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For consistency, as part of the Capital Project activities, we asked five young consultants in the countries where the program is implemented (Peru, Ecuador, Colombia, Chile and Mexico) to carry out assessments of four areas: poverty and social policies; conditioned transfer programs; the relationship between conditioned transfer programs and the financial system; and characteristics of the financial system in relation to the savings of the poor.

COUNTRY ASSESSMENT: ECUADOR*

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CURRENT STATE OF POVERTY IN ECUADOR

Ecuador has a total population of 13,9 million. Real per-capita GDP is US\$1 671 per year, and 35 percent of the population lives in poverty, as measured by income.

Progress has been made during this decade in price stability, sustained growth and poverty reduction, thanks to the fiscal stability that followed the adoption of the US dollar as national currency in 2000.

Nevertheless, a breakdown by natural regions and urban-rural areas shows significant income gaps. Since the crisis of 2007-2008, there has been a worrisome trend: real income, which grew by 67 percent between 2000 and 2006, decreased by 20 percent

between 2006 and 2008. Between January and May 2008, the accumulated average inflation rate more than doubled, from 4,19 percent to 9,29 percent.

SOCIAL POLICIES FOR COMBATING POVERTY

The System for Identification and Selection of Beneficiaries (*Sistema de Identificación y Selección de Beneficiarios, SELBEN*) is part of the Ministry of Social Development Coordination. It targets social programs, allowing fair distribution of government resources by identifying beneficiaries, based on a survey aiming at evaluating the families' socio-economic

* The complete document is available at The Capital Project web page: http://proyectocapital.org/index.php?fp_verpub=true&idpub=115



conomic situation. Depending on their score, households are placed in one of five quintile groups according to the SELBEN index, where Quintile 1 is the poorest.

Therefore, all social programs use SELBEN results as a reference and/or tool able for targeting possible beneficiaries of assistance programs.

Ecuador has implemented the following social programs:

1) NUTRITION PROGRAM “FEED YOURSELF, ECUADOR” (ALIMENTATE ECUADOR):

A food and nutrition program implemented by the Ministry of Economic and Social Inclusion, targeting low-income senior citizens, people with disabilities, and children between ages 2 and 5. Their goal is to reduce malnutrition among the population in SELBEN Quintiles 1 and 2. The program is based on the concept of food security, and complements the Social Protection Program (PPS), which provides targeted in-kind transfers. There were 266 000 beneficiaries in 2007, and 305 000 were estimated for 2008.

2) SCHOOL FOOD PROGRAM:

This Ecuadorian government program provides food to low-income students between ages 5 and 14 in state, municipal and special primary schools. The program works in two ways, providing school breakfast and lunch. The goal is to improve academic performance and learning nationwide. The program currently involves 15 203 schools and 1 369 350 beneficiaries.

CONDITIONED CASH TRANSFER PROGRAMS IN ECUADOR

The Social Protection Program (*Programa de Protección Social, PPS*) assists vulnerable sectors in Ecuador through a targeted Conditioned Cash Transfer program (CCT) to guarantee the rights of those in the lowest quintiles, particularly households headed by women in which there are children and minor adolescents; senior citizens; and people with disabilities. The PPS also provides training and associated loans for beneficiaries.

The PPS has the following characteristics:

- i) It is the only CCT program in Ecuador, and has reached 1,2 million households in income quintiles 1 and 2, covering 45 percent of the country’s households.
- ii) Its main program is the Human Development Voucher (Bono de Desarrollo Humano, BDH).
- iii) BDH delivers transfers through the private banking network (*Banred*) and, to a lesser extent, through the National Development Bank (*Banco Nacional de Fomento*). Each beneficiary or the legally designated representative makes the withdrawal in person every month.
- iv) All households in the poorest two quintiles, according to the SELBEN index, receive US\$30 a month.
- v) The BDH is a conditioned transfer, and households must meet education and health care commitments:
 - * in education, children between ages 6 and 16 must be enrolled in school

and attend regularly, at least an 80 percent attendance rate.

- * in health, children under age 1 must have regular growth and development checkups and vaccinations, and children between one and five, preventive checkups.

In September 2008, the BDH had 1 305 876 beneficiaries. According to official figures, 17 percent lived in rural areas and 83 percent, in urban areas. However, the geographic targeting is being reviewed since it is estimated that nationwide, 60 percent of Ecuador's poor population (as measured by consumption) lives in rural areas.

The PPS and BDH have broad coverage and a positive impact. In the future it would be important to compare the situations of those selected as beneficiaries of the BDH and those who were not.

RELATIONSHIP BETWEEN THE SOCIAL PROTECTION PROGRAM AND HUMAN DEVELOPMENT VOUCHER AND THE ECUADORIAN FINANCIAL SYSTEM

In terms of payment mechanisms, the PPS and BDH have established a relationship with the private financial system, which has steadily developed, including the offering of new options and financial products to reduce delivery costs and direct and indirect transaction costs.

BDH payments are made through Banred, which provides solutions and integrates services for the private and public sectors. For the PPS, it specializes in processing of financial transactions, compensation for charges and payments, exchange of information, and providing secondary support through its own te-

leprocessing network, reducing costs through economies of scale. This is possible thanks to the scope of the program and the leveraging of formerly sunk costs. Financial institutions paying the BDH include banks, cooperatives, and savings and loans funds.

The PPS currently has relationships with the financial and micro-finance system to promote the use of their services. These include the Productive Solidarity Loan (*Crédito Productivo Solidarios*) program, aimed at boosting the beneficiaries' income by incorporating them into sustainable microenterprise production systems, promoting self-employment and allowing the gradual increase of family income. This program offers two lines of microcredit: the Human Development Loan (*Crédito de Desarrollo Humano*) and the Productive Solidarity Loan.

It also offers training in civil rights, microenterprise management and productive development, especially aimed at women beneficiaries of the BDH.

Finally, the Ecuadorian government is promoting the automated payment, based on the platform of PPS services.

"OPPORTUNITIES" FOR THE USE OF SAVINGS ACCOUNTS BY THE POOREST SEGMENTS OF THE ECUADORIAN POPULATION

To approve an application to open a savings account, the bank must verify that the person has not been sanctioned by another bank for the closure, suspension or cancellation of an account for misuse. This is viable, thanks to the interconnected systems, cover urban and rural areas. By law, institutions must also verify the applicant's identity, solvency, honesty and background. This system is used when



opening savings and checking accounts.

The applicant, meanwhile, must present the following information: i) identity card, ii) voter's card, iii) address, iv) declaration of the licit origin of funds to be deposited, and v) agreement that the bank can block funds in the case of bad checks.

Low-income Ecuadorians, however, face certain restrictions related to savings. The financial system has established the minimum amount for opening an account equivalent to the minimum wage of US\$ 200. It should be noted that while the minimum wage in 2008 was US\$ 200, the basic basket of goods for a family cost about US\$ 500.

Given this limitation, the National Development Bank (Banco Nacional de Fomento) and other public banking institutions in Ecuador are trying to encourage low-income people to save. This was reinforced by the 2008 Constitution, which provides differentiated, preferential treatment for initiatives by

the grassroots or solidarity financial sector, encouraging development of the grassroots economy and economy of solidarity. The State is planning to promote equitable access to factors of production, promoting financial services and more democratic access to credit.

At both the legal and institutional levels, therefore, opportunities exist for people in the poorest sectors to open a savings account.

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