCIAL SPENDING IN THE GENERAL STATE BUDGET AND SPENDING ON THE MAIN SOCIAL PROGRAMMES, ACCRUED EXPENDITURES, 2000, 2006, 2009 AND 2012
(Billions of current United States dollars and percentages)

Type of expenditure	2000	2006	2009	2012 ^a
Total social spending in the GSB (billions of US\$)	1 082	2 750	4 863	7 249
Total social spending (percentage of GSB)	25.4%	27.7%	23.6%	20.1%
Total social spending in the GSB (percentage of GDP)	5.9%	5.9%	7.9%	9.0%
Total spending on specific programmes (billions of US\$)	258	619	1 279	1 488
Total spending on programmes (percentage of GDP)	1.4%	1.3%	2.1%	1.8%
Total spending on programmes (percentage of total social spending)	23.9%	22.5%	26.3%	20.5%
Total social spending per capita (GSB), excl. general subsidies (in US\$)	88	107	161	186
Expanded social spending per capita, incl. general subsidies (in US\$)	130	195	269	315

Source: Ministry of Economic Affairs and Finance (MEF), SIGEF, Institutional Budget, database provided by the Department of the Budget, OFICIO No. MINFIN-SP-2012-0191, Quito, February 2013.

Ministry of Economic Affairs and Finance (MEF)/Department of the Budget and Budget Statistics, "Gastos Consolidados por Sector", Quito, March 2010. Data downloaded from the website: www.mef.gov.ec.

Central Bank of Ecuador (BCE), "Información estadística mensual", Boletín No.1933, December 2012.

^a Quasi-final data.

Within programme expenditures, cash transfers are a key component of social inclusion policy. They currently represent 67% of total spending on social programmes and have accounted for the same share since 2009.

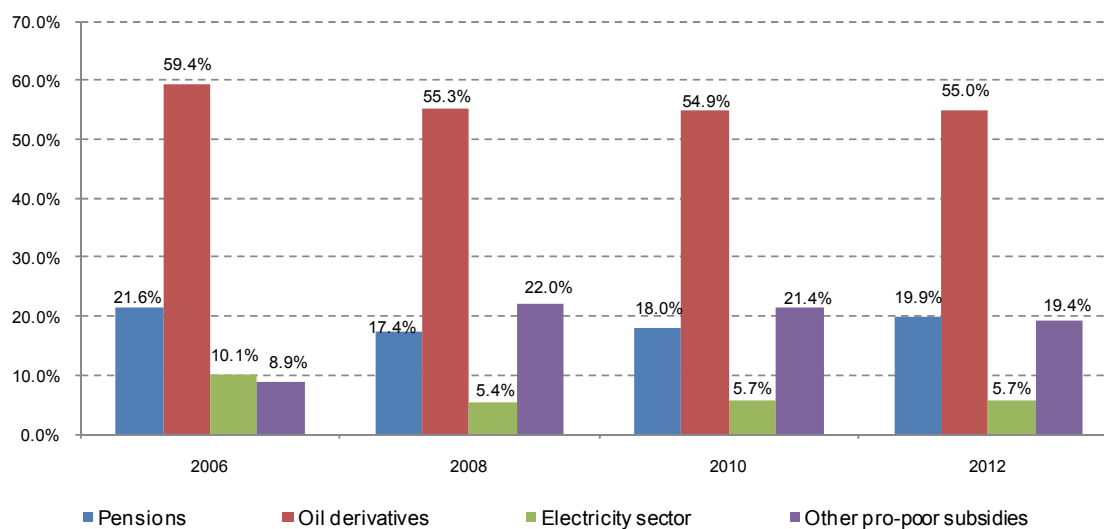
Table 7 reveals the importance of social programmes in the government’s social policy. Throughout the period, targeted programmes accounted for around 23% of the social GSB.

In response to the severe structural problems of poverty, unemployment and malnutrition, the current government has continued to place a high priority on the 15 programmes that have traditionally been implemented through this channel, in particular the Human Development Grant (BDH), the Housing Grant, the child development programmes, and the nutrition and health programmes. Efforts are also being made to develop small new programmes for economic inclusion.

D. Social spending on subsidies

Since the 1970s, general direct subsidies have played an important role as a public policy instrument in Ecuador, with the objective of reducing the social inequalities among the population. The main State subsidies are the subsidized social security pensions for retired public sector workers, which is channeled through the the Ecuadorian Social Security Institute (IESS), the Social Security Institute of the Armed Forces (ISSFA) and the Social Security Institute of the National Police (ISSPOL); the fuel consumption subsidy; and the electricity consumption subsidy. In recent years, some additional “pro-poor” subsidies have been established, mainly targeting small farmers.

FIGURE 12
RELATIVE DISTRIBUTION OF SUBSIDIES, 2006, 2008, 2010 AND 2012
(Percentages)



Source: Ministry of Finance (MF) (2009), Department of Economic Policy, “Subsidios Banco Nacional de Fomento”, Quito, September. Ministry of Finance (MF) (2008), Department of the Budget. “Proforma Presupuestaria 2008”, Quito. Ministry of Finance (MF) (2007), Department of the Budget “Proforma Presupuestaria 2007”, Quito.

Figure 12 graphs the relative distribution of the different subsidies from 2006 to 2012. In 2012, the two largest subsidy programmes were for oil derivatives consumption and social security pensions, which accounted for 55% and 20% of the total, respectively. With regard to pensions, the IEES absorbs the largest share of the social security subsidies, followed by the ISFFA and the ISSPOL.

These subsidies are not usually considered components of social spending. Given that some are universal, have been in place for a long time, or operate outside the traditional social protection sectors (education and health), they are not etched in the collective conscious as part of social spending, which results in their lack of visualization and recording. In the last fifteen years, around 15% of the annual general State budget has been allocated to this type of subsidy.

Tables 8 and 9 present the quantitative breakdown of the subsidies by subperiod for 2000-2006 and 2007-2012, respectively.

TABLE 8
COMPOSITION OF SUBSIDIES IN ECUADOR, 2000-2006
(Millions of United States dollars)

Type of subsidy	2000	2001	2002	2003	2004	2005	2006	Average 2000-2006
PENSIONS:	130.6	158.0	191.2	231.3	325.2	432.3	489.9	279.8
IESS	95.4	115.5	139.7	166.8	230.5	332.1	379.7	208.5
ISSFA	14.0	16.9	20.5	36.0	32.3	32.3	78.0	32.9
ISSPOL	21.2	25.6	31.0	28.6	62.4	67.8	32.1	38.4
Oil derivatives ^a :	234.4	299.2	382.1	487.8	666.5	1 121.7	1 349.6	741.6
Liquid gas (LPG)	77.6	99.0	126.4	161.4	220.6	371.2	542.5	228.4
Diesel	110.3	140.9	179.8	229.6	313.7	528.0	586.2	298.4
Gasoline	46.5	59.3	75.8	96.7	132.2	222.4	220.9	122.0
Electricity sector ^a :	—	—	—	—	15.0	80.0	230.0	46.4
Rest of the total population	—	—	—	—	15.0	80.0	230.0	46.4
Other pro-poor subsidies	151.9	159.5	161.8	176.8	189.0	190.4	202.0	175.9
Human Development Grant	145.0	149.1	143.5	159.9	172.7	170.1	182.0	160.3
Housing Grant + Land Title Grant	6.87	10.47	18.3	16.92	16.3	20.3	20.0	15.6
Total Subsidies	516.8	616.8	735.0	895.9	1 195.7	1 824.4	2 271.5	1 150.9
Percentage of current spending in the GSB	16.9%	17.4%	16.0%	17.5%	20.3%	25.9%	28.4%	20.4%
Percentage of GDP	2.8%	2.5%	2.6%	2.8%	3.3%	4.4%	4.9%	3.3%
Current spending in the GSB	3 052.5	3 539.4	4 579.7	5 126.2	5 885.3	7 048.9	7 984.1	5 316.6
GDP	18 318.6	24 468.3	28 548.9	32 432.8	36 591.6	41 507.0	46 802.0	32 667.0

Source: Ministry of Economic Affairs and Finance (MEF), SIGEF, Institutional Budget, database provided by the Department of the Budget, OFICIO No. MINFIN-SP-2012-0191, Quito, May 2012.

Ministry of Economic Affairs and Finance (MEF)/Department of the Budget and Budget Statistics, "Gastos Consolidados por Sector", Quito, February 2013. Data downloaded from the website: www.mef.gov.ec.

Central Bank of Ecuador (BCE), "Información estadística mensual", Boletín No.1924, June 2012 and December 2012.

^a Values include cash transfers to consumers.

The subsidies recorded an average annual growth rate of 22.8% between 2000 and 2012. The the greatest growth was in the subsidized retirement pensions for former public sector workers, which grew at an annual average rate of 17%, followed by pro-poor subsidies, with an annual average growth rate of 13% that was concentrated between 2007 and 2012. General direct subsidies exceeded US\$ 5 billion in 2012, equivalent to 6.2% of GDP.

TABLE 9
COMPOSITION OF SUBSIDIES IN ECUADOR, 2007-2012
(Millions of US\$)

Type of subsidy	2007	2008	2009	2010	2011	2012 (1)	Average 2007-2012
PENSIONS:	550.9	624.9	778.6	803.3	827.2	1 039.8	770.8
IESS	418.9	442.2	510.0	493.4	493.5	706.1	510.7
ISSFA	87.9	127.2	194.4	213.5	230.6	230.6	180.7
ISSPOL	44.2	55.5	74.2	96.4	103.2	103.2	79.4
Oil derivatives ^a :	1 690.1	1 986.1	1 276.9	2 447.5	2 571.1	2 867.0	2 139.8
Liquid gas (LPG)	698.8	698.8	463.1	616.9	637.7	680.1	632.6
Diesel	647.9	889.0	537.4	1 287.5	1 254.5	1 364.4	996.8
Gasoline	343.4	395.3	275.8	539.1	631.3	778.9	494.0
Imported jet fuel		3.0	0.6	4.0	47.6	43.6	16.5
Electricity sector	236.0	192.7	259.3	256.2	124.2	100.0	194.7
Dignity tariff (one segment)	21.3	45.0	42.3	45.2	44.0	—	33.0
Rest of the total population	214.7	147.7	217.0	211.0	80.2	—	145.1
Other pro-poor subsidies	457.5	789.7	942.9	954.3	1,193.9	1,009.0	891.2
Human Development Grant	341.0	378.0	490.0	649.5	709.8	790.0	559.7
Housing Grant + Land Title Grant	89.4	310.7	174.1	148.2	351.7	45.2	186.5
Bakery sector subsidy ^a	15.2	39.7	1.5	—	—	—	9.4
Agricultural sector subsidy	12.0	61.4	99.7	51.0	93.4	9.9	54.6
Productivity subsidy	—	—	172.9	100.5	18.6	112.0	67.3
Disability subsidies	—	—	—	3.1	19.3	41.8	10.7
Migrant subsidies	—	—	4.8	2.0	1.1	10.1	3.0
Total Subsidies	2 934.5	3 593.4	3 257.7	4 461.3	4 716.4	5 015.9	3 996.5
Percentage of current spending in the GSB	32.1%	24.3%	23.4%	26.4%	21.5%	20.7%	24.7%
Percentage of GDP	5.8%	5.8%	5.3%	6.6%	6.0%	6.2%	5.9%
Current spending in the GSB	9 148.00	14 761.4	13 930.2	16 905.0	21 970.4	24 277.7	16 832.1
GDP	51 007.7	61 762.6	61 550.4	67 856.4	78 188.9	80 925.4	66 881.9

Source: Ministry of Economic Affairs and Finance (MEF). SIGEF. Institutional Budget, database provided by the Department of the Budget, OFICIO No. MINFIN-SP-2012-0191, Quito, May 2012.

Ministry of Economic Affairs and Finance (MEF)/Department of the Budget and Budget Statistics, “Gastos Consolidados por Sector”, Quito, February 2013. Data downloaded from the website: www.mef.gov.ec.

Central Bank of Ecuador (BCE), “Información estadística mensual”, Boletín No.1924, June 2012 and December 2012.

^aThe agricultural sector subsidy, the bakery sector subsidy and microcredits did not exist in the 2000-2006 subperiod.

In terms of total resource allocation, the most important subsidies were for oil derivatives (3.5% of GDP), which have been in place since the 1970s. Within this category, the diesel subsidy holds the largest share (1.7% of GDP), followed by the gasoline subsidy and finally the liquid gas subsidy. In second place are the subsidized pensions, with 1.3% of GDP. Third place is held by the pro-poor subsidies (1.2% of GDP), within which the Human Development Grant carries the most weight (1% of GDP) and is trending upward. Finally, the electricity subsidy is substantially smaller.

III. Basic structure of the social protection and promotion system: description of the main services

The Ecuadorian Constitution, approved in 2008, establishes that development must be oriented towards achieving good living, or *sumak kawsay*. The agency in charge of national planning, SENPLADES, holds that *“Development is here understood as the achievement of good living for all men and women, in peace and harmony with nature, and the indefinite perpetuation of human cultures. Good living presupposes that individual freedoms, opportunities, abilities and real potential will expand so as to allow achieving the desirable life objective that is so highly valued by the society, its territories, the diverse collective identities and each and every individual—in both the universal and particular sense”* (SENPLADES, 2009).

Based on this premise, the Ministry for the Coordination of Social Development set itself the challenge of building a new model of social development whose actions are aimed at long-term structural change, through the construction of “inclusive spaces” where active citizens can achieve well-being, equality and the realization of their inherent potential.

Within this framework, official efforts have sought to implement an integrated and coordinated Social Action Agenda, whose goal is “to guarantee the rights of vulnerable people who have traditionally been excluded and to work towards the progressive eradication of poverty, offering economic opportunities that promote a process of economic and social inclusion” (SENPLADES, 2009).

In practice, the Ecuadorian social protection and promotion system combines four types of social intervention: (i) contributory social protection; (ii) non-contributory social protection; (iii) regular sectoral interventions (economic and social inclusion, health, education, housing and urban development and employment); and (iv) income-distribution policies. These interventions are expected to facilitate the expansion of the population’s skills and opportunities, so that people can exercise their rights and build an active citizenship.

A. Contributory social protection (“social security”): pensions, retirement and health insurance

The main insurance provider is the public sector: in 2012, the IESS had 2,731,378 affiliates, or 40.3% of the economically active population (EAP). Table 10 summarizes the current system.

When the Ecuadorian social security system was set up in 1928,¹⁸ it was designed around a pay-as-you-go structure, in which contributions from current workers are used to pay current retirement pensions. The Ecuadorian Social Security Institute (IESS) continues to operate under this model. This distribution mechanism works as long as more workers continue to enter the system and can maintain a relatively stable retired population.

TABLE 10
CHARACTERISTICS OF SOCIAL SECURITY BENEFITS

General model of the system	Coverage and benefits	Funding	Institutional framework
<p>The largest social security system in Ecuador, the Ecuadorian Social Security Institute (IESS), provides four types of insurance to affiliates:</p> <p>1. Pension insurance: the general mandatory insurance against disability, old age and death. Provides benefits to affiliates and their family members.</p> <p>2. Rural insurance: protects farmers and small fishermen in the Ecuadorian rural sector against vulnerabilities, through the implementation of programmes for integrated health care, disability, old age and permanent disability and death, in order to the raise level and quality of life of the rural population.</p> <p>3. Individual and family health insurance: one of the specialized insurance products provided by the IESS. Provides sickness and maternity benefits for affiliates and their family members.</p> <p>4. Occupational hazard insurance (SGRT): guarantees occupational health and safety through prevention programmes and actions for affiliates and employers. Insures affiliates and their families against contingencies deriving from occupational accidents and illnesses.</p>	<p>Coverage increased from 2008 to 2012 due to the expansion of the contributor base and the inclusion of spouses and children of IESS affiliates.</p> <p>IESS coverage increased from 26% of the EAP in 2008 to 40.3% in 2012 (2,731,378 people). In the same period, coverage from ISSFA and ISSPOL decreased from 1.4% to 0.9%; private coverage fell from 1.3% to 0.4%; universal health insurance (AUS) was stable at 0.1%; and the Ministry of Public Health grew from 1.3% to 3.1%.</p> <p>IESS affiliates receive the following benefits:</p> <ol style="list-style-type: none"> Pensions (302,320 pensioners in the IESS, ISSFA and ISSPOL): ordinary old-age retirement and disability retirement, which includes a temporary disability subsidy. Widow's pension. Medical care. Maternity care. Funeral assistance. Access to the Reserve Fund and the Unemployment Fund. Access to secured, unsecured and mortgage loans. <p>The IESS also offers recreational and socio-cultural programmes for pensioners and widows.</p>	<p>Social security benefits are financed through personal contributions from affiliates (9.74% of monthly wages), employer contributions and earnings on investment of the funds. The relative contributions are as follows:</p> <p>a. Pension insurance:</p> <p>IESS: 60% personal and employer contributions; 40% from the State.</p> <p>ISSFA-ISSPOL: 40% personal contributions; 60% from the State.</p> <p>b. Rural insurance: 0.30% of the insurance cost from the State; 0.35% employer; 0.35% IESS affiliates.</p> <p>c. Health insurance:</p> <p>IESS: 5.71% of monthly wages for employer contributions.</p> <p>ISSFA: 4.50% of monthly wages for personal contributions; 3.50% for employer contributions.</p> <p>ISSPOL: 2.50% of monthly wages for personal contributions; 3.50% for employer contributions.</p> <p>d. Occupational hazard insurance:</p> <p>IESS: 0.55% of wages for employees.</p> <p>ISSPOL: 0.25% personal and employer contributions</p> <p>ISSFA: 0.75% personal and employer contributions.</p>	<p>Social security in the country is provided by five types of institutions, which serve different segments of the population:</p> <ol style="list-style-type: none"> The Ecuadorian Social Security Institute (IESS) is a decentralized agency and the main provider of social security for public and private workers in the country. The Social Security Institute of the Armed Forces (ISSFA) is an autonomous agency of the Armed Forces, which provides social security for military personnel. The Social Security Institute of the National Police (ISSPOL) is an autonomous agency of the National Police, which provides social security for members of the police force. Private clinics: In the past few years, a new care model has been introduced for IESS affiliates, whereby private clinics that have signed payment agreements with the IESS can provide emergency medical care that cannot be handled by the IESS. Private insurance companies.

Source: Prepared by the author.

¹⁸ The original system was called the *Caja de Pensiones*, or Pension Fund; it was changed to the IESS in 1970.

1. Public spending on pensions

In the 2012 general State budget (GSB), 1.3% of GDP was allocated to social security pensions for public sector workers and members of the armed forces and national police. Table 11 shows the evolution of public spending on social security pensions as a share of GDP, the GSB and social spending, as well as the total social expenditure for the period under analysis.

TABLE 11
PUBLIC SPENDING ON SOCIAL SECURITY PENSIONS, 2000-2012

Year	Total social security expenditures (millions of US\$)	Percentage of GDP	Percentage of total spending (GSB)	Percentage of social spending	Spending per capita (US\$)	
2000	TOTAL	130.6	0.7%	3.1%	4.3%	10.60
	IESS	95.4	0.5%	2.2%	3.1%	7.80
	ISSFA	14.0	0.1%	0.3%	0.5%	1.10
	ISSPOL	21.2	0.1%	0.5%	0.7%	1.70
2001	TOTAL	158.0	0.6%	4.0%	4.5%	15.80
	IESS	115.5	0.5%	2.9%	3.3%	11.50
	ISSFA	16.9	0.1%	0.4%	0.5%	1.70
	ISSPOL	25.6	0.1%	0.6%	0.7%	2.60
2002	TOTAL	191.2	0.7%	4.3%	4.2%	21.20
	IESS	139.7	0.5%	3.2%	3.1%	15.50
	ISSFA	20.5	0.1%	0.5%	0.4%	2.30
	ISSPOL	31.0	0.1%	0.7%	0.7%	3.40
2003	TOTAL	231.3	0.7%	5.5%	4.5%	28.10
	IESS	166.8	0.5%	3.9%	3.3%	20.20
	ISSFA	36.0	0.1%	0.9%	0.7%	4.40
	ISSPOL	28.6	0.1%	0.7%	0.6%	3.50
2004	TOTAL	325.2	0.9%	7.1%	5.5%	41.10
	IESS	230.5	0.6%	5.1%	3.9%	29.10
	ISSFA	32.3	0.1%	0.7%	0.5%	4.10
	ISSPOL	62.4	0.2%	1.4%	1.1%	7.90
2005	TOTAL	432.3	1.0%	8.6%	6.1%	57.60
	IESS	332.1	0.8%	6.6%	4.7%	44.30
	ISSFA	32.3	0.1%	0.6%	0.5%	4.30
	ISSPOL	67.8	0.2%	1.3%	1.0%	9.00
2006	TOTAL	489.9	1.0%	9.4%	6.1%	68.90
	IESS	379.7	0.8%	7.3%	4.8%	53.40
	ISSFA	78.0	0.2%	1.5%	1.0%	11.00
	ISSPOL	32.1	0.1%	0.6%	0.4%	4.50
2007	TOTAL	550.9	1.1%	8.9%	6.0%	82.20
	IESS	418.9	0.8%	6.8%	4.6%	62.50
	ISSFA	87.9	0.2%	1.4%	1.0%	13.10
	ISSPOL	44.2	0.1%	0.7%	0.5%	6.60

Table 11 (concluded)

Year	Total social security expenditures (millions of US\$)	Percentage of GDP	Percentage of total spending (GSB)	Percentage of social spending	Spending per capita (US\$)	
2008	TOTAL	624.9	1.0%	6.5%	4.2%	102.10
	IESS	442.2	0.7%	4.6%	3.0%	72.30
	ISSFA	127.2	0.2%	1.3%	0.9%	20.80
	ISSPOL	55.5	0.1%	0.6%	0.4%	9.10
2009	TOTAL	778.6	1.3%	8.1%	5.6%	120.00
	IESS	510.0	0.8%	5.3%	3.7%	78.60
	ISSFA	194.4	0.3%	2.0%	1.4%	29.90
	ISSPOL	74.2	0.1%	0.8%	0.5%	11.40
2010	TOTAL	803.3	1.2%	7.7%	4.8%	131.30
	IESS	493.4	0.7%	4.7%	2.9%	80.60
	ISSFA	213.5	0.3%	2.1%	1.3%	34.90
	ISSPOL	96.4	0.1%	0.9%	0.6%	15.80
2011	TOTAL	827.2	1.1%	6.6%	3.8%	142.90
	IESS	493.5	0.6%	4.0%	2.2%	85.20
	ISSFA	230.6	0.3%	1.9%	1.0%	39.80
	ISSPOL	103.2	0.1%	0.8%	0.5%	17.80
2012	TOTAL	1 039.8	1.3%	7.5%	4.3%	179.90
	IESS	706.1	0.9%	5.1%	2.9%	122.10
	ISSFA	230.6	0.3%	1.7%	0.9%	39.90
	ISSPOL	103.2	0.1%	0.7%	0.4%	17.90

Source: Ministry of Economic Affairs and Finance (MEF). SIGEF. Institutional Budget, database provided by the Department of the Budget, OFICIO No. MINFIN-SP-2012-0191, Quito, May 2012.

Ministry of Economic Affairs and Finance (MEF)/Department of the Budget and Budget Statistics, “Gastos Consolidados por Sector”, Quito, February 2013. Data downloaded from the website: www.mef.gov.ec.

IESS budgets for 2010-2012, provided electronically.

2. Pension or retirement coverage

In Ecuador, the problems associated with the population aged 65 years and over are intensifying, due to the breakdown of the family and the ageing of the population. The segment aged 65 and over represented 6.6% of the total population in December 2012. Of this share, 47% were men and 53% women.

For 2012, the coverage of contributory pensions —social security— in the population aged 65 years and over was 20.7%. The majority was paid to people in urban areas; just 21.7% of pensioners over 65 live in rural areas.

Within the group of pensioners, 12% receive a pension of less than US\$ 100, 37% receive a pension between US\$ 100 and US\$ 299, 27% between US\$ 300 and US\$ 499, 17% between US\$ 500 and US\$ 999, and the remaining 7% is US\$ 1,000 and over. This represents an improvement in pensions since 2008, especially for pensioners in the highest pension segments (US\$ 400 and higher) (see table 12).

In 2012, nearly half of pensioners in rural areas received a pension of less than US\$ 100 per month; a third had pensions between US\$ 100 and US\$ 299; 15% were between US\$ 300 and US\$ 799; and the remaining 3% were over US\$ 800. Urban pensions had a different composition and better distribution than rural pensions.

TABLE 12
POPULATION RECEIVING SOME TYPE OF PENSION,
BY INCOME SEGMENT, 2008 Y 2012

Amount received in US\$	2008				2012			
	Number of people	Urban area	Rural area	Total	Number of people	Urban area	Rural area	Total
1 to 49	33 857	5.5%	4.7%	10.1%	30 168	1.4%	3.8%	5.2%
50 to 99	34 387	9.1%	1.2%	10.3%	36 025	4.3%	1.9%	6.2%
100 to 199	81 151	21.8%	2.5%	24.3%	105 062	15.8%	2.3%	18.1%
200 to 299	70 737	19.5%	1.7%	21.2%	108 725	16.6%	2.2%	18.8%
300 to 399	53 429	15.1%	0.9%	16.0%	92 711	14.5%	1.5%	16.0%
400 to 499	26 685	7.6%	0.4%	8.0%	65 520	10.9%	0.4%	11.3%
500 to 799	20 638	5.8%	0.3%	6.2%	77 869	12.8%	0.6%	13.4%
800 to 999	4 808	1.3%	0.1%	1.4%	19 056	3.2%	0.1%	3.3%
1 000 to 1999	5 491	1.5%	0.1%	1.6%	20 233	3.4%	0.0%	3.5%
2 000 and over	708	0.2%	0.0%	0.2%	3 451	0.6%	0.0%	0.6%
Undeclared	1 982	0.6%	0.0%	0.6%	20 684	3.4%	0.1%	3.6%
TOTAL	333 873	88%	12%	100%	579 504	87%	13%	100%

Source: National Institute of Statistics and Censuses (INEC). Integrated Household Survey System (SIEH-ENEMDU), December 2008 and December 2012.

Within the group of pensioners, 67.9% are in the public system, while 32.1% receive private pensions. The majority are IESS pensioners (67.6%). Table 13 reports the average monthly amount of public pensions, by institutions.

TABLE 13
AVERAGE MONTHLY AMOUNT OF PENSIONS BY INSTITUTIONS,
2006, 2009 AND 2012
(In current United States dollars)

Institution	2006	2009	2012
IESS	121.63	132.75	128.70
ISSFA	320.16	357.29	353.67
ISSPOL	298.99	323.01	316.68
AVERAGE	246.93	271.02	266.35

Source: Ministry of Economic Affairs and Finance (MEF)/Department of the Budget and Budget Statistics, “Gastos Consolidados por Sector”, Quito, February 2013. Data downloaded from the website: www.mef.gov.ec.

3. Health insurance coverage

According to the last National Household Survey (INEC, 2012), 45% of the economically active population in Ecuador has health insurance, while the remaining 55% of the population does not. Coverage is primarily public (44%); private health insurance is marginal (1%) (see table 14). Of the total EAP with social security, 60% are men and 40% are women.

TABLE 14
PERCENTAGE OF THE EAP THAT CONTRIBUTES TO SOCIAL SECURITY
THAT ALSO HAS MEDICAL INSURANCE, 2008 AND 2012
(Percentages)

Type of insurance	2008			2012		
	Urban area	Rural area	Total	Urban area	Rural area	Total
IESS, general insurance	17.8	2.5	20.3	27.2	4.5	31.7
IESS, general voluntary insurance	0.8	0.1	0.9	1.7	0.3	2.0
IESS, rural insurance	0.5	4.3	4.8	0.7	5.9	6.6
ISSFA, ISSPOL	1.4	0.1	1.4	0.8	0.1	0.9
Private insurance with hospitalization	1.2	0.0	1.2	0.3	0.0	0.3
Private insurance without hospitalization	0.1	0.0	0.1	0.1	0.0	0.1
Universal health insurance (AUS)	0.0	0.1	0.1	0.0	0.1	0.1
Municipal insurance	1.3	0.0	1.3	1.8	1.3	3.1
Has insurance	23.1	7.2	30.3	32.6	12.3	44.9
Does not have insurance	44.7	25.0	69.7	34.2	21.0	55.1
Total	67.8	32.2	100	66.8	33.2	100.0

Source: National Institute of Statistics and Censuses (INEC), Integrated Household Survey System (SIEH-ENEMDU), December 2008 and December 2012.

Health-care coverage has increased substantially in the last four years, from 30% of the EAP in 2008 (or 1,931,896 people with health insurance) to 45% of the EAP in 2012 (or 3,041,979 people). The mandatory policy of the Ministry of Labour Relations and its monitoring of compliance with this workers' right are clearly reflected in this trend.

As of 2012, health insurance is mainly associated with the urban population: 73% of the EAP with health insurance is located in urban areas. In contrast, only 27% live in rural areas, and they are basically covered by the rural insurance provided by the IESS. This distribution is similar to the pattern in 2008, although the share of the rural population with health insurance grew significantly, from 7.3% of the EAP in 2008 to 12.3% of the EAP in 2012.

B. Non-contributory social protection: cash and non-cash transfers aimed at fighting poverty

Non-contributory social protection is a relatively important part of the Ecuadorian social protection system. It is implemented through cash and non-cash transfers (including in-kind transfers and basic social services) under specific programmes. Around one fifth of social investment is allocated through targeted programmes, thereby meriting a detailed analysis.

In Ecuador, the main cash transfer to families under the non-contributory social protection system is the Human Development Grant, which includes a welfare pension for mothers, an old-age pension and a disability pension (see table 15). These transfers are a component of the measures implemented in the economic and social inclusion sector.

The Human Development Grant (BDH), formerly called the Solidary Grant, was created in 1999 and began being distributed in 2000.

The first transfer was US\$ 7, which the government paid to mothers in the poorest income segments of the population. It was conceived as a temporary economic incentive to help lift beneficiaries out of poverty by covering their basic needs. The programme initially absorbed US\$ 145 million a year.

1. Cash transfers to families: the Human Development Grant

TABLE 15
CHARACTERISTICS OF THE NON-CONTRIBUTORY SOCIAL PROTECTION SYSTEM
(Human Development Grant)

Characteristics	Coverage and benefits	Funding	Institutional framework
<p>The Human Development Grant (BDH) was created in 1999 to provide monetary compensation to the poorest segments of the population. It started with a transfer of US\$ 7 per month available exclusively to mothers, based on self-selection. After five reforms, the amount of the transfer is currently US\$ 50 per month for each beneficiary, and the beneficiary selection process was expanded to include senior citizens and persons with disabilities, in addition to mothers.</p> <p>a. Conditional cash transfer programme: mothers receive US\$ 50 a month.</p> <p>b. Old-age pension: senior citizens receive US\$ 50 a month.</p> <p>c. Disability pension: people with minor disabilities receive US\$ 50; families that care for minors with severe disabilities receive US\$ 240 a month.</p>	<p>In 2012, there were 1,896,244 BDH beneficiaries in the first and second quintiles of the income distribution, as registered by SELBEN, including 588,149 people over the age of 65 and 104,888 people with a CONADIS-rated disability of 40% or more.</p> <p>Attempts to enforce the conditions on education and health check-ups have not had much success.</p>	<p>The BDH programme is financed with fiscal resources from the central government budget</p>	<p>The BDH is the responsibility of Ministry for Economic and Social Inclusion and is implemented by the Social Protection Programme.</p> <p>BDH beneficiaries are selected through the Beneficiary Selection System (SELBEN).</p> <p>The direct cash transfer to beneficiaries is paid through the private bank network.</p>

Source: Prepared by the author.

Despite being designed as a temporary policy instrument, the grant has remained in place for 13 years, with systematic increases in the amount paid since 2006 and slight modifications to the original concept (see table 16).

After 13 years in operation, the number of BDH beneficiaries has not declined —although poverty has been reduced, according to official data. Rather, the number of beneficiaries has steadily increased, from a million mothers in 2000 to over 1.2 million mothers today (64% of total beneficiaries), as well as almost 600,000 senior citizens (31%) and over 100,000 persons with disabilities (5%).

TABLE 16
EVOLUTION OF THE HUMAN DEVELOPMENT GRANT

	Phase	Programme phase and amount of transfer (in US\$)	Average annual number of beneficiaries	Observations
1	1998-1999	Design		Aimed at mothers.
2	2000-2003	Solidary Grant (US\$ 7)	1 229 893	Aimed primarily at mothers; self-selection and registration in churches on the part of interested parties.
3	2003-2006	Human Development Grant (US\$15)	1 167 103	Aimed primarily at mothers; programme targeting was improved through SELBEN. Conditions on education and health check-ups were introduced.
4	2007-2009	Human Development Grant (US\$ 30)	1 414 269	Aimed at mothers and the elderly. Controls were implemented for the conditions on education and health check-ups. The Ministry for Economic and Social Inclusion speedy access card was created to facilitate payment of the transfer.
5	2009-2012	Human Development Grant (US\$ 35)	1 759 462	New selection process for beneficiaries based on the Social Registry socioeconomic survey (August 2009). New beneficiaries were incorporated in 2010: the elderly and the disabled.
6	2013	Human Development Grant (US\$ 50)	1 896 244	The grant was increased as of 1 January 2013. The increase in the BDH will be covered with part of the revenue from private firms in the financial system, as well as a tax on foreign assets, for which the monthly tariff was increased by 0.25% for funds available in foreign and investment firms and by 0.35% for subsidiaries located in tax havens.

Source: Prepared by the author.

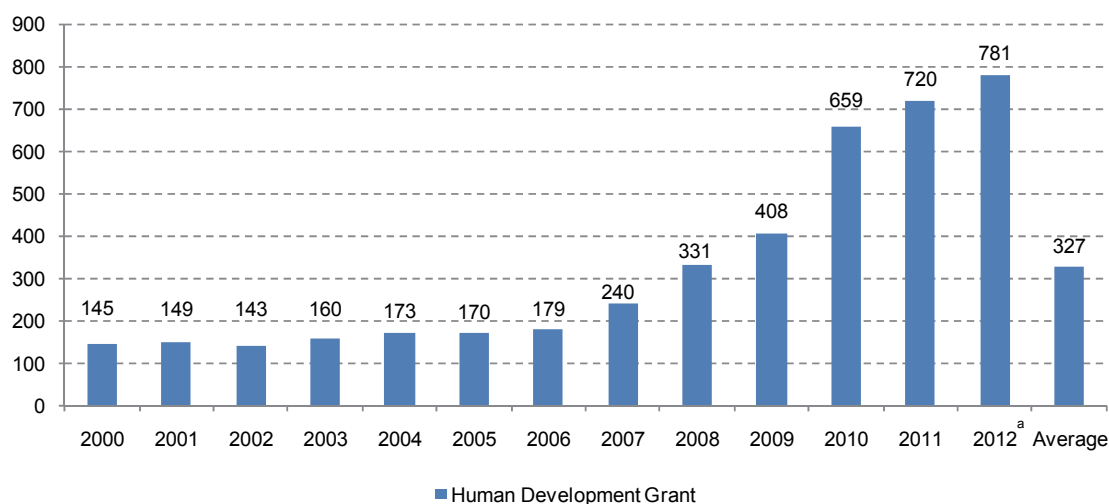
The monthly cash transfer to mothers, senior citizens and persons with disabilities is currently US\$ 50, which amounted to a total expenditure of US\$ 780 million in 2012. The payment is delivered through a network of private banks. Table 17 shows the evolution of the number of BDH beneficiaries from 2007 to 2012; figure 13 graphs the transfer amount.

TABLE 17
PEOPLE ELIGIBLE TO RECEIVE THE BDH GRANTS AND PENSIONS, 2007-2012

Year (as of December)	Mothers	Senior citizens	Persons with disabilities	Minors with disabilities	Total
2007	1 005 967	243 852	19 923	0	1 269 742
2008	1 011 955	274 522	22 915	1 458	1 310 850
2009	1 244 882	371 261	39 344	6 728	1 662 215
2010	1 181 058	496 899	65 780	18 381	1 762 118
2011	1 211 556	536 185	80 239	26 074	1 854 054
2012	1 203 207	588 149	78 798	26 090	1 896 244

Source: Ministry for Economic and Social Inclusion, Budget for current programmes in 2010-2012, Oficio No. MIES-CGP-2012-0007-OF, January 2013.

FIGURE 13
EVOLUTION OF BDH CASH TRANSFERS, 2000-2012
(Millions of current United States dollars)



Source: Ministry of Economic Affairs and Finance (MEF). SIGEF. Institutional Budget, database provided by the Department of the Budget, OFICIO No. MINFIN-SP-2012-0191, Quito, May 2012.

Ministry of Economic Affairs and Finance (MEF)/Department of the Budget and Budget Statistics, “Gastos Consolidados por Sector”, Quito, March 2013. Data downloaded from the website: www.mef.gov.ec.

Ministry for Economic and Social Inclusion, Budget for current programmes in 2010-2012, Oficio No. MIES-CGP-2012-0007-OF, January 2013

Ministry for Economic and Social Inclusion, Programme coverage and investment at the district level in 2010-2012, Oficio No. MIES-CGP-2012-0007-OF, March 2012.

^a Provisional data.

The agency in charge of selecting the beneficiaries is the Social Protection Programme within the Ministry for the Coordination of Social Development. The agency implements the Beneficiary Selection System (SELBEN), which uses a socioeconomic survey of each household to establish a well-being index that serves as the basis for selection.

Since its design, the BDH cash transfer has incorporated educational conditions for families with children between the ages of 6 and 15 years (the requirement is that children must be enrolled in school and attend at least 90% of the school year) and health requirements for families with children under 6 years of age (periodic child wellness check-ups in health centers). However, monitoring compliance with the conditional requirements has been an ongoing issue in practice.

Old-age pensions

The welfare pension for senior citizens is delivered within the framework of the BDH grant programme. It consists in a monthly cash benefit of US\$ 50 for people over the age of 65 who are below the poverty line established by the Ministry for the Coordination of Social Development (MCDS) in accordance with the results of the Social Registry. In view of the progressiveness established in the Constitution, a timeline for the incorporation of new beneficiaries was established in 2010.

In 2012, the MCDS Social Registry carried out a survey at the national level to identify households that have a right to the different State social protection programmes and projects. Thus, according to official data, this pension is paid to 588,149 senior citizens who do not receive the IESS, ISSPOL or ISSFA pensions.

Disability pensions

Persons with mild disabilities are also beneficiaries of the BDH grant. In 2012, over 100,000 persons with disabilities people received the cash transfer: US\$ 50 a month for people whose disability is not severe and US\$ 240 to families that care for a minor with a severe disability.

In July 2009, the Vice President launched the “Manuela Espejo” Solidarity Mission, whose objectives included undertaking a comprehensive assessment of all cases at the national level; outlining State policies on the care, inclusion and prevention of disabilities; and identifying the most critical cases, in which people with intellectual disabilities, severe physical disabilities or multiple disabilities are living in extreme poverty.

This led to the establishment of the “Joaquín Gallegos Lara” Mission, aimed at reaching the most vulnerable population in the country and registering a family caregiver or other person responsible for the disabled person’s care. There are currently around 26,000 beneficiaries of the Joaquín Gallegos Lara Grant (mostly minors with disabilities) who receive US\$ 240 a month. The grant is paid to the family caregiver or person in charge of caring for someone with a severe physical or intellectual disability, and the payment is channeled through the National Development Bank and recorded within the BDH framework.

In addition, the programme beneficiaries receive free funeral insurance in the event of the death of the disabled person. Caregivers also have life insurance for US\$ 500.

C. Education system

The Ministry of Education (MinEduc) is the governing body in charge of the education system in Ecuador. Public education is secular, mandatory at the primary school level and free through the end of secondary school (*bachillerato*). The Ecuadorian Constitution, approved in October 2008, establishes the principles, characteristics, governance, organization, articulation and evaluation of the Ecuadorian education system, which is addressed in 21 of the Constitution’s 444 articles. The Constitution thus guarantees the people’s access to a high-quality education, as a right for all citizens without discrimination.¹⁹

Under the First Title, “Constituent Elements of the State”, Section 5, Article 26 establishes that *“Education is a right of the people throughout their lives and a fundamental and unavoidable duty of the State. It constitutes a priority for public policy and State investment, a guarantee of equality and social inclusion and an indispensable condition of good living. People, families and society have the right and responsibility to participate in the educational process”*.

The current Constitution guarantees free access to an education that fulfils the aims of the public interest and is mandatory at the initial, primary and secondary levels. Education is free from the initial level though the tertiary level of higher education; and it is secular at all levels. The Constitution guarantees the freedom of education, the right to learn in languages other than Spanish and the liberty for representatives to choose the education they deem most appropriate for their children.

The State has the exclusive authority to design and manage education policy. Funding education is defined as a priority, and the funds are to come out of regular revenue, with some exceptional use of temporary revenue. The budget is to comprise the exclusive preallocation of resources to finance this sector. The municipal governments are in charge of the physical infrastructure and facilities necessary for the optimal functioning of the system.

¹⁹ Art. 26, Art. 27, Art. 28, Art. 39, Art. 47, Art. 57, Art. 343, Art. 344, Art. 345, Art. 346, Art. 347, Art. 348, Art. 349, Art. 350, Art. 351, Art. 352, Art. 353, Art. 354, Art. 355, Art. 356, Art. 357, and five transitory provisions (the 13th, 18th, 19th, 20th and 21st) of the current Constitution of Ecuador.

Substantial efforts have been made to improve the national education system, which has resulted in significant achievements in some areas (educational infrastructure, facilities, the contracting of new teachers, the incorporation of new assessment policies and the professionalization of teaching). Nevertheless, there are a number of important weaknesses that have yet to be addressed²⁰ and potentials that could be exploited in the short and medium terms, in order to ensure an efficient delivery of educational services, together with the achievement of educational goals and their contribution to national goals.

The 2006-2015 Ten-Year Plan for Education, approved by referendum in 2006, comprises the guidelines for the Ministry of Education and Culture. The Plan defines eight essential policies to improve the country's education system:²¹

- (i) Universalization of initial education, for children aged 0 to 5 years;
- (ii) Universalization of general primary education, from the first to the tenth years of schooling;
- (iii) Expansion of registration for secondary education to at least 75% of the population in the corresponding age group;
- (iv) Eradication of illiteracy and strengthening of primary education for adults;
- (v) Improvement of the physical infrastructure and facilities of educational institutions;
- (vi) Improvement in the quality and equality of education and implementation of the National Evaluation and Social Accounting System;
- (vii) Improvement of teachers' quality of life;
- (viii) Expansion of the education sector's share of GDP by 0.5% per year through 2012, or up to least 6% of GDP.

TABLE 18
CHARACTERISTICS OF THE EDUCATION SYSTEM

General model of the system	Coverage and benefits	Funding	Institutional framework
<p>The State is the main supplier; provision is centralized and aims for free, universal education services.</p> <p>The education system is broken down into the following levels:</p> <p>a. Initial education (children aged 3 and 4 years);</p> <p>b. Primary education (children and adolescents aged 5 to 14 years);</p> <p>c. Secondary education (youth aged 15 to 17 years).</p>	<p>In the 2011-2012 school year, 71.7% of the population attended public schools, 22.3% private schools and 6% municipal and parochial schools.</p> <p>Of the population attending school, 79.8% is in primary education, 16.3% in secondary education and 3.9% in initial education.</p>	<p>The entire education system is financed with fiscal resources from the central government and with emergency funds allocated through the declaration of a state of emergency.</p>	<p>The governing body is the Ministry of Education, an agency of the Central Government that is in charge of planning, financing and supplying education services. The system's institutional framework of the is summarized at the end of this section as it is very similar for all the institutions that make up the Social Cabinet.</p>

Source: Prepared by the author.

The Ministry of Education is the principal supplier of education services in the country at all levels. The ministry delivers these services through educational establishments in the 24 Provincial Offices. Education services are divided into three levels of schooling:

²⁰ Pending issues include the rigidity of teaching methods, the conventionality of pedagogic approaches and strategies, the insufficient renewal and modernization of human resources and the comprehensive restructuring of the system.

²¹ Ministry of Education, "Plan Decenal de Educación del Ecuador 2006-2015".

- (a) Initial education (ages 3 and 4 years), which is the first level of instruction, is currently undergoing a transition from the old preschool scheme to a more formal early education; 3.9% of all students in the public school system attend schools at this level;²²
- (b) Primary school (ages 5 to 14 years) encompasses ten years of basic education; 79.8% of all students in the public school system attend schools at this level;²³
- (c) Secondary school (ages 15 to 17 years), called *bachillerato* in Ecuador, includes three years of instruction to conclude secondary education; 16.3% of students in the public school system are at this level.

While the State is the primary supplier of education services, the Ecuadorian education system is very heterogeneous—especially in the private system and at the decentralized level—in terms of its organizational structure, operations, composition, target population and the services provided.

The educational field has incorporated two new teaching programmes: the Teacher Assessment System and the Comprehensive System for the Development of Education Professionals (SIPROFE). This encompasses the career path entitled *Si Profe*, which moves through different phases including initial training, entry into the education workforce, continued training and institutional and teaching support. A career in education is thus understood as a flexible career path that can open up new directions, based on the evaluation of each teacher's performance.

The initial training and professional initiation are centred on leadership for learning and not just administrative school management, which has traditionally been the main—and sometimes the only—role developed by educational establishments. Since 2008, the *Si Profe* programme has organized continuous training courses for public school teachers on issues identified as weaknesses on the tests carried out under the Evaluation and Social Accountability System (SER). In 2010, 108,000 teachers took at least one course, and many took two or more. The MinEduc policy is to offer each course several times, until teacher demand has been fully met.

The government has also designed and promoted a New National Education System. In particular, the Unified General Secondary Education (BGU) is the new programme of studies created by the Ministry of Education to improve the supply of education services for all youth who have completed the General Primary Education (EGB). Under the BGU, all students must study a set of basic subjects called the common core, which allows them to acquire the basic fundamental learning that makes up their general training.

In addition to the common core, students can choose a major depending on their interests, receiving either a Diploma in Sciences or a Technical Diploma. Those who choose to major in sciences, for instance, have access to elective courses that allow them to delve deeper into their academic areas of interest, in addition to taking the required core subjects of the BGU.

Finally, other innovations include the Comprehensive Technology System for Schools and the Community (SÍTEC), which designs and implements technological programmes and projects to improve digital learning in the country and democratize the use of technologies. As part of the supply of technological equipment, SÍTEC provides computers, projectors, digital blackboards and audio systems to primary and secondary schools. All public educational establishments are expected to have access to informatics resources by year-end 2013.

²² Although the initial education level comprises the ages of 0–4 years, the Ministry of Education only covers the population between the ages of 3 and 4 years.

²³ Previously, the 10 years of primary education were broken down as follows: preschool (1 year), primary school (6 years) and the basic cycle (3 years). The basic cycle corresponded to the old conception of middle school and secondary school, which included three years in the basic cycle followed by three years of specialization (to complete the six years of secondary school). This system has currently been modified as described in the main text.

1. Education system coverage

In 2012, the total population of school-aged children was 4,669,172 boys, girls and adolescents aged 3 to 17 years.²⁴ According to data from the Ministry of Education, 88% of this total attended some type of educational establishment in 2012.²⁵ That is, fully 12% of school-aged children and adolescents do not attend any type of educational establishment.

TABLE 19
POPULATION ATTENDING AN EDUCATIONAL ESTABLISHMENT, 2008-2012

Number of students		2008-2009			
Level	Public	Parochial	Private	Municipal	Total
Initial	4 043	3 206	43 011	2 048	88 695
Primary	2 038 933	144 907	63 853	39 179	2 861 549
Secondary	377 252	46 417	148 786	5 364	577 819
Total	2 420 228	194 530	255 650	46 591	3 528 063
Number of students		2009-2010			
Level	Public	Parochial	Private	Municipal	Total
Initial	60 946	4 264	5 223	2 598	73 031
Primary	2 299 800	173 727	71 474	3 711	2 548 712
Secondary	407 723	5 676	169 193	6 358	588 950
Total	2 768 469	183 667	245 890	12 667	3 210 693
Number of students		2010-2011			
Level	Public	Parochial	Private	Municipal	Total
Initial	80 911	5 157	56 253	3 055	145 376
Primary	2 358 648	157 866	708 547	33 284	3 258 345
Secondary	426 304	48 021	166 647	6 984	647 956
Total	2 865 863	211 044	931 447	43 323	4 051 677
Number of students		2011-2012			
Level	Public	Parochial	Private	Municipal	Total
Initial	91 310	5 724	55 575	3 117	155 726
Primary	2 414 047	154 254	695 266	32 077	3 295 654
Secondary	455 605	44 152	163 799	8 974	672 530
Total	2 960 962	204 130	914 640	44 168	4 123 910

Source: Ministry of Education, Master Archive of Educational Institutions (AMIE), information downloaded from the internet <http://reportes.educación.gob.ec:8085/index.aspx>; Reports on student education records by education level 2008-2012, Quito, March 2013.

Education services are offered in four types of establishments: public, private, municipal and parochial. According to the Ministry of Education, for the 2011-2012 school year, the system comprised 30,070 establishments, 238,037 teachers and 4,123,910 students, of which 72% attended public schools, 22% private schools, 5% parochial schools and the remaining 1% municipal schools (see table 19).

In terms of evolution over time, the coverage of the education system as a whole, including the initial, primary and secondary levels, was almost unchanged in 2008-2012, at around 86%.

²⁴ At the initial, primary and secondary levels. Population estimate for 2012 is from INEC, based on the most recent population and household census in 2010.

²⁵ According to the INEC Household Survey, 83% of the population in this age group was attending some type of educational establishment in December 2012 (17% do not attend school).

According to the latest available information at the national level, there were 30,070 school campuses in the 2011-2012 school year,²⁶ of which 4.8% were initial education facilities, 85% primary schools and the remaining 10.2% secondary schools. Of the 238,037 teachers, 32% taught initial education, 53% primary education and the remaining 15% secondary education.

The student-teacher ratio by type of school is as follows: in public schools, 20.2 students per teacher; in parochial schools, 20.0 students per teacher; in municipal schools, 18.6 students per teacher; and in private schools, 15.0 students per teacher.

According to the 2006 Living Conditions Survey, the primary school completion rate (population aged 12 years and over) is 77.5%, while the secondary school completion rate (population aged 18 years and over) is 32.8%.²⁷

2. Public spending on education

The budget for the education sector grew significantly in the 2000-2012 period, from US\$ 614 million in 2000 to US\$ 3.867 billion in 2012, equivalent to 3.4% and 4.8% of GDP, respectively. As a share of the general State budget (GSB), education expenditure accounted for 56% of total social spending. Spending on education grew at an average annual rate of 12% in real terms in the period under analysis.

In the education sector, spending on targeted programmes is marginal, barely reaching 0.2% of GDP (the annual average for 2000-2012). This implies that public education services are delivered almost entirely under a universal approach, yet the installed capacity of these services does not cover existing demand in terms of availability, timeliness, relevance and quality.

D. Health-care system

The system for providing health-care services in Ecuador is characterized by fragmentation and segmentation, despite government efforts at integration. The system has yet to achieve coordination among the different actors or integration of the subsystems, each of which has an assigned beneficiary population with access to differentiated services.

According to specialists in the sector, the country has never undergone a real reform process in the health sector involving deep, sustained change in the sector's structure. In the 2000-2006 period, this process was characterized by the formulation and debate of various initiatives with different approaches to insurance, together with the partial or targeted application of the deconcentration and decentralization of health-care services (PAHO, 2008).

Starting in 2007, the government put forth a proposal to change these policies, and it has introduced important mechanisms to achieve universal coverage, integration and equality in the health-care system. However, these transformations have not yet been achieved.

The Constitution establishes that health care is a right and stipulates the characteristics of the national health system, which is mandated to operate under the principles of universal coverage and equality, with a comprehensive public health-care network led by the national health authority.²⁸ In practice, however, the majority of the population continues to have problems accessing these services, although there have been some small improvements.

²⁶ Of which 5,067 were one-room schools (Ministry of Education, Master Archive of Educational Institutions [AMIE], 2008-2009).

²⁷ The latest available data. The historical series of the National Education Statistics System (SINEC) was suspended in 2007 and replaced by the National Census of Educational Institutions, leading to the creation of the Master File of Educational Institutions (AMIE), which does not provide this type of information.

²⁸ Asamblea Constituyente, *Constitución de la República del Ecuador*, Art. 32, September 2008.

TABLE 20
CHARACTERISTICS OF THE HEALTH-CARE SYSTEM

General model of the system	Coverage and benefits	Funding	Institutional framework
<p>As defined in the Constitution, responsibilities in the area of health care are assigned to different levels of government:</p> <ul style="list-style-type: none"> • Central government: definition of policies; • Municipal governments: planning, construction and maintenance of the physical health-care infrastructure and facilities; • Autonomous metropolitan districts: planning, construction and maintenance of the physical health-care infrastructure and facilities. <p>The municipal governments and the autonomous metropolitan districts can also provide direct health-care services, as a parallel responsibility (Art: 260) with the central government.</p>	<p>According to the Household Survey, health-care insurance expanded significantly between 2008 and 2012: coverage rose from 30% to 45%. The increase was mainly in public insurance, while private insurance reduced its share in total insurance.</p> <p>Public insurance is the largest care provider at the national level.</p>	<p>The current financing scheme for the Ecuadorian health system is mixed, with three main subsystems:</p> <p>(i) Tax-base subsystem: for the health services provided by the government, mainly through the MPS care providers.</p> <p>(ii) Public social health insurance, aimed at the formal sector; either general (IESS) or specific (ISSFA; ISSPOL; rural social insurance, or SSC) and mostly financed through contributions.</p> <p>(iii) Private subsystem, with private insurance and out-of-pocket payments.</p>	<p>The National Health System is under the charge of the National Health Authority, which formulates National Health Policy.</p> <p>Public services are offered by the following agencies:</p> <ol style="list-style-type: none"> 1. Ministry of Public Health (MSP); 2. IESS-SSC; 3. ISSFA and ISSPOL; 4. Some municipalities offer health services. <p>Some private entities also operate in the public sector:</p> <ol style="list-style-type: none"> 1. Guayaquil Welfare Board; 2. Guayaquil Children's Protection Society; 3. Cancer Society; 4. Ecuadorian Red Cross.

Source: Prepared by the author.

The Ministry of Public Health (MSP) groups the programmes into four areas:

- The Comprehensive Food and Nutrition System (SIAN), which was created in 2009 and renamed Nutrition Action in 2010, for children under the age of five years, implemented in 27 cantons with high rates of chronic child malnutrition; includes the Zero Malnutrition project;
- Comprehensive care by life stage;
- Disease control; and
- Extension services in health care.

1. Health-care coverage

The Ecuadorian health system is primarily made up of public services: the IESS, which covers around 40% of demand; the MSP, which represents around 3% of demand,²⁹ the ISSFA; and the ISSPOL (see table 21). The preventive health services of some municipalities and private services do not even account for 1% of insurance demand.

²⁹ Through various types of health posts, subcentres, centres, dispensaries and hospitals.

TABLE 21
HEALTH-CARE COVERAGE, 2008 AND 2012

Type of insurance	2008		2012	
	Number of people	Percentages	Number of people	Percentages
IESS, general insurance	1 298 834	20.3%	2 149 219	31.7%
IESS, general voluntary insurance	60 545	0.9%	136 401	2.0%
IESS, rural insurance	304 560	4.7%	445 758	6.6%
ISSFA, ISSPOL	92 139	1.4%	61 695	0.9%
Private insurance with hospitalization	76 512	1.2%	21 634	0.3%
Private insurance w/o hospitalization	9 448	0.1%	6 020	0.1%
Universal health insurance (AUS)	7 378	0.1%	8 877	0.1%
MSP insurance	82 480	1.3%	212 375	3.1%
Has insurance	1 931 896	30.1%	3 041 979	44.9%
Does not have insurance	4 481 249	69.9%	3 737 489	55.1%
Total	6 413 145	100.0%	6 779 468	100.0%

Source: National Institute of Statistics and Censuses (INEC), Integrated Household Survey System (SIEH-ENEMDU), December 2008 and December 2012.

Health-care services in Ecuador are organized by level of complexity:³⁰

- (i) Level I (low complexity) comprises health posts and health centres and subcentres, which offer outpatient treatment, health promotion and advocacy, disease prevention and rehabilitation. The subcentres also offer childbirth services, emergency care and orthodontic treatment.
- (ii) Level II (intermediate complexity) includes basic hospitals and general hospitals, which provide short-term hospitalization as well as all the Level I services. Basic hospitals offer outpatient and hospital services in general medicine, obstetrics and gynaecology, paediatrics and emergency surgery. General hospitals offer, in addition to the basic services, some specialized medical care in accordance with the epidemiological profile of their geographic coverage area; they also have access to auxiliary diagnostic and treatment services.
- (iii) Level III (high complexity) health-care services are provided through Specialized Hospitals and Specialty Hospitals, as stipulated in the Licensing Regulations Manual issued by the Ministry of Public Health.³¹
- (iv) Level IV (catastrophic illnesses) treatment services are financed by the State. These services are provided through Special Programmes in Social Health Protection, which are managed by the Ministry of Economic and Social Inclusion. Catastrophic illnesses currently include the following: congenital heart defects; cancer; brain tumours; chronic renal insufficiency; kidney, liver and bone marrow transplants; vascular defects; burn injuries; external prostheses; cochlear implants; and rare diseases.

³⁰ Summary from Pan-American Health Organization (PAHO), “Perfil de los Sistemas de Salud de Ecuador”, October 2008, pp. 25-27.

³¹ Specialized Hospital: a health-care facility for severe or chronic patients, which provides outpatient, referral and hospitalization services in a medical specialty or sub-specialty or which provides health care for a specific age group (Hospital Baca Ortiz), serving the local or national population through the referral and counter-referral system. Specialty Hospital (Eugenio Espejo): a referral hospital for the most complex cases in the Ministry of Public Health System, aimed at providing specialized health care in emergencies, recovery and rehabilitation for patients in different medical specialties and sub-specialties. Specialty Hospitals treat severe patients and are available to everyone in the country, based on the referral and counter-referral system.

According to the latest available data, the health-care system in Ecuador is made up primarily of public health-care facilities.

TABLE 22
PUBLIC HEALTH SERVICES, INSTALLED CAPACITY, 2006, 2008 AND 2010

Level of complexity	2006	2008	2010
I Health posts	230	434	138
Health subcentres	1 226	1 127	1 260
Health centres	127	152	261
Mobile units		21	21
Floating units		3	
Medical dispensaries			13
Other			2
Level I subtotal	1 583	1 737	1 695
II Basic hospitals	82	85	85
General hospitals	33	27	29
Cantonal hospitals			28
Level II subtotal	115	112	142
III Specialized hospitals	15	14	14
Specialty hospitals	1	1	9
Level III subtotal	16	15	23
Total	1 714	1 864	1 860

Source: PAHO (Pan American Health Organization) “Perfil de los Sistemas de Salud: Ecuador, monitoreo y análisis de los procesos de cambio y reforma”, Washington, DC, October 2008 (third edition); Sistema de Salud en Ecuador 2010; Sistema de Salud en Ecuador, Quito 2012.

The Ministry of Public Health (MSP) provides around 55% of Level I health-care services, while the IESS / Rural Social Insurance (SSC) covers around 30%. Other public providers of Level I services include the facilities operated by the Armed Forces (ISSFA) and the National Police (ISSPOL) and the preventive health-care centres in some municipalities, which together represent around 8% of the supply. The remaining 7% is private Level I services. Complementary health-care services are provided by the Guayaquil Welfare Board (JBG), the Cancer Society (SOLCA) and the Ecuadorian Red Cross, which operate within the public sector. These formerly private institutions are now public.

The MSP also maintains the largest number of facilities for Level II health-care services, with 62% of all Level II facilities. Finally, Level III health-care services are mostly available from private establishments (74%).

Table 22 presents the installed capacity of public health-care services, by level of complexity. Within the public health sector, Level I outpatient facilities account for 91% of the supply of health-care services; basic and general hospitals, 8%; and specialized hospitals, 1%.

Between 2008 and 2010, the total public supply of medical facilities was essentially unchanged. However, the number of Level I facilities decreased somewhat in 2010, while the supply of Level II and Level III facilities improved.

Consequently, the implementation and operationalization of the public health-care model has required the participation of the private sector, through the coordination of the “Complementary Network”. Under this arrangement, the public sector purchases services from the private sector to

meet demand that cannot be covered in the public system. The network operates through management agreements between health-care institutions in the public and private sectors.³²

2. Comprehensive Health-Care Model (MAIS) with a Family, Community and Intercultural Approach

The Comprehensive Health-Care Model (MAIS) with a Family, Community and Intercultural Approach was launched in 2008, with the objective of consolidating primary health care as a strategy that prioritizes disease prevention and health promotion, using a viable approach based on the organized participation of social subjects. To this end, 4,582 professionals were hired to staff the Basic Health-Care Teams (EBAS), which make up the model's strategic component.

A recent MSP study on the Ecuadorian health system identifies the following limitations in the implementation of the MAIS:³³

- There is a shortage of Basic Health-Care Teams, as a large share of the human resources hired to staff the teams has been relocated to fill needs at the hospital level;
- The prevention and promotion activities have not taken precedence at the core of the model, where treatment remains the primary focus;
- Coordination has not been achieved within the health-care networks of the MSP units or with other public institutions;
- The referral and counter-referral system does not work well enough, and the hospitals are overflowing, due in part to a weak problem-solving ability at other levels of care;
- The MAIS system does not adequately respond to the changes and needs of the epidemiological and territorial profile of its coverage areas;
- Although the health-care budget was doubled, spending has not been adequately planned; and
- There is no monitoring and assessment system that would provide data on the impact of MAIS.

3. Public social spending on health care

The budget for the health sector increased significantly in the period under analysis, from US\$ 150.2 million in 2000 to US\$ 1.679 billion in 2012, equivalent to 0.8% and 2.1% of GDP respectively. In 2012, the health sector accounted for around 23% of the general State budget (GSB), and it recorded an annual average growth rate of 27% in real terms. Growth was strongest between 2007 and 2012.

In the health sector, spending on targeted programmes is marginal, barely reaching 0.2% of GDP (the annual average for 2000-2012). This implies that public health-care services are delivered almost entirely under a universal approach, yet the installed capacity of these services does not cover existing demand in terms of availability, timeliness, relevance and quality.

³² From Ministry of Public Health, "Sistema de Salud en Ecuador", Quito, 2012.

³³ Ibid.

E. Economic and social inclusion

In Ecuador “economic and social inclusion” is one of the five sectors of the social protection system, together with health, education, employment and housing. It is therefore addressed in this report as an independent sector.

Economic and social inclusion comprises the sector that was traditionally called social well-being, which provides aid to vulnerable groups through a range of mechanisms, especially through social assistance programmes for vulnerable groups: children, the elderly, persons with disabilities, and the very poor, who receive the Human Development Grant and other important interventions. This set of protection activities is carried out by the Ministry of Economic and Social Inclusion (MIES), formerly the Ministry of Social Well-Being.

Since 2007, the purpose of MIES policy is to promote good living, with an emphasis on two areas of the social protection sector: the protection of rights and the promotion of skills and abilities within the nuclear structure of society (the family).

The different programmes in the MIES portfolio reach approximately 20% of the Ecuadorian population and are provided by Operational Units.

TABLE 23
CHARACTERISTICS OF THE ECONOMIC AND SOCIAL INCLUSION SYSTEM

General model of the system	Coverage	Funding	Institutional framework
<p>The system is segmented into programmatic groups, each of which has differentiated services and operates under its own organizational and management scheme.</p> <p>The system mainly operates through specific social assistance programmes, targeting the poorest population segments. These include:</p> <ul style="list-style-type: none"> -Support for single mothers; -Support and care for comprehensive child development; -Support and care for persons with disabilities; -Support and care for the elderly. <p>A prominent feature of the current government is its emphasis on the coverage of the grant for persons with disabilities and the elderly.</p>	<p>Programme coverage:</p> <ol style="list-style-type: none"> 1. Human Development Grant (BDH); 2. Childcare and nutrition programmes, which were combined in 2010 under the Social Protection Programme. According to the 2010 census, 1,008,679 boys and girls under the age of five years live in poor households with unmet needs. Of this total, 73.7% receive assistance from the childcare programme; 3. Special Health Protection Programme for Catastrophic Illnesses, which as provided services for around 20,000 people; 4. Comprehensive Food and Nutrition System, created in 2009 and renamed Nutrition Action in 2010, for children under the age of five years. This programme is implemented in 27 cantons with high rates of chronic child malnutrition. It also provides nutritional follow-up for 47,217 pregnant women. 	<p>The system is financed out of the central government's regular resources.</p>	<p>The coordinating agency for economic and social inclusion is the Ministry for the Coordination of Social Development.</p> <p>The operational agency is the Ministry of Economic and Social Inclusion.</p> <p>Inclusion services are provided by Operational Units, which operate as programmes.</p> <p>This set of social benefits is received by approximately 20% of the Ecuadorian population.</p>

Source: Prepared by the author.

Economic and social inclusion policy focuses on the following priorities:

- (a) Comprehensive development policy: support and care; aid for the specific needs of basic sustenance; and comprehensive development of the priority care population by life stage and disability;

- (b) Special protection policy: prevention of —and contribution to surmounting— the vulnerability of the rights of the priority care population, through the comprehensive provision of conditional specialized services that help guarantee good living.
- (c) Non-contributory universal insurance policy: universal insurance and protection against contingencies for the population that does not have access to contributory social insurance.
- (d) Social mobility policy: promotion and creation of opportunities and skills in the poor population, for their inclusion in autonomous processes of livelihood generation.

The most representative programmes/services in these areas are currently the following:

- Inclusion in the life cycle and family;
- Social security insurance;
- Social protection services;
- Child and family services;
- Gerontological services; and
- Support for the popular, solidarity economy.

Since its creation, the Ecuadorian economic and social inclusion system has been welfare oriented. While the current government has made efforts to reorient the strategy, in practice it has not managed to redirect the programmes in terms of establishing and articulating the system.

In terms of the basic structure, the current programmes in this sector are mostly the same ones that were in force in 2000. Some new micro programmes for economic inclusion have been added, but they are still marginal, so their impact has yet to be seen.

The changes introduced since 2007 are more institutional than operational, with few modifications to the service delivery schemes. For example, in 2010 the child development projects were merged into a single programme, incorporating the former Child Development Fund (PNN), the Operation Child Rescue Programme (ORI) and the Child Support Programme (INNFA). Food programmes were also added.

Within the social and economic inclusion portfolio, the most important programmes aimed at overcoming poverty include the following: the Human Development Grant (BDH); the Comprehensive Child Development System, which combines and coordinates interventions in this area (the former Child Development Fund,³⁴ the former Child Support Programme³⁵ and the former Operation Child Rescue Programme³⁶); and the *Alimentate Ecuador* food and nutrition programme. There is also a set of small initiatives aimed at productive inclusion.³⁷

The budget for economic and social inclusion grew substantially in the period under analysis, from US\$ 275 million in 2000 to US\$ 1.15 billion in 2012, although the GDP share was relatively stable at around 1.4% of GDP. As a share of the general State budget, spending on economic and social inclusion represented 16% in 2012, and it grew at an average annual rate of 5% in real terms in 2000-2012.

In this sector, most of the budget (around 80%) is allocated to targeted programmes, and an average annual 1% of GDP was dedicated to these activities in 2000-2012. This implies that economic and social inclusion services are delivered almost entirely under a targeted approach, aimed at specific demands.

³⁴ Formerly called Our Children, a programme created in 1999.

³⁵ In operation for over 25 years.

³⁶ Created in 1993 as an extension of the Community Network programme, which was launched in 1986.

³⁷ The total amount of resources allocated to this set of was around US\$ 50 million per year from 2007 to 2012.

It is difficult to accurately estimate the total number of beneficiaries, since people can participate in as many as three or four social programmes at the same time.³⁸ For example, BDH beneficiaries can have their children in public childcare centres (ORI, INNFA, FODI) and also receive benefits from PANN (food), PAI (immunizations), *Maternidad Gratuita* (maternity care), the universal insurance programme (health care), etc. However, according to reports by the units in charge of the current programmes, around 3.5 million Ecuadorians receive some type of transfer from social programmes, which is equivalent to 25% of the country's population.

F. Housing, water, sanitation and urban development

1. Housing, water and sanitation shortages

According to UN-Habitat (2012), the dynamics of housing supply in Ecuador have undergone deep changes in the last 20 years due to the characteristics of the demographic transition and the large urban population. The cities currently concentrate 66% of the population, versus 34% in the rural sector. However, with the exception of the housing subsidy programme administered by the Ministry of Urban Development and Housing (MIDUVI), *“the effective capacity of the formal sectors to react to housing and services supply needs—in both the public and private sectors—has not changed substantially in the last 20 years in terms of management, financing and construction technology, to be able to align with an ever-increasing demand and shortage”* (p.13).

The cities that make up the category “other urban”—that is, all the smaller, secondary cities, including the provincial and cantonal capitals of Ecuador (excluding Quito and Guayaquil)—currently account for the largest population share and highest urban growth rates in the country. This situation, marked by a dizzying resettlement process (especially on the coast), represents the new trend for the future in Ecuador's urbanization process and presents huge new challenges for urban planning and the implementation of services, whose solutions are as yet unknown (UN-Habitat, 2012).

Despite the substantial housing interventions and credit facilities provided by the current government to low-income families to purchase a home, the housing shortage in Ecuador is estimated at 250,000 homes a year, of which 40% are in rural areas. Of this total, 72% of families need a subsidy to cover their housing deficit (UN-Habitat, 2012). It is therefore critical to stimulate housing supply to address the housing problems, especially among the poorest segments of the population.

With regard to access to residential utilities, the latest available data, taken from the December 2010 Employment and Unemployment Survey (ENEMDU,) indicate that 74% of households are connected to potable water, while the remaining 26% households get their water from aquifers or community wells. In the rural sector, fully 63% of households do not have access to potable water (725,000 families). With regard to sanitation, 45% of households are not connected to a direct sewage network, meaning that nearly two million households do not have a service for removing wastewater from their homes. The deficit in the rural sector is 75%.

At the national level, 41% of households lack an excrement removal system (hygiene service). In the rural sector, the absence of this service affects 80% of households. Consequently, the utilities deficit is mainly a problem in the rural sector, followed by “other urban” areas. Understanding the current housing dynamics in the rural sector is crucial both because the rural situation puts pressure on the national aggregate and because the problem requires greater support, especially in the provision of utility services.

³⁸ According to the Living Conditions Survey (INEC, 2006a), at least half the beneficiaries of social programmes (out of a minimum of 1,273,392) receive support from one, two, three, four or more programmes

2. Housing, water and sanitation policies

In the late 1980s, low-income families began to receive grants for buying a home, a programme that continued in the 1990s and 2000s. In 2001, the statute of the Ecuadorian Housing Bank (*Banco Ecuatoriano de la Vivienda*, BEV) was reformed, transforming the bank into a second-tier organization that grants loans to property developers instead of directly to home buyers. The reform consisted in providing demand subsidies and eliminating the State's role in the direct construction and sale of homes. The 2008 Constitution recognizes the right to decent, healthy housing.

The Ministry of Urban Development and Housing (MIDUVI) is in charge of housing and urban development policy and the management of the housing incentive system (SIV).³⁹ Local governments complement MIDUVI interventions, through the construction of urban facilities and infrastructure, the promotion of housing programmes with private sector participation and the application of land-use planning regulations in the framework of the Basic Zoning, Autonomy and Decentralization Code (COOTAD).

TABLE 24
CHARACTERISTICS OF THE HOUSING AND URBAN DEVELOPMENT SYSTEM

General model of the system	Coverage and benefits	Funding	Institutional framework
The Ministry of Urban Development and Housing (MIDUVI) carries out its interventions in coordination with private sector, with the objective of satisfying the population's needs for housing and sanitation infrastructure.	Housing grants: 1. New home construction grant (initially US\$ 3,600; currently US\$ 5,000): 22,418 grants and 174 trusts issued; 2. New rural home construction grant (US\$ 5,000): 1.787 grants issued; 3. New marginal urban home construction grant (US\$ 5.000): 443 grants issued; 4. Marginal urban home improvement grant (US\$ 1,000 and US\$ 1,500): 3,410 US\$ 1.500 grants and 2,674 US\$ 1,000 grants issued; 5. Rural home improvement grant (US\$ 5,000): 166 grants issued;	The housing grant system mainly operates with central government resources, as well as some extraordinary resources in the general State budget and the private family savings.	The governing body for housing development programmes in the country is MIDUVI. MIDUVI is under the Ministry of Social Coordination.
MIDUVI basically provides financing, transferring funds to either the financing entities (housing) or the contractors (sanitation).	6. Land title grant: 7,133 grants issued; 7. My First MIDUVI Home grant (US\$ 5,000): 1,594 grants issued; 8. Manuela Espejo grant for housing for the disabled: 1,809 grants issued; 9. Comprehensive neighbourhood improvement grant: 33,277 grants issued, benefiting 2,248 families;	Financial institutions take in family savings and assess the applications and credit capacity. MIDUVI issues the grants to families that meet all the requirements.	
The system also finances emergency works deriving from the eruption of the Tungurahua volcano and floods.	10. <i>INTI Rural Nueva</i> grant (US\$ 3,960): 1,397 grants issued; 11. Home construction grant for one-room-school teachers (US\$ 3,000): 181 grants issued. Emergency works associated with the Tungurahua volcano and floods: 385 resettlements; 339 new shelters; 3,960 home relocations.		

Source: Prepared by the author.

³⁹ MIDUVI currently offers the following programmes/services: Land Title Grant Programme; Manuela Espejo Project; Fiscal Housing Programme; Guayaquil Partner Housing Programme; SAV-BID economic support systems, where the SAV provides one-time financial support for home improvement for low-income families; Housing for One-Room-School Teachers; Housing Resettlement; Urban Housing for Migrants; Rural Housing Programme; Urban Housing Programme; Marginal Urban Housing; *INTI Rural*.

Actions related to improving access to housing and improving basic sanitation services are the *raison d'être* of MIDUVI (see table 24). The Ministry's mission is to develop policies, guidelines and actions for the housing sector within an integrated national system, based on public, social and private sector interventions aimed at satisfying the need for housing and sanitation infrastructure, with a focus on the lowest-income urban and rural populations. With regard to public works to expand the supply of potable water and sanitation, MIDUVI, as part of its institutional mission, signs agreements with the country's municipalities, which carry out the projects; transfers annual resources; monitors projects; and provides technical assistance.

In addition to MIDUVI, the autonomous decentralized governments, which operate at the provincial and local levels, also participate directly and indirectly in the provision of housing, land and utility services, which in some cases are managed by autonomous municipal companies.

The main mechanism of housing policy is the Housing Grant, which was created in the late 1980s to help satisfy the housing needs of the low-income urban and rural population.

The MIDUVI Department of Housing has been addressing these problems since the late 1980s.⁴⁰ Between 2000 and 2006, MIDUVI implemented the following programmes, in coordination with other agencies:

- 1. Rural housing construction programme;
- 2. Marginal urban housing construction programme;
- 3. Housing construction programme for teachers working in one-room schools;
- 4. Emergency housing programme (in the event of a disaster);
- 5. Housing programme for teachers;
- 6. Urban housing programme;
- 7. Housing incentive programme (Decree 1269) using trust funds.

In the period, grants were issued to approximately 200,000 families.

In the last five years, around 10 new grants have been added (My First Home, Manuela Espejo, resettlements, roofing, shelters, shelter improvement, INTI Rural, etc.), while earlier grants applied since 1998 also remain in force.

Starting in 2007, housing expenditure increased considerably because the value of the grants was raised. Currently, beneficiaries contribute 10% of the grant. In addition, the Ecuadorian Housing Bank implemented a second-tier financing programme that allows citizens in the first four income deciles to access up to US\$ 12,000 to complement grant financing.⁴¹

Around 150,000 grants were effectively issued in the 2007-2011 period. Table 25 shows the breakdown of grants issued between 2007 and 2011.

⁴⁰ Since the Roof and Employment Plan, launched in 1987.

⁴¹ Office of the President of the Republic of Ecuador, Executive Decree N° 1626, 18 March 2009.

TABLE 25
HOUSING GRANTS PAID IN 2007-2011

	Grants				
	2007	2008	2009	2010	2011
New urban home ^a	5 293	12 134	14 154	3 261	1 993
New rural home ^b	14 287	14 100	15 339	3 991	1 186
New marginal urban home ^c	3 645	5 513	1 558	572	443
SIV for teachers ^d	238	314	52	26	
Trusts	174	64	4		
Rural home for one-room-school teachers ^e	189	236	35	47	
Urban home improvement ^f	3 410	7 750	7 380	720	306
Rural home improvement ^g	1 742	4 938	1 331	245	166
Marginal urban home improvement ^h		206	88	132	1 290
Manuela Espejo ⁱ				2 290	1 809
My First MIDUVI Home				11 492	1 594
<i>INTI Rural Nueva</i>				2 766	1 397
Subtotal, grants	28 978	45 255	39 941	25 542	10 184
Emergency works (Tungurahua volcano and floods)					
Resettlements			220	1 030	385
New shelters				2	339
Home relocation 3960			3	3	2
Home relocation 5000			208	600	
Roofing improvement			4	6	
Subtotal, emergency works			435	1 641	726
Total	28 978	45 255	40 376	27 183	10 910

Source: Ministry of Urban Development and Housing (MIDUVI), Department of Housing [online], Fiscal Years 2007-2011 inclusive.

^a Includes the total for all grants paid; the grant was US\$ 3,600 in 2007-2008 and US\$ 5,000 from 2009 on.

^b Total grants paid; the grant was US\$ 3,600 in 2007-2008, US\$ 3,960 in 2009-2010 and US\$ 5,000 from 2011 on.

^c Total grants paid; the grant was US\$ 1,000 in 2007-2008, US\$ 3,00, in 2009-2010 and US\$ 5,000 from 2011 on.

^d Grants paid; the grant was US\$ 3,600 in 2007-2010 and was discontinued after 2010.

^e Grants paid; the grant was US\$ 2,400 in 2007-2009 and US\$ 5,000 in 2009-2011.

^f Grants paid; the grant was US\$ 1,500 in 2007-2010 and US\$ 5,000 from 2011 on.

^g Total grants paid; the grant was US\$ 1,500 in 2008-2010 and US\$ 5,000 from 2011 on.

^h Total grants paid; the grant was US\$ 1,500 in 2008-2010 and US\$ 5,000 from 2011 on.

ⁱ Total grants paid; the grant was US\$ 1,500 in 2010 and US\$ 5,000 in 2010-2011.

3. Spending on housing, water and sanitation

As with spending in the other social protection sectors, the budget for housing and basic sanitation grew strongly in the period under analysis, from US\$ 32 million in 2000 to US\$ 450 million in 2012, equivalent to 0.2% and 0.6% of GDP, respectively. As a share of the general State budget, public spending on housing, water and sanitation doubled, with an annual average share on the order of 6% and an annual average growth rate of 37% in real terms. Financing for the housing sector has come from the multilateral banks. In particular, the Inter-American Development Bank (IDB) has granted several loans to the Ecuadorian government for neighbourhood improvement⁴² and for the housing sector.⁴³ IDB resources are being used to implement the “National Housing Infrastructure Programme”, totalling US\$ 105.8 million; these funds are mainly allocated to the housing grants and, to a lesser extent, institutional development.

⁴² Comprehensive Neighbourhood Improvement Programme (PROMIB).

⁴³ “EC0138: Housing Sector Support Phase I”, granted in 1997 for a value of US\$ 68.6 million, and “EC0207: Housing Sector Support Phase II”, for US\$ 24.5 million, which was initiated in 2003 and ended in 2008.

With regard to the share of state sources in home financing, in the last quarter of 2009 the executive branch decided to repatriate the Unrestricted Monetary Reserve in order to channel it through the public banking system for the recovery of output and for housing. Thus, US\$ 600 million were allocated to home financing, distributed equally among BEV, MIDUVI and the Bank of the Pacific.⁴⁴ In the case of the first two, financing is oriented towards “integral” housing projects, which include the construction not only of housing per se, but also of urban infrastructure and the corresponding facilities.

4. State financial institutions currently tied to home financing⁴⁵

(a) Ecuadorian Housing Bank (BEV)

BEV provides financing for property developers, private construction companies, housing cooperatives and legally established social organizations, for the construction of new or ongoing housing projects, including land, infrastructure works and/or social-interest housing for low-income and middle-income strata. The value of the homes should not exceed US\$ 20,000.⁴⁶ The bank also channels “housing incentives” or grants, under the modality of cofinancing clients’ housing projects in coordination with the loans they receive independently from banks, mutual savings banks and savings and loan cooperatives.

(b) Ecuadorian Social Security Institute Bank (BIESS)

The housing-related financial services provided by the BIESS include “mortgage loans, secured loans and unsecured loans, as well as rediscounting the mortgage portfolios of financial institutions and other financial services that benefit IESS affiliates and retirees, through direct operations or through the national financial system”.⁴⁷

The BIESS resources constitute the most important source of home financing for IESS affiliates and retirees. The BIESS also gives affiliates the option of replacing their mortgages from private banks with a mortgage loan from the BIESS, thereby securing longer maturities and lower interest rates.

The Social Security Reform introduced the interest rate subsidy for social housing and the purchase of the mortgage portfolio by the IESS. The agreement between the private banking system and the IESS to stimulate home loans has two parts: the repurchase of the portfolio acquired by private bank clients, which will now be purchased by the IESS; and the new mortgage portfolio provided by banks once the individual agreements are reached. The latter segment includes the interest rate subsidy, which aims to benefit low-income families.

The IESS has committed to purchasing US\$ 400 million of the private bank mortgage portfolio. The investment by the IESS consists in acquiring only the bank mortgage portfolios involving loans made to active IESS affiliates and purchasing the titles to the same type of portfolio. This transfer does not contemplate a modification in the payment terms or a reduction in the interest rate. Moreover, the collection of monthly payments for the loan principal or insurance (fire or mortgage insurance) will continue to be the responsibility of the bank with which the loan was originally contracted. For this service, the IESS will recognize between 0.75% and 0.80% of the balance due. There are three segments for the interest rate subsidy: (a) loans for property costing less than US\$ 20,000, which will have an interest rate of under 5%; (b) homes costing more than US\$ 20,000 and less than US\$ 35,000, which will have a rate of 5% to 7.5%; and (c) homes costing over US\$ 35,000, which will not receive a subsidy. For all cases, the fixed term will be 15 years. The bank can offset the lower interest rate through tax credits.

⁴⁴ The Bank of the Pacific is a state-owned bank that operates as a private entity, as it was one of the private banks seized by the State as a result of the 1999 financial crisis.

⁴⁵ Summary from UN-Habitat, “Perfil del Sector Vivienda en Ecuador”, Quito, April 2012.

⁴⁶ In accordance with Decree No. 821 of 14 July 2011, the price of these homes was lowered from US\$ 60,000 to US\$ 20,000.

⁴⁷ The law creating the BIESS. Registro Oficial No. 587, of 11 May 2009.

(c) Financing institutions of the armed forces and national police

The ISSFA grants mortgage loans exclusively to active and retired military personnel, for which it maintains the Housing Fund. Similarly, the ISSPOL provides mortgage financing to active and retired members of the police force.

(d) Financing through the Housing Incentive System (SIV)

The Housing Incentive System is one of the mechanisms through which the government has helped low-income families acquire a home of their own. The programme is based on a savings+grant+loan scheme: the State issues a subsidy through MIDUVI, which gives the family access to the mortgage market in order to purchase their first home. The subsidy, which is complemented by resources provided by the family from their own savings, serves to leverage the mortgage loan the family can receive in any private financial institutions.

This subsidy also has the objective of stimulating the construction industry in order to expand its coverage of low and medium-low income segments, as the subsidy's target clients are from these states.⁴⁸

(e) Evolution of the SIV in number of transactions and amount⁴⁹

The urban housing grants paid by MIDUVI, with external funds, recorded a downward trend in 2001-2006 in terms of both number and amounts, with a substantial recovery starting in 2007. The recovery, however, was highly unstable: the growth rate was over 100% in 2008 and 2009, followed by a drastic reduction in 2010 and the first half of 2011 (see table 26).

TABLE 26
EVOLUTION OF THE URBAN HOUSING GRANT, 1999-2011
(Number and dollars)

Year	New home		Home improvement		Total	
	Number	US\$	Number	US\$	Number	US\$
1999	1 572	2 829 600	802	601 500	2 374	3 431 100
2000	6 189	11 140 200	7 927	5 945 250	14 116	17 085 450
2001	11 598	20 876 400	12 421	9 315 750	24 019	30 192 150
2002	4 789	8 620 200	3 903	2 927 250	8 692	11 547 450
2003	2 736	4 924 800	3 605	2 703 750	6 341	7 628 550
2004	3 488	6 278 400	5 316	3 987 000	6 804	10 265 400
2005	2 992	5 385 600	4 511	3 383 250	7 503	8 768 850
2006	1 364	2 455 200	2 727	2 045 250	4 091	4 500 450
2007	5 293	19 054 800	3 410	5 115 000	8 703	24 169 800
2008	12 134	43 682 400	7 750	11 625 000	19 884	55 307 400
2009	14 154	52 295 400	7 380	11 072 700	21 534	63 368 100
2010	3 261	12 859 082	552	827 546	3 813	13 686 628
2011 ^a	1 767	8 014 600	41	61 500	1 808	8 076 100

Source: United Nations Human Settlements Programme (UN-Habitat), on the basis of statistics from the Ministry of Urban Development and Housing (MIDUVI), provided by the Department of Housing.

^a Data for the first half of 2011.

⁴⁸ This system has been operating in Ecuador since 1998, to support the purchase, construction and improvement of homes in rural, marginal urban and urban areas. The Ecuadorian government has received financial support for the programme in the form of three IDB loans; funding also comes from the general State budget.

⁴⁹ Summary from UN-Habitat, Quito, April 2012.

G. Employment sector and support for micro-businesses

The Ministry of Labour Relations (formerly called the Ministry of Labour) is responsible for designing and implementing policy in the fifth sector of the Ecuadorian social protection system: employment. The early 2000s were marked by the absence of explicit policies to promote employment. Given the renewed economic system, it was assumed that dollarization would resolve the distortions in the labour market.

Employment policy underwent a shift in 2007, when the government of President Rafael Correa announced explicit objectives in this area. Concrete measures were not adopted until May 2008, however, with the passing of Constitutional Mandate N° 8. The mandate introduced additional regulations to a labour market that was already highly regulated, eliminating outsourcing, part-time work and employment agencies.⁵⁰

With the goal of creating favourable conditions for the application of a public employment-promotion policy and increasing the opportunities for the unemployed and underemployed, the government sought to eliminate any source of precariousness in labour relations, to promote job stability (including for persons with disabilities and youth), advocate fair and decent wages and attain recognition for self-employment.

The government also implemented economic inclusion programmes aimed at improving labour articulation. One of the key initiatives in this area was the *Socio País* (Country Partner) Programme, which comprises the following subprogrammes: *Hilando el Desarrollo* (Spinning Development), *Nutriendo el Desarrollo* (Nourishing Development), *Negocios Sociales Inclusivos* (Inclusive Businesses), *Socio Jóvenes* (Young Partner), *Socio Pan* (Bread Partner), *Socio Tienda* (Shop Partner), *Socio Empresa* (Business Partner), *Socio Micro Vulcanizadora* (Micro-Vulcanization Partner), *Microempresas Juveniles* (Youth Micro-Businesses) and *Empleo sin Barreras* (Jobs without Barriers), which made up the Employment Partner Network.

TABLE 27
CHARACTERISTICS OF INTERVENTIONS TO PROMOTE EMPLOYMENT AND
ERRADICATE CHILD LABOUR

General model of the system	Coverage and benefits	Funding	Institutional framework
Ecuador has two contracting schemes: (1) Private; and (2) Public.	National labour indicators in 2012: Full employment rate: 51% Unemployment rate: 4% (including public employment) 454,304 public servants (2009) Current projects (2012): My First Job: 12,831 youths; Eradication of child labour: 113,157 children; Professional rehabilitation system for persons with disabilities: 59,452 people; Employment Partner Network: 43,011 people; Public civil service: 24,285 people; Training Plan: 400,000 people; Decent work in Ecuador: 1,809,044 people.	Financing comes from fiscal resources in the general State budget and from the private sector, depending on the sector.	The governing body is currently the new Ministry of Labour Relations (MRL). Through 2008 it was Ministry of Labour. In 2008 the agency in charge of employment policies was the National Technical Secretariat of Human Resources Development and Remuneration in the Public Sector (SENRES).

Source: Prepared by the author.

⁵⁰ Approved by the Constitutional Assembly on 1 May 2008, which reformed the law on labour outsourcing.

According to official documents, the *Socio País* programmes provide training and access to lines of credit for the modernization of micro-businesses. The government also created the Inclusion Fund and the National Programme for Inclusive Financing, Entrepreneurship and the Solidarity Economy, which provide technical and financial support for local development projects that promote the productivity of micro-businesses and small production units.

While these programmes are innovative, they are marginal in terms of coverage, magnitude of investment, sustainability and contribution to job creation.

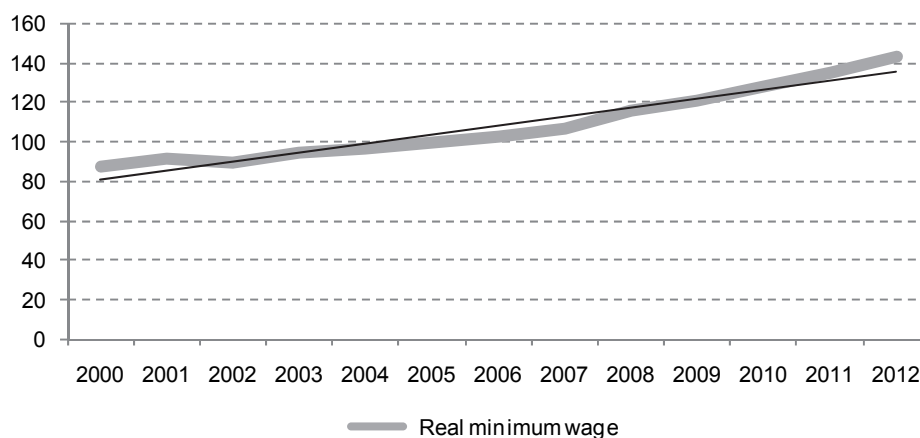
1. Wage policy

Wage policy went through two distinct phases in 2000-2012. From 2000 to 2006 (a conservative cut-off), wage increases were based solely on inflation and therefore were insufficient to cover the increase in the value of the basic basket of goods. Since 2007, the government's wage policy has explicitly been aimed at improving workers' wages by more than inflation in order to achieve a "decent" wage. Given the level of inflation, however, purchasing power has been affected in real terms despite the wage increases.

In Ecuador, wages are freely contracted between the parties involved. There is a common minimum wage that is used as a benchmark, which is currently US\$ 318. There are also sectoral minimum wages for different branches of activity. The sectoral minimums are normally higher than common minimum wage and are set annually by the Ministry of Labour Relations. No employee can earn a wage that is lower than the applicable minimum, even if it has been freely contracted between the employer and the employee.

As shown in figure 14, the monthly minimum wage has increased considerably since the advent of dollarization.⁵¹ The real average annual growth rate was 2.9% between 2001 and 2006,⁵² versus 6.7% between 2007 and 2012. Consequently, the purchasing power of wages, as a general trend, has increased systematically in the post-dollarization period.

FIGURE 14
REAL MINIMUM WAGE, ANNUAL AVERAGE, 2000-2012
(Base year: 2000)



Source: Central Bank of Ecuador (BCE) (2012), Monthly Statistical Information, Boletín No. 1930, December 31.

⁵¹ It jumped from US\$ 4 to US\$ 56 in 2000.

⁵² In 2000, however, there was a nominal wage increase of 662.5% relative to 1999, due to dollarization.

H. Social subsidies and price controls

In addition to the policies targeting the five sectors that make up the social protection system (education, health, inclusion, housing and employment), Ecuador also applies a series of income transfers and price controls with a social objective, which complement the social policy interventions in the country (see table 28).

Subsidized pensions and consumer subsidies for oil derivatives and the electricity sector were already in place before 2000. These “traditional” subsidies have been expanded since 2007. This section provides a detailed look at each of the subsidies and price controls not addressed elsewhere in the text.

TABLE 28
CHARACTERISTICS OF SOCIAL SUBSIDIES

Type of subsidy	Coverage and benefits	Funding	Institutional framework
Consumer subsidy on oil derivatives	<ul style="list-style-type: none"> Diesel subsidy: Diesel is bought at US\$ 2.16 a gallon and sold at US\$ 0.90 (subsidy of US\$ 1.26 per gallon); Liquid gas subsidy: a 15 kg tank of liquid gas is bought at US\$ 12.00 and sold at US\$ 1.60 (subsidy of US\$ 10.40 per tank); Gasoline subsidy: Gasoline is bought at US\$ 2.26 a gallon and sold at US\$ 1.31 (subsidy of US\$ 0.95 a gallon). <p>The entire population receives the subsidy, especially people who live in urban areas (who have the largest consumption of oil derivatives).</p>	Financed with fiscal resources channelled through PETRO-ECUADOR.	The institution that supplies fuel in the country is PETROECUADOR, a non-financial public company.
Consumer subsidy on the electricity sector	<ul style="list-style-type: none"> Subsidized tariff for the whole population; Dignity Tariff: US\$ 0.04 per kW-h for up to 110 kW-h in the mountains and 130 kW-h on the coast. <p>The entire population receives the subsidy, especially people who live in urban areas (who have the largest consumption of oil electric energy).</p>	Financed with fiscal resources channelled through CONELEC.	The National Electricity Board (CONELEC) is in charge of electricity distribution throughout the country. It is a public institution with its own capital and administrative and financial autonomy.
Other consumer subsidies	<ul style="list-style-type: none"> Subsidy for the bakery sector, benefitting 8,046 bakers; Subsidy for the agricultural sector (urea, seeds, loans, agricultural machinery): import and sale of urea and NPK 10-20-20 (current); Credit subsidies through preferential rates and conditions; Subsidy for migrants. 	Financed with fiscal resources from the central government.	<p>The MAGAP designs the beneficiary system, prioritizing poor producers.</p> <p>The National Development Bank, a public financial institution, is in charge of channelling the subsidies.</p> <p>National Secretariat for Migration: This programme is aimed at Ecuadorians who are living outside the country and away from their families.</p>

Source: Prepared by the author.

1. Consumer subsidy on oil derivatives

General subsidies on oil derivatives have become a political issue in the country, and their review and/or elimination generates controversies and resistance from different social groups that are part of the chain of production, transport and commercialization. The most-subsidized product is diesel, which is used for both transportation and electricity generation, followed by liquid petroleum gas and gasoline used in the transportation sector.

The magnitude of the subsidies is evident in the unit price for public sales. Diesel is imported at US\$ 2.16 per gallon and sold at US\$ 0.90; the subsidy is thus 140% of the sales value, or US\$ 1.26 per gallon. Gasoline is sold at US\$ 1.31 a gallon, while the cost is US\$ 2.26, implying a subsidy of US\$ 0.95 a gallon, or 72% of the public selling price. A 15 kilo tank of liquid petroleum gas is imported at US\$ 12 and sold at US\$ 1.60, with a subsidy of US\$ 10.40 or 650% of the selling price.

(a) Consumer subsidy on diesel

In 2006, the country consumed 22.2 million barrels of diesel, half of which was imported. Of the total consumption, 60% was for mobile sources, 114,000 units; other important forms of consumption include manufacturing (22%), electricity (13%) and diesel vehicles (4%).

In Ecuador, 10% of the total number of automobiles use diesel fuel. This relative share has been almost constant since 2001, while most of the absolute increase comprised 4x4 cars and pickup trucks.

Assuming an opportunity cost of US\$ 2.00 per gallon that it costs the State to import, the estimate is US\$ 418 million for the public and private diesel-based mobility of Ecuador; US\$ 91.8 million for the diesel-based mobility of Peru and Colombia, mainly; and US\$ 123.3 million for thermoelectric consumption.

(b) Consumer subsidy on gasoline

Gasoline subsidies totalled US\$ 47 million in 2000, according to data from the Ministry of Finance (see table 8). Fuels have grown considerably since 2003, when prices rose sharply as a result of the increase in the international price of crude oil, and domestic production did not meet the demand of the national market. Consequently, the subsidy totalled US\$ 779 million in 2012 (table 9).

In 2006, gasoline consumption, including super and extra, was 14.8 million barrels. This represents an increase of 8.3% over the previous year, of which 6.14 million barrels (41.7%) were imported. Given that gasoline consumption in 1997 was 9.5 million barrels, the growth rate of consumption in the decade 55.5%, whereas population growth was just 13.9% in the same period (from 11.8 million people to 13.4 million).

The largest share of the increase in demand is due to the growth of the total vehicle fleet. However, the demand for gasoline has also increased on the borders, where the subsidized fuel escapes to the neighbouring countries of Colombia and Peru.

(c) Consumer subsidy on liquid petroleum gas

The State has a monopoly on the importation of liquid petroleum gas (LPG). The gas is then packaged (in cylinders) and distributed by public and private companies. Private companies package and distribute the majority of the LPG that is sold at the national level. The large subsidy on liquid gas (US\$ 10.40 per 15 kg tank) has generated excess demand for the fuel, while at the same time limiting supply.

According to estimates by the Foreign Trade Department of Petroecuador, the State subsidizes US\$ 0.66/kg. In 2006, 8.2 million barrels of LPG were imported, or 77% of national consumption.

2. Consumer subsidy on electricity

The allocation for electricity tariffs for certain segments of the population was US\$ 152 million in 2000 and US\$ 256 million in 2010.

In 2010, there were 19 electricity generation companies, one transmission company, 23 self-generators and 20 distributors approved in Ecuador. There were 121 large consumers, of which 84 are regulated clients of the distributors, seven are receiving energy from their distributors under fixed-term contracts, 16 obtain energy from generators, two are clients of a self-generator, six are in-house consumers of the Hidroabánico generation companies and four are in-house consumers of the Mana Generación self-generator. The remaining consumers account for the share of energy sold to non-

regulated consumers (exports to seven clients in northern Peru and sales between distributors), as well as electricity produced by self-generators that do not yet have a permit or licence.

In 2008, gross electricity generation was 19,108.69 GWh. The breakdown by type of power plant is as follows: hydroelectric plants produced 11,293.33 GWh (59.10%); internal combustion engine (ICE) thermal power stations, 3,460.45 GWh (18.11%); gas turbine plants, 1,355.90 GWh (7.10%); steam turbine plants, 2,496.13 GWh (13.06%); wind 2.68, GWh (0.01%); solar, 0.03 GWh (0.00%); and energy imports from Colombia, 500.16 GWh (2.62%).

Electricity consumption at the national level in 2008,⁵³ including large consumers, was distributed as follows: 35.0% for the residential sector; 19.5% for the commercial sector; 31.0% for the industrial sector; 6.4% for public lighting; and 8.1% for other services.⁵⁴

3. Price subsidy on imported flour

From 14 September 2007 to December 2009, the government subsidized the price of imported flour from Argentina, in order to keep the price of bread from rising. The National Development Bank (BNF) provided bakers with 39 tonnes of imported Argentine wheat at a price of US\$ 22 per quintal (100 pounds), whereas the import price was US\$ 32 per quintal.⁵⁵ That is, the State subsidized 31% of the price of imported flour. In addition, the government bought local flour at a price of US\$ 35, thus providing a subsidy of 37%. This subsidy was suspended in 2010.

As of 10 July 2008, on an exceptional basis, Executive Decree 1200 fixed the price of wheat flour produced in Ecuador for the production of commercial bread, pastas, and other products. The decree set a ceiling of US\$ 35 per 50 kg sack, applicable throughout national territory, on the volume of production necessary to cover 85% of the market, while the remaining 15% would be imported from Argentina.

The State absorbed the price difference of US\$ 7.50 per 50 kg sack, which was returned to each of the commercial mills. Thus, under this new modality, the State subsidized 31% of the price of imported flour, as under the original subsidy, and reduced the subsidy on national flour from 21% to 16%.

The distribution and sale of wheat bread flour is handled by the commercial mills, with no effect on the final price mentioned above. This subsidy was eliminated in 2011.

4. Subsidy for small farmers

Since 2007, the government has established a series of subsidies for the agricultural sector, with a focus on small producers. These currently include subsidies on the import and sale of urea and the purchase of agricultural inputs (rice and corn seed). This group of subsidies costs around US\$ 100 million annually.

To keep the prices of agricultural products from rising, the government implemented the *Socio Siembra* (Seed Partner) Programme in 2008, which provided a subsidy of US\$ 240 for farmers with an annual income of up to US\$ 60,000 and a maximum of 10 employees; the subsidy was suspended in 2010. Under this programme, the National Development Bank issued US\$ 80 plus 5% of the cost of inputs. The subsidy of up to US\$ 240 for small farmers was reinstated in 2013, with the objective of cofinancing the purchase of rice and corn seed for farmers with up to 20 hectares of land.

⁵³ Excluding energy exports to Colombia, which classify as international energy transactions and not national consumption.

⁵⁴ CONELEC, "Estadística del Sector Eléctrico Ecuatoriano Año 2008", published in April 2009

⁵⁵ The only requirement was to present one's national identification card, together with the tax identification card indicating employment in the bakery sector.

5. Migrant subsidy

Article 3 of Presidential Decree 821, of 14 July 2011, created the grant directed towards migrants, “which is a one-time, non-refundable, direct subsidy for migrants and their families, issued by the government of Ecuador via the Ministry of Urban Development and Housing, for which the National Secretariat for Migration will report to the Ministry of Urban Development and Housing on the effective demand of migrants or their families who are eligible for the migrant grant” (Office of the President of the Republic of Ecuador, 2011).

The Migrant Housing Incentive Programme is aimed at facilitating access to housing with decent living conditions and essential utility services, in the urban or marginal urban sector within national territory, for Ecuadorian migrants and their families, in virtue of their current situation within and outside the country. Table 29 details the amount of the grants and the types of intervention.

TABLE 29
CHARACTERISTICS OF MIGRANT GRANTS

(a) For rural and marginal urban housing:

Type of intervention	Value of the grant	Social Registry points
New home	Up to US\$ 5,000	Up to 50.10 points (2 SBU)
Home improvement	Up to US\$ 1,500	Up to 50.10 points (2 SBU)

(b) For urban housing:

Type of intervention	Value of the grant	Social Registry points	Home value	Beneficiary contribution
Purchase of a new home	US\$ 5,000	Up to 52.90 points (2.5 SBU)	Up to US\$ 20,000	100% of the value of the home (5% credit or savings; 5% savings or scheduled savings)
Construction on own property	US\$ 5,000	Up to 52.90 points (2.5 SBU)	Up to US\$ 20,000, including the value of the land	100% of the value of the home
Home improvement	US\$ 5,000	Up to 52.90 points (2.5 SBU)	Up to US\$ 20,000, including the land, existing home and improvement	100% of the value of the grant

Source: Prepared by the author.

The housing grant is a one-time subsidy issued by the Ministry of Urban Development and Housing, subject to compliance with the requirements established in the respective regulations.

6. Price controls on the basic basket of goods

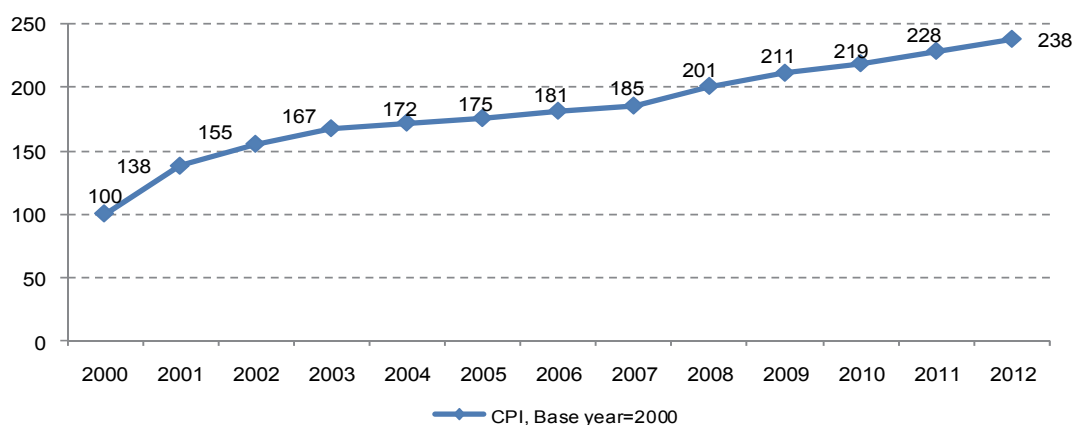
The Ecuadorian economy has been dollarized since September 2000, and through 2007 there were no price controls on the goods in the basic consumer basket, as long as they were relatively stable at levels below 5% in annual terms. In 2008, retail price controls were introduced in markets and micro-markets in response to high inflation, and new subsidies have been added.

To avoid increases in the basic basket of goods, the government launched the *Socio Tienda* Programme, with the goal of incorporating 20,000 points of sale (shops or groceries) that sell basic

goods at a reference price.⁵⁶ According to an agreement with the product manufacturers, the products should be easily identifiable by the public, through the use of a *Socio Solidario* logo or sticker on the package. At the same time, participating shops will have a sign associating them with the programme, together with a list of prices.

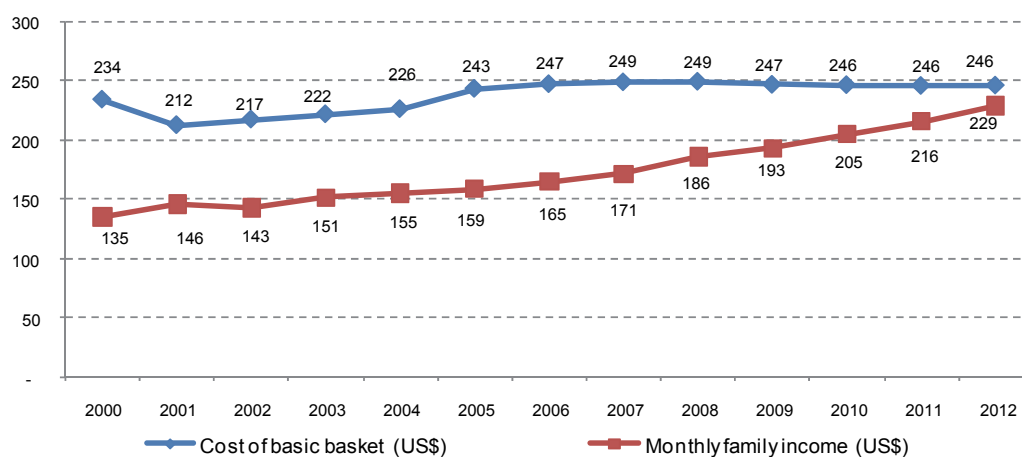
The price controls with a social objective that were activated in 2008 did not have clear effects on the level of consumer prices. While families' purchasing power recovered in the current decade, it fell again in 2008 to 2011, as a result of the cumulative price hike (see figure 15). This has affected the purchasing power of low- and middle-income families in particular, since family income was no longer sufficient to cover the costs of the basic consumer basket (see figure 16).

FIGURE 15
CONSUMER PRICE INDEX (BASE YEAR: 2000)



Source: National Institute of Statistics and Censuses (INEC), Price statistics, historical CPI series, June 2012.

FIGURE 16
COST OF THE BASIC CONSUMER BASKET AND MONTHLY FAMILY INCOME



Source: National Institute of Statistics and Censuses (INEC), Price statistics, historical CPI series, June 2012.

⁵⁶ Basic goods include tuna, salsas, enriched crackers, meat products, rice, vegetable oil, powdered milk, lentils, plantain flour, juices, diapers and so on.

On 22 February 2013, the Office of the President of Ecuador issued Executive Decree No. 1438 to define the price policy for controlling speculation in agrifood products. The policy consists in establishing reference prices for 46 agrifood products, which will then serve as the basis for controlling speculation by the competent authorities. The reference price is defined as the median historical price in wholesale markets, with price fixing for 16 products. In the case of prices with no historical information, a period of 90 days was set to establish a table of reference prices.

In the case of export products, prices will be in line with the international price, so they are not included on the official list issued by the government.

The list of reference prices for agrifood products is published on the web page of the Ministry of Agriculture, Livestock, Aquaculture and Fisheries (MAGAP). Pursuant to the decree on reference prices, the price list will be published in the first five days of each month and will be in force until the fourth day of the following month. In this case, the price list is on the web page of the Ministry of Industry and Productivity (MIPRO).⁵⁷

⁵⁷ The products subject to control are as follows: rice flour, naranjilla, garlic, oats, plantains, white onions, red onions, bell peppers, roma tomatoes, ripe bananas, fresh peas, green bananas, corn, green beans, watermelon, fresh fava beans, dried beans, apples, creole potatoes, lemons, bush tomatoes, ulloco, mandarins, broccoli, yucca, passion fruit, cabbage, melon, papaya, pineapple, avocado, blackberries, lentils, grapes oranges, lettuce and carrots; milk, bone-in beef, ground beef, boneless beef, bone-in pork, pork chops, pork ribs, chicken breasts, whole chickens and chicken eggs.

IV. Key transformations in the institutional framework of the social sector

For over three decades, Ecuador has been trying to implement institutional reforms that translate into better services and greater care for the population. However, political instability, corporate interests and special interests have given rise to an uneven process of applying partial reforms that, far from strengthening the social institutional framework, has weakened its policy and regulatory roles.⁵⁸

Starting in 2007, President Correa's administration took on the political reform of the State, seeking, *"first and foremost, to strengthen the functions of State regulation, planning, redistribution and control as fundamental instruments for a sustained and sustainable push towards human development, collective well-being and good living"*.⁵⁹

"The State, then, returns to its position at the centre of the institutional reform in order to recover a set of strategic capacities that ensure adequate coordination between policy, economy and society. Thus, one of the objectives of the institutional reform of the State is that the recovery of the State's room for manoeuvre be produced under efficient, transparent, decentralized and participative management schemes, in order to give its interventions the greatest functional coherence and democratic legitimacy possible".⁶⁰

The current government implemented what is known as the State political reform, whose content is framed in the New Constitution approved by Ecuadorians in November 2008. In the context of the changes established in the New Constitution, the government launched a series of institutional modifications to restructure the institutional architecture of the public sector (and the social sector),

⁵⁸ A brief account of the process of overhauling the Ecuadorian planning system reflects the process of changing the State model in Ecuador. The National Planning Board that operated in the 1970s progressively lost physical, technical and human resources; the (formal and informal) rules behind the policy formation processes disappeared, until the planning system ultimately took on a figurative role in the State institutional framework. By the end of the 1980s, the national planning system was severely weakened. The macro or policy planning function was the first to be undermined by the advent of the new "secondary" statute granted to the State. Later, in the 1990s, policy design, or the function therein that corresponds to the government, was initially carried out by teams close to the rulers, which led to the creation of the Office of Planning and its later institutionalization in the State ministerial structure (ECLAC, 2005).

⁵⁹ SENPLADES (2009), "Reforma Democrática del Estado: Rediseño de la Función Ejecutiva: De las Carteras del Estado y su Modelo de Gestión, y de la Organización Territorial", Publicaciones SENPLADES, Quito, June.

⁶⁰ Ibid.

which, according to the government, will create the institutional conditions to favour the equality, cohesion and social integration of the population.

The New Constitution establishes five powers: (i) Transparency and Social Control; (ii) Legislative; (iii) Executive; (iv) Judicial; and (v) Electoral.

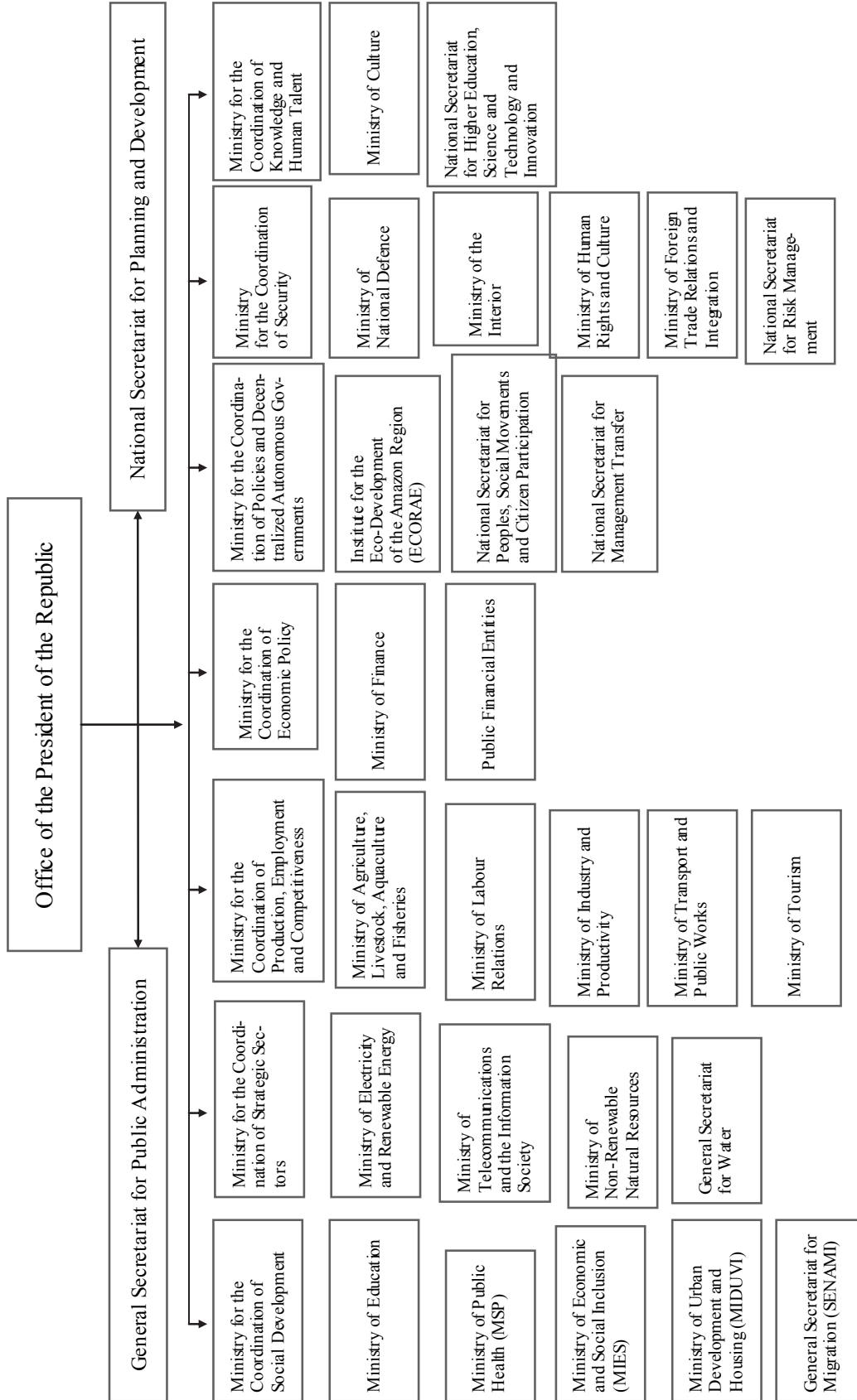
- (i) The new Transparency and Social Control Power is made up of the Board of Citizen Participation and Social Control, the Office of the Ombudsman, the Office of the Comptroller and the Superintendencies. The entities' representatives for this power serve a term of five years and are subject to impeachment by the National Assembly.
- (ii) The Legislative Power, represented by the National Assembly, holds legislative and oversight authority. This body can dismiss ministers of the State in the case of a censure and formally question the President of the Republic, although the latter authority can only be exercised in the first three years of the term.
- (iii) The Executive Power is represented by the President of the Republic, who is elected for a term of four years and can only be re-elected once for a consecutive or non-consecutive term. In addition to economic policy, the President has authority in planning, debt and the exceptional exploitation of resources in protected areas.
- (iv) The Judicial Power, represented by the National Court of Justice, is the maximum authority in the administration of justice. It is made up of 21 judges. In the area of judicial oversight and management, the maximum authority is the National Judiciary Council, whose members are appointed through a public nomination process.
- (v) The Electoral Power is made up of the National Electoral Council and the Electoral Disputes Tribunal. Members are appointed by the Board of Citizen Participation and Social Control following a public nomination process, and they are subject to impeachment by the National Assembly.

Diagram 1 shows the new functional structure of the Executive Power as presented in the 2007 Report to the Nation. According to that report, the public administration has two main pillars: the General Secretariat for Public Administration, which is in charge of the daily management of the public administration, and the National Secretariat for Planning and Development (SENPLADES), which is responsible for planning public policy in the short, medium and long terms, as well as carrying out the associated impact assessment.

As illustrated in diagram 1, the public administration is organized into seven offices or ministries in seven policy areas, one of which is social development.

In contrast to the past structure, the design and application of social policy is carried out at three levels: (i) the policy level, which entails decision-making and planning; (ii) the central level, which oversees the programming and coordination of policy; and (iii) the decentralized and/or local level, which executes policy. The State Reform driven by the current government has succeeded in establishing synergy and introducing intersectorality in public policies. The isolation, duplication of functions and absence of leadership have been overcome in the last five years.

**DIAGRAM 1
FUNCTIONAL STRUCTURE OF THE EXECUTIVE POWER**



Source: Prepared by the author.

(i) Social policy in Ecuador currently comprises two bodies at the policy level: the Office of the President of the Republic and the Constitutional Assembly. The Office of the President of the Republic is the most important decision-making body with regard to public policy; it is here that the main social policy decisions are approved. The Constitutional Assembly creates the legal framework for implementing the policies and programmes that are proposed on a yearly (or multi-yearly) basis by the various State Ministries or by the Executive Office. In addition, the Assembly annually approves the general State budget, which allocates resources for policy execution.

(ii) There are four bodies involved in the programming and coordination of social policy in Ecuador: (a) the National Secretariat for Planning and Development (SENPLADES); (b) the Ministry of Finance; (c) the Social Cabinet (led by the Ministry for the Coordination of Social Development); and (d) the set of ministries that make up the Social Cabinet (Education, Health, Economic and Social Inclusion, Urban Development and Housing, and Labour Relations).

The SENPLADES, which was broadly reinforced in 2007,⁶¹ is in charge of planning and coordinating public policies at the national level and in all areas of public management. It is also responsible for issuing the general guidelines to the different entities, to ensure that sectoral and institutional policies are consistent with the National Plan for Good Living (PNBV); prioritizing investments; and monitoring compliance with the goals of the PNBV. Planning has been decentralized through the creation of new planning areas.

The Ministry of Finance is responsible for scheduling, providing and guaranteeing the resources approved by the SENPLADES (and the coordinating ministries) in terms of the investments and other resources necessary for the social agencies in the different sectors to implement their interventions. The Finance Ministry makes all decisions on budget reforms, disbursements and emergency reallocations, especially with regard to regular operating expenses.

The third entity in the central-level hierarchy is the Ministry for the Coordination of Social Development (MCDS), which is the coordinating and articulating body of the different operational policy levels in the different ministries in the social sector. Its mission is to coordinate, articulate and monitor social policies, plans, projects and programmes implemented by the ministries and secretariats of the Social Cabinet.⁶²

The fourth entity in the central-level hierarchy is the group of five ministries that make up the Social Cabinet, which are responsible for programming and executing the policies in their areas of intervention, at the national or macro level, and coordinating policy implementation on the ground, in accordance with the seven planning areas defined by the SENPLADES.

(iii) Finally, public social services are provided by the local operational divisions of the ministries within the Social Cabinet.

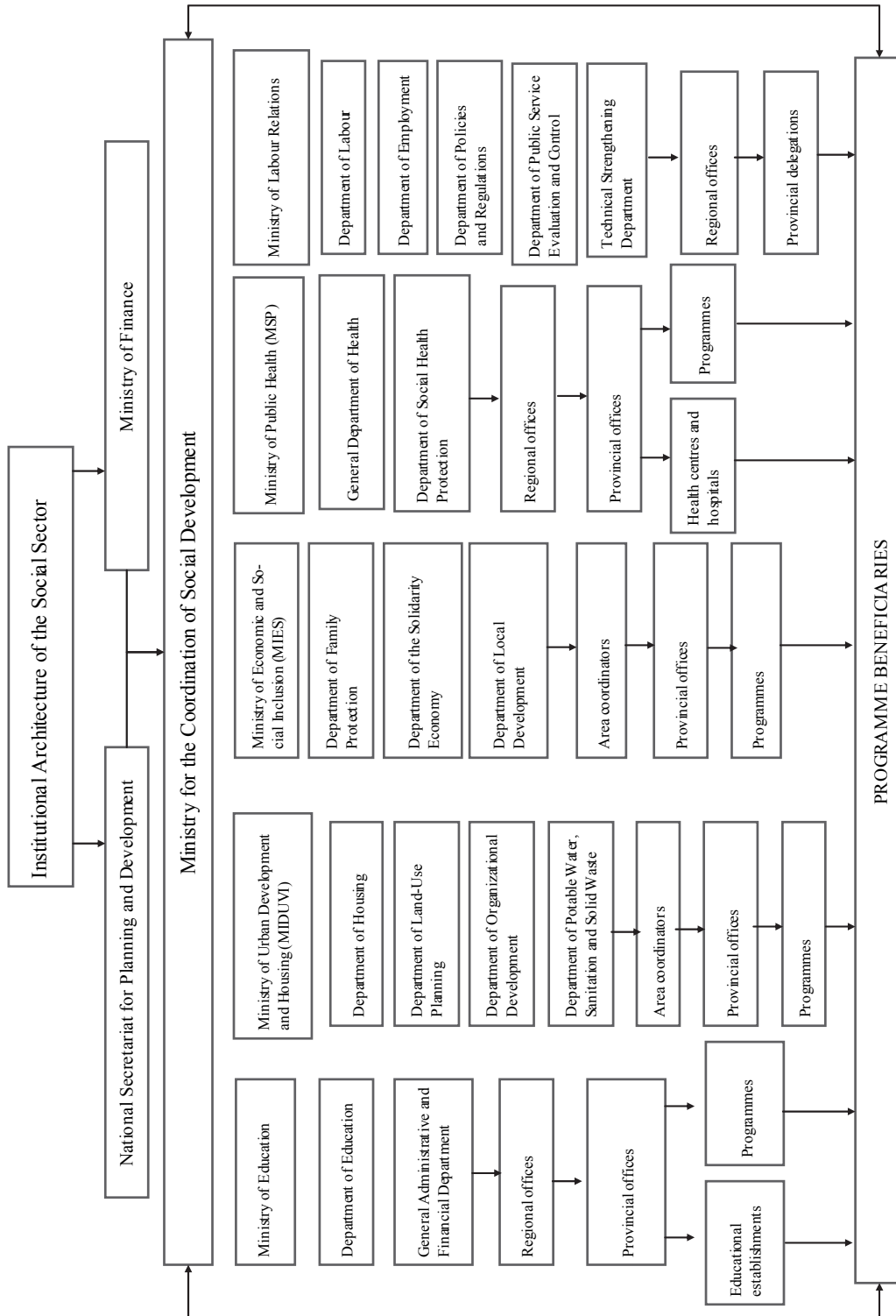
The different ministries all use a very similar internal operating structure, with a few minor differences. They are organized into departments (called *subsecretarías*), regional offices, provincial offices, and finally establishments and/or programmes, which are the last link in the chain for providing services directly to the population.

Diagram 2 illustrates the institutional framework of Ecuadorian social policy.

⁶¹ The now-extinct Office of Planning and Development (ODEPLAN) had a reduced role in reviewing investment plans, but without competences and powers at the macro level.

⁶² Pursuant to Executive Decree No. 242 of 30 March 2007, the Ministry for the Coordination of Social Development will organize the social sector policies and actions adopted by the following institutions: the Ministry of Finance; the Ministry of Labour and Employment; the Ministry of Public Health; the Ministry of Economic and Social Inclusion; the Ministry of Education; the Ministry of Urban Development and Housing; the Ministry of Agriculture, Livestock, Aquaculture and Fisheries; National Secretariat for Planning and Development; and the National Secretariat for Migration. Online: www.mcds.gov.ec.

**DIAGRAM 2
INSTITUTIONAL ARCHITECTURE OF THE SOCIAL SECTOR**



Source: Prepared by the author.

V. Evaluation and outlook

For the last 30 years, The Ecuadorian social protection matrix has mainly been structured around regular sectoral interventions, combined with the application of specific social assistance programmes targeting the poorest segments of the population. Historically, the welfare matrix in Ecuador has been characterized by the political clientalism of the governments in power and a short-term capacity for resource allocation. Consequently, the different intervention strategies employed did not succeed in overcoming the problems they were intended to address.

Nevertheless, significant progress has been made in improving the well-being of the Ecuadorian population, although problems remain in terms of the quality, relevance, availability and timeliness of social services, exacerbated by the absence of information measuring the impact of the interventions. Despite the advances and setbacks, the orientations and reorientations, the execution of social policy in the last three decades has made substantial progress in terms of service coverage and the education and health-care infrastructure. As a result, the education and health-care of the Ecuadorian population has recorded the greatest advances in the country's recent history. In the area of social security, IESS affiliation has expanded from 15% of the labour force in 1980 to 45% in 2012, and the size of pensions and loans granted by the system have improved in real terms.

However, as the analysis in this report shows, despite the current government's intention to change the system and the advances made in terms of the physical infrastructure and facilities, the social welfare structure remains founded on the protection matrix of the 1980s, 1990s and first half of the 2000s. The modifications introduced to the current programmes and policies attempt to adapt the existing system to the declared policy objectives of the "citizen revolution" in which the current government is engaged.

Consequently, the current government's reform attempts have yet to demonstrate measurable and verifiable impacts on the population's well-being, despite the changes introduced in the institutional structure. The new modalities have not been implemented on a mass scale and the initiatives introduced to date have not yet produced the expected advantages in terms of redistribution, efficiency, and the social inclusion of the country's poorest people.

In 2007-2012, there were no structural changes to the explicit programmes adopted in each sector, such as changes in the type, quality, eligibility criteria and delivery mechanism of the social services. Instead, some operating parameters have been adjusted, such as increases in the amount of the benefit (the Human Development Grant, the Housing Grant, and other subsidies) and the

expansion of coverage, and some improvements have been made to the physical infrastructure and facilities for social services, combined with slight modifications in some of the system mechanisms.

While there is no single best model of social protection, the reorientation of the system in Ecuador remains pending. Future changes to the system must take into account the country's economic reality and the sustainability of the budget, as well as the State's past record in introducing fundamental changes to its mode of action.

The expansion of coverage achieved in the Ecuadorian social protection system, and the improvements in its infrastructure and facilities, have been financed with vast financial resources from irregular, temporary sources, which calls into question the sustainability of current policies and programmes. The authorities must address this issue in the short term, so as not to suffer setbacks in this area.

What is needed is an ingenious design that succeeds in establishing a balance between budgetary stability and the use of existing State capacities, between the cost of the services and the results and impacts achieved, and precipitating a renovation that promotes the social policy contribution of all non-public actors. While the changes should strengthen the State's role as regulator and supplier, they should not reduce the contributory role of the private sector *privado* and other actors, for ideological reasons alone.

The majority of the decentralized entities, non-governmental organizations and community groups have demonstrated an effective management capacity. The success of the modalities in the new social protection matrix will therefore depend on effectively combining regulation, delivery and responsible, sustainable public financing, with the development of non-public capacities.

The system also needs to incorporate elements that reinforce the dynamics of citizen involvement, such as the establishment of basic rules of transparency, the promotion of accountability on the part of the entities that implement public interventions and the strengthening of consumer protection agencies in specific markets.

In sum, the participation of diverse actors complements and reinforces the current functions of the State in terms of making them sustainable and improving their capacity to effectively address the underlying social risks of the Ecuadorian population. It is therefore necessary to open a critical debate, technically founded on the effects of the policies applied in the six years that the current government has been in power, of "good living" as a government objective, together with a constructive discussion of the changes that should accompany the new mode of action in this sector, for the new government term of 2013-2017.

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This report is part of a series of national case studies aimed at disseminating knowledge on the current status of social protection systems in Latin American and Caribbean countries, and at discussing their main challenges in terms of realizing the economic and social rights of the population and achieving key development goals, such as combating poverty and hunger.

Social protection has emerged in recent years as a key concept which seeks to integrate a variety of measures for building fairer and more inclusive societies, and guaranteeing a minimum standard of living for all. In particular, social protection is seen a fundamental mechanism for contributing to the full realization of the economic and social rights of the population—to social security, labour, the protection of adequate standards of living for individuals and families, as well as the enjoyment of greater physical and mental health and education.

Albeit with some differences due to their history and degree of economic development, many Latin American and Caribbean countries are at now the forefront of efforts to establish these guarantees by implementing various types of transfers, including conditional cash transfer programmes and social pensions, and expanding health protection. One of the key challenges that the countries of the region face, however, is integrating the various initiatives within social protection systems capable of coordinating the different programmes and State institutions responsible for designing, financing, implementing, regulating, monitoring and evaluating programmes, with a view to achieving positive impacts on living conditions.



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