

ESS Extension of Social Security

The *Bono Solidario* in Ecuador: An exercise in targeting

Mario D. Velásquez Pinto

ESS Paper N° 17

**Social Security Policy and Development Branch
International Labour Office**

Copyright © International Labour Organization 2003

First published 2003

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Bureau (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered in the United Kingdom with the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP [Fax: (+44) (0)20 7631 5500; email: cla@cla.co.uk], in the United States with the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923 [Fax: (+1) (978) 750 4470; email: info@copyright.com] or in other countries with associated Reproduction Rights Organizations, may make photocopies in accordance with the licences issued to them for this purpose.

ILO / Mario D. Velásquez Pinto

The Bono Solidario in Ecuador: An exercise in targeting. ESS Paper No. 17.
Geneva, International Labour Office, 2003

Social protection, social security reform, target group, Ecuador
02.03.1

ISBN 92-2-113436-9

ISSN 1020-958: *Extension of Social Security (ESS) Paper series*

Also available in PDF format, ISBN 92-2-113437-7, ISSN 1020-959X.

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, by email: pubvente@ilo.org or website <http://www.ilo.org/publms>

Visit also the Extension of Social Security website: <http://www.ilo.org/public/english/socsec/pol>

Printed in Geneva

Contents

- Executive summary iv
- 1 Economic trends of the nineties 1
- 2 Characteristics of the *Bono Solidario* 3
 - 2.1 Beneficiaries and benefits 4
 - 2.2 Institutional and operational framework 6
 - 2.3 Targeting 6
- 3 Criteria for a proposed redesign of the *Bono Solidario* 9
 - 3.1 Improved targeting 9
 - 3.1.1 Updated and broadly disseminated information 9
 - 3.1.2 Correction of errors of leakage 10
 - 3.1.3 Inclusion of the poor and indigent in rural areas 10
 - 3.2 Linkage of the *Bono Solidario* to other complementary programmes 11
 - 3.2.1 The *Bono Solidario* and Health and Child Care 12
 - 3.2.2 The *Bono Solidario* and Education 12
 - 3.2.3 The *Bono Solidario* and Job Training 12
 - 3.2.4 The *Bono Solidario* and Microcredit 14
 - 3.2.5 Operation of the Microcredit Bonus 15
 - 3.2.6 Operational Design of the Programme 15
 - 3.3 Estimated cost of proposed measures 16
 - 3.3.1 Cost of optimal targeting 16
 - 3.3.2 Cost of administrative changes 17
 - 3.3.3 Cost of job training and increase in *Bono Solidario* 18
 - 3.3.4 Cost of Microcredit Bonus 18
- 4 Main conclusions 20
- 5 Bibliography 21
- ESS Papers already published 22

Executive summary

The goal of social protection systems is to promote equal opportunities by granting benefits to the vulnerable segments of society who lack access to basic goods and services. This is an ongoing function, since the risk of marginalization and exclusion is always present, and may even increase during economic crises.

These systems must ensure that situations of temporary poverty do not become permanent, thereby avoiding losses of human and material capital. They must also guarantee a basic level of consumption to the poor and indigent, while at the same time ensuring that these segments of the population are targeted by programmes and policies aimed at changing their living conditions in the long term.

In 1999, the budget items “Total Social Spending”, “Solidarity Fund” and “Other Specific Programmes” together accounted for 6.2 per cent of the country’s GDP. The social protection programme (excluding social security) accounted for 29 per cent of social spending in the same year. The *Bono Solidario* (the Programme), which absorbed two-thirds of the resources allocated to the country’s social protection programme, is a vast social programme that provides direct cash transfers to the population and functions as a large-scale social spending mechanism.

It is precisely because of the large volume of resources it commands — within the context of severe restrictions such as that found in Ecuador — that the design and effects of the *Bono Solidario* deserve attention. While it was initially conceived as a means to compensate for higher prices following the withdrawal of a number of subsidies, it has been maintained in order to offset the scarcity of resources that has accompanied the spread of poverty.

This report¹ has sought to identify the main problems presented by the *Bono Solidario* and some possible areas for its redesign. The results obtained, although preliminary and subject to empirical comparison, suggest that it is possible to improve efficiency by developing mechanisms to target those persons whom the Programme itself has defined as eligible. In effect, optimal targeting would bring current costs down by one-third.

It would also be possible to link the payment of this cash transfer to complementary programmes specifically designed to assist current beneficiaries in developing productive activities. Through job training and the establishment of a microcredit arrangement, the idea would be to link short-term needs to the challenge of creating the necessary conditions for overcoming poverty in the medium term.

In short, the exercise proposed in this report suggests that the foregoing may be possible, and that greater efficiency in targeting goes hand-in-hand with the implementation, over time, of measures aimed at supporting beneficiaries in efforts to overcome their current status of poverty. The possibility exists that both prongs of the proposal could imply costs no higher than the current ones, since ultimately they would involve reallocating existing resources.

¹ This document is based on work performed by the author as a member of the ILO Mission authorized by the Government of Ecuador with designing proposals for a new employment policy in 2000. The information has been updated, thanks to the invaluable cooperation of Mr. Mauricio León, Advisor for the Integrated System of Social Indicators of Ecuador [*Sistema Integrado de Indicadores Sociales del Ecuador (g)*].

The first section of the report provides information on Ecuador's economic trends over the past few years. The second section presents background information describing the *Bono Solidario*, with particular attention to aspects of targeting. The proposed criteria for redesigning the *Bono Solidario*, as well as the estimated cost entailed by the application of these criteria, are presented in the third section. The final section sets forth the main conclusions of the report.

1 Economic trends of the nineties

Following a period of recession in the 1980s, the Ecuadorian economy embarked upon a process of economic recovery between 1992 and 1997 that included the introduction of structural reforms aimed at strengthening market mechanisms in terms of resource allocation, and reducing State intervention. This led to the liberalization of the country's foreign trade, capital account and financial market and to the adoption of restrictive fiscal and monetary policies. At the same time, an anti-inflationary policy tied to the nominal exchange rate within currency bands was introduced.

The structural reforms and the anti-inflationary programme contributed to a relative price structure — providing little incentive to the production of internationally tradable goods and services — thereby weakening the economy's competitiveness. Added to this were the effects of the restrictive monetary and fiscal policy, which left no room for the adoption of policies aimed at reviving domestic demand.

Thus, the main long-term result of this relative price structure was a new type of growth. It was led by the primary sectors with high rates of return owing to their advantages in terms of productivity and to the use of technologies favouring capital-intensive production — specifically, the traditional agriculture and petroleum sectors. At the same time, the manufacturing sector — the main source of employment and producer of tradable goods and services — declined.

Between 1990 and 1997, the mean annual growth rate of employment was less than that registered for the work force: 4.0 per cent and 4.5 per cent, respectively. In addition, if one considers that the average annual growth rate of GDP for this same period was 3.2 per cent, then it may be concluded that there was no growth in productivity for the economy as a whole.

The growth led by the exporting primary sectors was influenced not only by effective demand in foreign markets¹, but also by the growing availability of international financial capital that allowed domestic credit to expand to an average annual rate of 23.8 per cent. However, since 1998 onwards, the latter has slowed owing to a halt in foreign capital inflows, which has translated into the short-term external indebtedness of the country's domestic banking sector.

Between 1998 and 1999, three factors conspired against the recovery led by the primary sectors, provoking the worst economic crisis in modern Ecuadorian history. These were: the *El Niño* phenomenon, which caused widespread damage in agriculture and infrastructure; the sizeable drop in the price of petroleum, which increased fiscal and foreign deficits; and, the international financial crisis, which resulted in the interruption of private foreign financing. This was accompanied by a collapse of exchange rates and monetary management, which, in turn, resulted in an unprecedented banking crisis.

Subsequently, the growth rate of GDP dropped to 0.4 per cent in 1998 and fell into negative figures in 1999, plummeting to a depth of -7.3 per cent. As a result, the unemployment rate climbed to 14.4 per cent, despite the considerable flow of emigration provoked by the crisis.

¹ Imports from the United States of America (USA) increased, in real terms, to an average annual rate of 10.6 per cent during the period 1991-1997 and Ecuador's exports — both traditional and non-traditional — increased by 10.8 per cent.

These internal and external imbalances, together with the interruption of foreign financing, led to the replacement of the currency bands with a managed flotation regime as a result of strong devaluatory pressures. The result was a devaluation-inflation spiral, which bordered on hyperinflation. The nominal exchange rate rose from an average of 2,152 *suces* during the period 1990-1997 to 5,447 *suces* in 1998 and to 11,895 *suces* in 1999, whereas the inflation rate climbed from 30.7 per cent in 1997 to 43.4 per cent in 1998, reaching as high as 60.7 per cent in 1999.

The repeated devaluations were one of the causes of the worst banking crises ever experienced in Ecuador. With the interruption of foreign financing and the negative shock to the commodities market provoked by the international crisis, the chain of payments broke down. This situation was exacerbated by repeated devaluations — owing to the dollarization of credit operations throughout the banking portfolio — and generated pressure to raise interest rates, which made credit more expensive. High interest rates and continuous devaluations led to higher rates of default, resulting in the illiquidity and insolvency of the banks.

The devaluation that took place towards the end of 1999 came before the decision taken by the Ecuadorian Government in March 2000 to adopt the dollar as the country's currency. Adoption of the dollar was announced on 9 January 2000 and on 13 March 2000 trading began at the rate of US \$1 for 25,000 *suces*. Finally, with no further movements in the exchange rate, as of 9 January 2001, the *sucre* was laid to rest. For its part, per capita GDP registered a zero growth rate.

Along with total dollarization the exchange rate stabilized, generating a process in which interest and inflation rates approached international levels. In addition, fiscal discipline was imposed since, when faced with the inability to issue money, the Government was obliged to finance its deficits either from taxes and/or foreign loans. Given these conditions, government expenditures are expected to be of higher quality and more socially efficient.

The economic downturn has affected the population as a whole, but especially those in low-income brackets. It has brought poverty also to those who had expected to improve their standard of living. The recent measurement of the nation's poverty, on the basis of household consumption, shows that in 1999 poverty was 1.6 times greater than in 1995. The percentage of the population living in households whose level of consumption is lower than the value of the poverty line rose from some 34 per cent in 1995 to 56 per cent in 1999. The incidence of extreme poverty or indigence also rose significantly: between 1995 and 1999, it increased from 11.8 per cent to 21 per cent in the country as a whole.

For its part, the poverty gap — a measurement of the deficit consumption of the poor — increased from 11.2 per cent to 21.7 per cent between 1995 and 1999. This implies that whereas in 1995 the aggregate consumption deficit of the poor population represented 4 per cent of GDP, in 1999 this figure doubled.

Table 1. The poverty trend (in percentage)

	Incidence				Gap			
	1995	1998	Oct. 98- Mar. 99	Apr. - Sep. 99	1995	1998	Oct. 98- Mar. 99	Apr.- Sep. 99
National	33.9	46.4	46.7	55.9	11.2	17.5	17.2	21.7
Urban	19.0	30.2	31.8	42.0	5.0	9.2	9.5	12.8
Rural	55.6	68.8	68.0	76.6	20.2	29.0	28.1	34.9
Trend of extreme poverty								
National	11.8	16.8	16.0	21.0	3.2	4.8	4.5	6.4
Urban	4.3	7.0	7.0	9.0	0.9	1.6	1.3	2.0
Rural	22.7	30.2	28.0	38.0	6.4	9.2	9.1	12.9

Source: Integrated System of Social Indicators of Ecuador (SIISE) on the basis of data provided by the National Institute of Statistics and Census (INEC)/Living Conditions Survey (ECV).

In the context of dollarization, as is now the case in Ecuador, there is less margin for influencing domestic demand through the use of macroeconomic policy, since local business cycles do not necessarily coincide with those of the United States (US) economy. Contractive monetary policies in the latter may have a negative impact if the Ecuadorian economy is in recession. Moreover, monetary authorities lose the option of using the exchange rate to stimulate or to protect the economy's competitiveness with respect to its trading partners, leaving them no other choice but to turn to policies that reduce unit costs in the production of tradable goods and services. Thirdly, total dollarization does not prevent an overall loss of competitiveness, regardless of whatever cost-cutting measures may have been taken domestically, if neighbouring countries or their major trading partners devalue their currency. Lastly, total dollarization does not eliminate the possibility of banking crises in response to international financial shocks.

Hence, although dollarization minimizes inflation as one of the transmission mechanisms of crises, it increases vulnerability with respect to external shocks through adjustments in the real sector of the economy. Given such a context, a discussion concerning social policy and the function of income transfers takes on special relevance, either as mechanisms of social compensation or as structural instruments in the battle against poverty.

2 Characteristics of the *Bono Solidario*²

The goal of social protection systems is to promote equal opportunities by granting benefits to the vulnerable segments of the population who lack access to basic goods and services. This is an ongoing function since the risk of marginalization and exclusion is always present, and may even increase during economic crises.

These systems must ensure that situations of temporary poverty do not become permanent, thereby avoiding losses of human and material capital. They must also guarantee the

² See ILO (2001).

poor and the indigent a basic level of consumption, while at the same time ensuring that these segments of the population are targeted by programmes and policies aimed at changing their living conditions in the long term.

Table 2. Public social expenditure in Ecuador

Sector	1999	2000	1999	2000	1999	2000
	Millions of US\$		Per cent of GDP		Per cent of total	
Education	360.2	292.1	2.6	2.1	51.0	45.2
Social welfare	68.7	78.0	0.5	0.6	9.7	12.1
Labour	2.7	3.4	0.0	0.0	0.4	0.5
Health	102.4	109.4	0.7	0.8	14.5	16.9
Housing	7.9	35.4	0.1	0.3	1.1	5.5
<i>Bono Solidario</i>	163.8	127.6	1.2	0.9	23.2	19.8
Total	705.7	645.9	5.1	4.7	100.0	100.0

Source: Ministry of the Economy – Unicef.

The *Bono Solidario* (the Programme) is financed from the fiscal revenue of the state budget. In 1999, the annual cost was US\$ 163.8 million — equivalent to 1.2 per cent of the GDP for that year. In 2000, the size of the Programme relative to GDP fell to 0.9 per cent. Nevertheless, it remains the Government's second largest category of social expenditure.

2.1 Beneficiaries and benefits

The *Bono Solidario* Programme was introduced simultaneously throughout the country in September 1998 with an unspecified termination date. The original design objective of the Programme consisted in replacing generalized subsidies for electricity, gas for domestic use and gasoline with a direct cash subsidy to the poor.

Currently, the Programme covers 1,335,048 beneficiaries, of whom 80.7 per cent are mothers, 18.7 per cent are elderly persons and 0.6 per cent are disabled persons. The total number of beneficiaries represents approximately 1,150,000 households, which in turn constitute nearly 45 per cent of the households in Ecuador.

At its inception, the benefits awarded by the Programme were in the amount of US\$15.10 per month (equivalent to 43.7 per cent of the poverty line figure) for each beneficiary mother and \$7.60 per month (some 22 per cent of the poverty-line figure) for each elderly beneficiary. The benefit was not adjusted automatically for inflation, although various nominal increments were decreed subsequently to compensate for losses in purchasing power, as may be observed in Table 4.

These increments have not been sufficient to maintain the value of the transfer in dollars. In fact, in early 2001, mothers were receiving \$11.50 per month, whereas elderly and disabled persons were receiving \$7.00. These figures correspond respectively to 24 per cent and 8 per cent less than at the inception of the Programme.

As regards the purchasing power of the *Bono Solidario* in constant *suces*, the April 1999 increase enhanced the purchasing power of the transfers with respect to initial levels. However, the subsequent surge in inflation caused a drastic deterioration in the real value of the transfers, which, thanks to a second increment in June 2000, were able to recover once more.

Table 3. Beneficiaries and *Bono Solidario* amounts

Beneficiaries	Monthly benefit (in US\$, January 2001)	Beneficiaries (No. of persons)
Group I Mothers with household incomes of less than one million <i>suces</i> (equivalent to US\$40 per month), without a fixed income and with at least one child under age 18, provided that neither they, nor their spouses, if applicable, receive a fixed wage, nor are affiliated with the IESS.	11.5	1,077,540
Group II Elderly persons (older than 65 years of age), male or female, whose household incomes are less than one million <i>suces</i> (equivalent to US\$40) and who do not receive a fixed wage.	7.0	249,585
Group III Disabled persons between the ages of 18 and 65 with at least a 70 per cent degree of disability. This segment of the population was included beginning in April 1999.	7.0	7,923

Source: National Banking Network (BANRED), August 2000.

Table 4. Value of *Bono Solidario* transfers

	Oct. 98	Apr. 99	Jun. 00	Jan. 01
Current suces per month				
Mothers	100,000	150,000	262,500	287,500
Elderly persons	50,000	75,000	150,000	175,000
Disabled persons		75,000	150,000	175,000
Constant suces per month (in suces of January 1999)				
Mothers	100,000	121,973	102,060	90,355
Elderly persons	50,000	60,987	58,320	54,999
Disabled persons		60,987	58,320	54,999
Current US dollars per month				
	Oct. 98	Apr. 99	Jun. 00	Jan. 01
Mothers	15.10	16.00	10.50	11.50
Elderly persons	7.60	8.00	6.00	7.00
Disabled persons	n/a	8.00	6.00	7.00

Source: SIISE and as prepared by author (for constant values).

In early 2001, it was noted that while transfers for elderly and disabled persons presented a real level that was slightly higher, i.e. 2.2 per cent, than that in effect at the beginning of the

Programme, there was a drop of 16.1 per cent in the amount received by beneficiary mothers. This trend seems to suggest a need to adjust the total expenditure, since it involves the most numerous group at a time when new beneficiaries are being accepted into Group III.

2.2 Institutional and operational framework

The institutional framework of the Programme has undergone a number of changes. It was designed and implemented by the National Council for Modernization of the State [*Consejo Nacional de Modernización del Estado* (CONAM)] and was later placed under the responsibility of the Ministry of Finance and Public Credit. In June 2000, the Programme was officially transferred to the Ministry of Social Welfare, although CONAM continues to provide it technical support.

Payment to beneficiaries is immediate and is carried out through the National Banking Network known as BANRED. Beneficiaries may collect their benefits from any bank at any location in the country. The cost of the service provided by the banking system is US\$ 0.38 per transaction, of which \$0.25 goes to the private banks and \$0.13 to BANRED. The annual cost of this service, for the current number of beneficiaries registered with BANRED, amounts to some \$6.1 million. The cost of the administrative staff assigned to the Programme is about \$100,000 per year; thus administrative costs represent about 4 per cent of the total value of transfers made to beneficiaries.

The ability of the Programme to respond to crises is immediate, in terms of the expediency with which benefits or increases made to them can be distributed to current beneficiaries. However, the Programme has not been flexible in terms of broadening its coverage. Any inclusion of new beneficiaries has implied the exclusion of current beneficiaries who are ineligible, as determined by indirect controls, such as electricity consumption, possession of a vehicle and social security affiliation.

2.3 Targeting

Targeting was achieved through a self-selection process in that persons who considered themselves candidates filled out a sworn declaration at Catholic and Evangelical churches — without the requirement that they be members of these churches — containing their personal and socioeconomic data. The churches did not control the quality of the data provided, which was then transferred to BANRED. Again, the information entered into the computerized database was not subjected to sufficient quality controls and it therefore contains major inconsistencies. This database was later cross-referenced with those of the social security administration, the electricity companies, the banks and the transportation administration, in order to exclude persons who held stable jobs, consumed a prescribed amount of electricity, were loan recipients or guarantors, or owned a vehicle.

A number of concepts may be used to evaluate the effectiveness of targeting, such as errors of inclusion, errors of exclusion, undercoverage and leakage (Grosh, 1992). These concepts compare the affiliation or non-affiliation of an individual to a particular programme with his or her eligibility or ineligibility with regard to the same. These concepts were calculated by the Integrated System of Social Indicators of Ecuador [*Sistema Integrado de Indicadores Sociales del Ecuador* (SIISE)], using the data provided by the 1998-99 Living Conditions Survey [*Encuesta de Condiciones de Vida 1998-99* (ECV)], and the eligible population was determined in accordance with legally established criteria.

Table 5. Efficiency of targeting, according to eligibility

Percentage	Eligible	Non-eligible	Total
Receive the <i>Bono Solidario</i>	19.3	33.4	52.7
Do not receive the <i>Bono Solidario</i>	17.9	29.5	47.3
Total	37.2	62.9	100.0
Number of persons			
Receive the <i>Bono Solidario</i>	488,926	846,121	1,335,048
Do not receive the <i>Bono Solidario</i>	453,460	747,323	1,198,250
Total	942,387	1,593,444	2,533,298
Errors (in percentage)			
Errors of inclusion (% total)			33.4
Errors of exclusion (% total)			17.9
Errors of undercoverage (% eligible persons)			48.1
Errors of leakage (% receiving the <i>Bono Solidario</i>)			63.4

Source: SIISE on the basis of data provided by INEC, 1999 Living Conditions Survey [Encuesta de Condiciones de Vida 1999].

Table 5 shows errors of exclusion to be 17.9 percent, while errors of inclusion are 33.4 per cent. Likewise, errors of undercoverage and leakage are 48.1 per cent and 63.4 per cent, respectively. This implies that nearly one out of every two eligible persons does not receive the benefit, whereas six out of every ten persons who receive the benefit are not eligible.

The number of reported errors is clearly quite significant, implying that gains in efficiency may be obtained if problems related to the targeting of beneficiaries are addressed. However, the criterion used to evaluate the efficiency of the Programme is equally important. In effect, if the criterion used to measure the efficiency of targeting is that of “poverty based on consumption”³, the results obtained vary sharply with respect to the eligibility criterion based on family income. Using this criterion, errors of exclusion amount to 21.2 per cent and those of inclusion to 18.3 per cent, while errors of undercoverage and leakage are 38.1 per cent and 34.6 per cent, respectively.

Despite the problems in targeting described in Table 6, transfers arising from the *Bono Solidario* represent 10 per cent of the total income of the poorest quintile of Ecuadorian households and only 0.1 per cent of the total income of the richest quintile. These findings emphasize the importance of this Programme as a mechanism of redistribution, although it cannot be seen directly as an indicator of the *Bono Solidario*'s impact on poverty or on income distribution. This would assume that its beneficiaries do not alter their socioeconomic behaviour in response to the cash transfer.

³ The criterion of “poverty based on consumption” implies poverty lines that are defined in terms of households’ nutritional caloric intake.

Table 6. Bono Solidario beneficiaries (according to poverty status)

Number	Elderly persons	Mothers	Total
Indigents	33,728	214,571	248,299
Non-indigent poor	71,633	407,455	479,089
Non-poor	78,735	306,620	385,355
Total	184,097	928,646	1,112,743
Per cent	Elderly persons	Mothers	Total
Indigents	18.3%	23.1%	22.3%
Non-indigent poor	38.9%	43.9%	43.1%
Non-poor	42.8%	33.0%	34.6%
Total	100.0%	100.0%	100.0%

Source: SIISE on the basis of data provided by INEC, 1999 Living Conditions Survey [*Encuesta de condiciones de Vida 1999*].

Table 7. Relative shares of household income (in percentage)

Poverty quintiles according to per capita income	Employment income	Bono Solidario	Other	Total
20% poorest	65.3	9.9	24.7	100.0
2 nd quintile	78.4	5.2	16.3	100.0
3 rd quintile	82.1	2.9	15.1	100.0
4 th quintile	84.4	1.1	14.6	100.0
20 richest	80.7	0.1	19.2	100.0
Total	80.7	1.6	17.7	100.0

Source: SIISE on the basis of INEC, Living conditions survey 1999 [*Encuesta de condiciones de vida 1999*].

In order to evaluate the Programme's impact on economic efficiency, its effect on job seeking or on the number of hours worked must be identified. The *Bono Solidario* may also have the effect of reducing private transfers (from friends, relatives or others) received by individuals prior to becoming beneficiaries. Lastly, applying the criterion of rejection from the Programme on the basis of social security affiliation could dissuade a number of current or potential beneficiaries from joining the social security scheme.

Lastly, the Programme is *urban biased*, owing mainly to the concentration of banking outlets in the cities, as well as to a lack of identification papers among the rural population. Consequently, high transaction costs are incurred for beneficiaries in these areas. For this reason, recent efforts have been made to reduce the waiting time for collection of the benefit through the implementation of a payment calendar.

3 Criteria for a proposed redesign of the *Bono Solidario*⁴

Although the Programme was initially designed as temporary, it has acquired a more permanent character as a result of the shortcomings of mechanisms available to provide for persons who lose their jobs and to provide cash benefits to retired persons from poor families. This suggests that the optimal solutions to be implemented in the medium term would consist, first of all, in strengthening a protection scheme for dismissed workers (applicable primarily to wage earners) that would guarantee relevant cash benefits for such contingencies and promote their re-entry into the job market. Secondly, they would include an efficient cash transfer mechanism designed to specifically target poor segments of the population and to minimize undesirable behaviours. Lastly, they would include a social security-sponsored pension system to guarantee an income to persons reaching the end of their working life.

The widespread coverage of the *Bono Solidario* (which reaches approximately 44 per cent of Ecuadorian households and constitutes the largest share of social protection spending), together with the identified biases of undercoverage and leakage, tend to make management of the government budget, as far as social protection is concerned, less flexible and to generate obvious inefficiencies. Furthermore, past experience has shown that the Programme does not produce in return a significant impact on the resolution of poverty problems⁵ and there is no evidence that it induces behaviours aimed at reintegrating the beneficiary population into the labour force.

Consequently, in the short term, the proposal aims to improve the Programme's responsiveness to the deterioration in people's living conditions and, at the same time, to introduce mechanisms that promote a change to those conditions by encouraging the re-entry of a major percentage of current beneficiaries into the labour market. Thus, the proposal seeks to establish a complementary relationship between this cash transfer programme and others aimed at reducing chronic poverty, with the understanding that one cannot expect to overcome poverty solely on the basis of cash transfers — not even those that are well-targeted. In the medium term, an effective and comprehensive solution requires modernizing the country's social security institutions.

3.1 Improved targeting

There are three main aspects to consider in order to more precisely target the *Bono Solidario*. These include:

3.1.1 Updated and broadly disseminated information

Currently, there is a need for an integrated system providing updated information on potential beneficiaries of the social programmes. In order to respond to this need, a uniform system of socioeconomic profiling is being developed. It will include a reorientation of geographical targeting from the cantonal to the district level and will utilize a census method, starting with the poorest cantons. The system will also be designed to include a social welfare index based on an *economic profile card*, which is modelled after the Colombian System of

⁴ This is a preliminary exercise devised by the author; consequently, it does not necessarily reflect the views of the Government.

⁵ According to Parandekar (1999) the impact of the *Bono Solidario* on the reduction of poverty is one percentage point.

Beneficiaries Selection for Social Programmes (SISBEN) and the Chilean CAS card (Socio-economic characteristics form) and whose purpose is to implement a system of individual identification for social programme beneficiaries.

Consequently, although the use of this new system will improve the efficiency of social protection policies as a whole, it is nevertheless considered necessary that the *economic profile card* include other variables that enable an assessment to be made of the employment and income situation of those concerned.

Despite the fact that the implementation of the *economic profile card* is not, strictly speaking, a targeting mechanism, it remains an important source of information for improving efficiency. Its use would enable the establishment of a more flexible and less costly procedure than that based on a household census in poor areas, if operated on the basis of beneficiary registrations (as is the case with the *Bono Solidario*). The reliability of the data could be checked by visits to a sampling of randomly selected households.

3.1.2 Correction of errors of leakage

Proper functioning requires that the current beneficiary database be updated continually; however, in the medium term, new mechanisms for re-examining the eligibility of beneficiaries — such as those already mentioned — may be introduced. This updating process would also be useful in the provision of other social benefits. In actuality, BANRED is already performing such a function on a monthly basis, since it must maintain firm control over its data in order to avoid payment duplications. At the same time it monitors the *Bono Solidario* payments made by each bank in order to authorize the corresponding disbursements.

In addition, it seems reasonable to invest in developing a closer interface between the *Bono Solidario*'s database and the banking sector as a whole, as well as with enterprises providing energy services to homes and social security institutions granting contributory benefits. The goal of these efforts would be to maintain online information and to ensure, through BANRED, that all institutions participating in the network maintain updated exception codes; i.e. the reasons why an individual may no longer be considered a beneficiary.

Along these same lines, it would be necessary to include an additional field for the purpose of recalculating benefits. This would apply, for example, to cases in which minor children reach age 18, or those in which mothers reach age 65 and must be transferred to the second level of benefit. It would also apply to special situations in which the beneficiary is exempted from one or more disqualification criteria; for example, in the case of a mother with a disabled child.

3.1.3 Inclusion of the poor and indigent in rural areas

The *Bono Solidario* Programme has a high level of excessive coverage in urban areas, while failing to serve a large share of the eligible population in rural areas⁶. In this connection, the existing alternative, which allows beneficiaries to accumulate four months worth of payments for convenience of collection, aims at reducing transaction costs and improving the dispersed rural population's access to the Programme. Nevertheless, this is only a partial solution since it

⁶ Programme beneficiaries represent 41 per cent and 59 per cent of the reference population (mothers with children under 18 and elderly persons older than 65) in rural and urban areas, respectively.

limits beneficiaries' opportunities by deferring their payments over time. One alternative to consider is that of implementing a payment system in isolated areas using mobile banks with online connections to the service delivery network.

Lastly, for purposes of properly monitoring benefit awards, it should be specified in the regulations that beneficiaries are to be issued a receipt along with payment of the benefit in order to discourage the application of discounts and other illicit practices at the moment of collection.

3.2 Linkage of the *Bono Solidario* to other complementary programmes

A second type of change in the design of the *Bono Solidario* concerns linking the provision of cash benefits to social protection services. These would be aimed at both conserving and developing children's human capital; supporting the return to work of active members of the current beneficiary population, whether for dependent or own-account work; and guaranteeing an income for economically inactive persons.

The *Bono Solidario's* efficiency in terms of targeting may also be measured by comparing the distribution, by quintiles of per capita consumption, of the Programme's beneficiaries with the distribution of other social programme beneficiaries.

Table 8. Distribution of social programme beneficiaries (by quintiles of per capita consumption) (in percentage)

Quintiles	<i>Bono Solidario</i>	Free breakfast			Social security
		School	Preschool	Rural	General
20 poorest	23.3	49.1	41.2	40.3	5.0
2 nd quintile	26.5	26.6	29.0	29.0	10.9
3 rd quintile	23.0	13.7	16.3	13.6	19.0
4 th quintile	19.2	7.6	8.1	13.8	26.7
20 richest	7.9	3.0	5.4	3.3	38.4
Country	100.0	100.0	100.0	100.0	100.0
Quintiles	Health Care	Public education			Total
		Primary	Secondary	University	
20 poorest	19.7	36.7	15.0	5.9	27.4
2 nd quintile	25.6	29.6	26.5	12.6	27.2
3 rd quintile	20.8	17.3	27.1	21.0	20.6
4 th quintile	20.8	11.6	22.8	31.7	16.7
20 richest	13.1	4.9	8.6	28.8	8.1
Country	100.0	100.0	100.0	100.0	100.0

Source: SIISE, based on data provided by INEC, 1999 Living conditions survey [*Encuesta de condiciones de vida 1999*].

As these figures indicate, 50 per cent of the beneficiaries of the *Bono Solidario* belong to the 40 per-cent-poorest segment of the population and 8 per cent belong to the 20 per-cent-richest. Nevertheless, there are other social programmes such as the Free School Breakfast

[*Desayuno Escolar Gratuito*], the Rural Social Security [*Seguro Social Campesino*] and the Public Primary Education [*Educación Fiscal Primaria*] programmes that demonstrate better targeting of the poor population, so that the linkage of the *Bono Solidario* to these programmes would constitute a positive step towards improving its targeting.

The proposals outlined below are designed to provide cash benefits that help meet short-term lacks, while adopting a compatible medium-term strategy that seeks to change the conditions of poverty typically experienced by current beneficiaries.

3.2.1 The *Bono Solidario* and Health and Child Care

In order to collect the *Bono Solidario*, there would be an additional requirement that Group I beneficiaries (mothers with children) furnish proof that their minor children under age six are benefiting from child-care programmes (through any of the services they provide, such as day-care, food, health care, psychosocial development, preschool education and recreation). Such programmes include: Operation Child Rescue [*Operación Rescate Infantil* (ORI)], The IINFA Child Development Programme [*Programa de Desarrollo Infantil* (PDI) del IINFA], and the National Alternative Preschool Education Programme [*Programa Nacional de Educación Preescolar Alternativa* (PRONEPE)] that provides preschool education for children aged four to six, or other similar programmes operating in the beneficiary's district. This arrangement would enable such programmes, which currently register significant errors of exclusion (meaning the failure of eligible persons to receive benefits), to improve their effectiveness by being able to rely upon an ongoing and effective demand.

3.2.2 The *Bono Solidario* and Education

Beneficiaries with children over age six would have to demonstrate that their children are attending school, either by means of a certificate issued by the educational establishment or by persons responsible for administering the School Collation [*Colación Escolar*] or School Lunch [*Almuerzo Escolar*] programmes, or other similar programmes operating in the beneficiary's district. It should be noted that the implementation of such a measure is in keeping with the objectives of the Working Children Project [*Niños Trabajadores del INNFA*], which is sponsored by the INNFA and aimed at increasing school attendance in children between the ages of 7 and 15 who work, but who do not benefit from school scholarships.

3.2.3 The *Bono Solidario* and Job Training

Slightly more than 80 per cent of current *Bono Solidario* beneficiaries are mothers with children in poor or extremely poor households. The proposal concerning this segment of the population is to offer job-training services — whether for dependent or own-account work — with a view to facilitating their re-entry into the labour market. It should be recalled that this group faces major challenges in terms of joining the labour market, owing to a convergence of adverse factors including low levels of basic education, limited basic labour skills, and domestic and family responsibilities.

The purpose of this programme is to enhance the employability of women, support their entry into the labour market, and improve their technical skills relating to entrepreneurship, thereby reducing the number of poor households.

Table 9. Beneficiaries according to level of education

Level of education	Percentage of total
Primary	67.5
Secondary	27.2
Higher education	5.3
Total	100.0

Source: SIISE.

The following table presents various subgroups. The first group consists of unemployed and economically-inactive women (40.9 per cent); the second corresponds to wage earners (9.4 per cent); the third group consists of own-account workers (24.8 per cent) and the fourth corresponds to non-remunerated domestic workers (23.5 per cent).

Given the characteristics presented, it may be concluded that the appropriate type of training would be based on information concerning job vacancies (these services are very poorly developed in Ecuador); information and job training for wage employment; and, lastly, training for the start-up of productive activities (microenterprises or own-account activities).

Table 10. Female beneficiaries by occupational category

Occupational category	Percentage of total
Economically-inactive and unemployed women	40.9
Wage earners	6.0
Employers	1.4
Own-account workers	24.8
Non-remunerated workers	18.8
Day labourers	3.4
Domestic employees	4.7
Total	100.0

Source: INEC, 1999 Living Conditions Survey [*Encuesta de Condiciones de Vida*, 1999]. Prepared by SIISE.

It is proposed that a programme such as the one described above be structured on the basis of Modular Job Training Programmes [*Programas Modulares de Capacitación para el Trabajo*], which may be defined as follows:

- Level 1 (General): Standardization of Basic Skills. This module would be aimed at complementing basic knowledge for individuals with an incomplete scholastic record, whether at the primary or secondary level.
- Level II (Specific): Dependent Work. This module would aim to complement knowledge and develop general technical skills for persons already engaged in a dependent activity. In addition, it would focus on acquiring proper job-search techniques, such as preparing a personal history for interviews with potential employers.

-
- Level II (Specific): Self-employment or Microenterprises. The purpose of this module would be to complement knowledge in order to develop technical, managerial and marketing skills for groups of female beneficiaries employed in a service activity or in the production of goods for direct commercialization or other modalities.
 - *It is proposed that the following types of requirements and benefits be considered:*
 - Registration and participation in any of the programmes mentioned would be voluntary and free-of-charge for female beneficiaries of the *Bono Solidario*. Each beneficiary would be entitled to an increase in the benefit currently received in the amount of an additional US\$10, plus a Training Coupon worth \$10. Each beneficiary would have the right to register individually in a programme of choice or form a group in order to follow Programme Level II: Self-employment or Microenterprises.
 - This Programme would have an annual limited enrollment equal to 10 per cent of the beneficiaries of Group I, which currently amounts to approximately 107,738 women per year. Each year the Social Welfare Ministry would establish the total number of openings based on the availability of resources. After taking stock of registrations, the training coupons would be distributed for each type of programme and steps taken to identify the yearly demand for training.
 - Training services would be provided by training institutions that register for this purpose with the Social Welfare Ministry, that offer one or more of the programmes mentioned previously and demonstrate that they possess the appropriate physical infrastructure and human resources for performing the functions required. Such institutions would maintain up-to-date registers of female beneficiaries attesting to their attendance and performance and would be able to cash the Training Coupons at any of the banks authorized to pay the *Bono Solidario*. The Secap, with its Service of Professional Training of Ecuador programme [*Capacitación Popular*] could offer its participation, as well.
 - Beneficiaries would be entitled to receive the benefits described, provided they could show proof of their attendance in the programmes beginning at Level I and subsequently moving on to one of the Level II programmes. A record of attendance below 80 per cent, or a grade lower than that established by the training institutions would result in exclusion from the Programme, as well as from the additional cash benefits.
 - With respect to the Level II Programme for Self-Employment or Microenterprises, female beneficiaries could form a group and thereby benefit from a Fund of Training Coupons.

3.2.4 The *Bono Solidario* and Microcredit

The *Bono Solidario* Programme was designed as a direct subsidy to poor persons. In the absence of a component that enables poor families to develop or strengthen income-generating initiatives, it remains only a temporary support offering no possibility for improving the socioeconomic status of beneficiaries.

In addition to the three aspects for the proposed redesign of the *Bono Solidario* (child care, education and job training), a programme could be developed to support these measures through an additional *Microcredit coupon* to back up productive income-generating initiatives.

The introduction of this additional coupon is based on the following principles:

- In the context of the present crisis, income-generating activities by female beneficiaries are an important factor in attenuating its effects. Such initiatives would be adopted at the subsistence level of the microenterprise sector. The subsistence level is characterized by the development of basic informal economic activities in which it is difficult to obtain the necessary margin for – at a minimum – maintaining capital, and in which labour is characterized by very low levels of education and technical qualification.
- Support should be provided for microenterprises and own-account work already undertaken by female beneficiaries. Despite their restrictions, such initiatives would provide a stimulus to local micro-economies and, through access to financial and non-financial promotion programmes, improve their competitiveness and facilitate the interface between the more successful economic activities and other local economies.
- Empirical research into the business development needs of microenterprises shows, without regional or national distinction, that the primary need of the business owner, in terms of support, is access to credit. This also applies to the case—which is not that of Ecuador—in which a broad and diversified supply of microfinancing services is available. This perceived need is usually much more intense than that for technical training and assistance, the demand for which arises only when there is a minimum level of business experience and education.

3.2.5 Operation of the Microcredit Bonus

Women who opt for the *Microcredit Coupon* would be entitled to an additional bonus in the amount of US\$10 to be applied to the creation of a Guarantee Fund, which would provide loans to groups of female microenterprise owners who are beneficiaries of the *Bono Solidario*. The loans would be channelled through second-tier lending agencies [National Financial Corporation (CFN), *Banco de Fomento*, etc.]. The Guarantee Fund would be maintained as such throughout the term of the loan and could be increased through voluntary savings mechanisms.

Some 24.8 per cent of *Bono Solidario* beneficiaries are women with small businesses (own-account workers) who probably would be disposed to initiating or strengthening their productive activities. This translates into a potential group of 267,191 women in the Microcredit Programme.

3.2.6 Operational Design of the Programme

- Identification of the potential beneficiary population.

The inclusion of employment and income variables in the Economic Profile Card used to target the *Bono Solidario* would make it possible to identify the potential beneficiary population.

- Credit intermediation and beneficiary organization.

The recognized microfinance institutions registered with the Microcredit Institutions Network [Red de Instituciones Operadoras de Microcréditos] would be able to access the BANRED database in order to identify potential beneficiaries by region, canton or community and to establish sectors of operation and procedure for the physical location of the programmes aimed at community banks and/or beneficiary groups.

The Microcredit Fund would be set up for a 12-month period and on a one-time-only basis, as a function of the number of female beneficiaries who choose to start up or develop a business. The Fund would be distributed among the various intermediary institutions in direct proportion to the number of female beneficiary groups who qualify.

The institutions would be required to maintain an updated register of the groups organized for these purposes and would set up a specialized unit entrusted with the intermediation of the Fund. The institutions would issue loans to the groups for the development of business initiatives and could charge their clients a commission on the services they provide.

Each institution would be required to maintain in real time the portion of the fund for which it provides intermediation. Failure to do so would result in the commitment of its own capital. Loans granted in excess of the amount assigned to each institution by the Microcredit Fund would be subject to each institution's responsibility and at its own risk.

- Concurrent provision of business development services

The various experiences of the ILO and other cooperation agencies working in the field of micro- and small-enterprise development demonstrate that programmes aimed exclusively at lending financial support are inadequate in terms of their ability to achieve substantial improvements in the productivity, competitiveness and market positioning of enterprises. The (non-financial) business development services have proved to be effective when they are properly oriented towards the overall needs of microenterprises. In the case of female beneficiaries of the Bono Solidario, this type of service could be obtained through the Supplementary Job Training Bono Solidario [Bono Solidario Suplementario de Capacitación Laboral] or through the CFN Training Bonuses [Bonos de Capacitación de la CFN].

3.3 Estimated cost of proposed measures

3.3.1 Cost of optimal targeting

Taking into account the presence of biases in the selection of beneficiaries, it is possible to estimate two of the effects of optimal benefit targeting. One refers to direct costs and the other to beneficiary coverage. The exercise consists of eliminating *errors of leakage* (non-eligible persons who receive the Bono) and undercoverage (eligible persons who do not receive the benefit).

It is assumed that the distribution of beneficiaries is identical in the case of persons who are eligible, but who do not receive the *Bono*. However, persons who are not eligible, but who receive the benefit are believed to fall into Group I and therefore currently receive the higher benefit amount. This is merely an operative assumption that considers there to be a greater probability of leakage in the more numerous group that receives a higher level of benefit.

Table 11 represents the goal of optimal targeting in which the pre-existing errors of inclusion and exclusion have been eliminated. The result would be to reduce the total annual cost of the Programme by 32.9 per cent, which is consistent with the characteristics of the identified biases, since the error of inclusion (or the number of ineligible persons who receive the *Bono Solidario*) is greater than the error of exclusion (or the number of eligible persons who do not receive the *Bono Solidario*). Upon correction of this situation, there would be a cost savings,

since the number of beneficiaries who meet the Programme's eligibility conditions would be reduced by 29.4 per cent with respect to the current level.

It should be noted that the estimated cost of this item would be directly related to whatever arrangements were implemented in terms of improving the Programme's administration and targeting.

Table 11. Effects of targeting in terms of cost and coverage

Cost (in US\$)	Current	With targeting		Variation
Cost for eligible persons who receive the <i>Bono Solidario</i>	62,376,264	120,227,826		
Error of inclusion: Ineligible persons who receive the <i>Bono Solidario</i>	116,764,767	0		
Total cost	179,141,031	120,227,826		-32.9
Error of exclusion: Eligible persons who do not receive the <i>Bono Solidario</i>	57,851,561	0		
Coverage (number of persons)				
Eligible persons who receive <i>Bono Solidario</i>	488,926	942,387	92.7	100
Error of leakage: Non-eligible persons who receive the <i>Bono Solidario</i>	846,121	0	0.0	0.0
Total <i>Bono Solidario</i> recipients	1,335,048	942,387	-29.4	100

Source: Prepared by author.

Table 12. Effects of administrative measures in terms of cost

Components	Current situation	Proposed situation	Variation	
			US \$	
Administrative cost	6,508,170	8,923,433	2,415,263	37.1
<i>Benefit payments</i>	6,508,170	6,508,170		
<i>Updating and interface</i>	0	591,165		
<i>Additional fields</i>	0	197,055		
<i>Mobile banks</i>	0	1,627,042		

Source: Prepared by author.

3.3.2 Cost of administrative changes

The cost of the following items has been estimated as a percentage of the benefit paid: a) database update and interface: 0.3 per cent; b) inclusion of additional fields: 0.1 per cent; mobile banks for rural areas: 0.91 per cent, which applies to the coverage of rural beneficiaries. The results show that the package of proposed measures would imply an additional annual cost of US\$2,415,263, which is equivalent to an increase of 37.1 per cent with respect to the current situation. Obviously, these results would have to be compared to the efficiency obtained by taking positive steps in the direction of more precisely targeting the benefit.

3.3.3 Cost of job training and increase in *Bono Solidario*

According to data provided by the ILO, the estimated cost of job training would be US\$20 per session for a six-session course, which would come to \$180 per trainee per year, given a \$10 increase per month in cash transfers to trainees over a period of six months. The total annual cost of the training would be \$20.8 million.

Table 13. Effects of job training in terms of cost

Components	Current situation	Proposed situation	Variation
Job Training	0	19,392,907	19,392,907
Number of beneficiaries per year (10 total)		107,738	
Number of sessions per person per year		6	
Training coupon US\$		20	
<i>Bono Solidario</i> supplement US\$		10	
Total cost per person per year US\$		180	

Source: Prepared by author.

The above estimate indicates that a programme of this nature would imply an annual cost of \$19.4 million. It is important to point out that although this initiative is aimed at assisting beneficiaries to generate income in future productive activities, its operation would also have indirect positive effects on targeting, since it would allow for comparing information on the eligibility or ineligibility of participants and their families.

3.3.4 Cost of Microcredit Bonus

In order to estimate the cost of implementing the Microcredit Bonus, the following assumptions have been made: a) that the direct cost is to be applied to a total of 267,191 current beneficiaries on a one-time-only basis, b) that the amount of the Microcredit Bonus shall be in the amount of \$10 per female beneficiary.

Table 14. Effects of microcredit in terms of cost

Components	Current situation	Proposed situation	Variation
Cost of Microcredit (per year)	0	32,062,940	32,062,940
Own-account female beneficiaries (24.8 total)		267,191	
Amount of bonus (in US\$)		10	
Total cost (for 12 months)		32,062,940	

Source: Prepared by author.

The annual, one-time-only cost of this proposal is estimated to be US\$32.1 million.

Additional costs would be associated with the new operative units that would need to be created for the registration, organization and tracking of microenterprises. This service could be subcontracted to specialized agencies by the financial units or they could create their own units

to take advantage of economies of scale. In any case, the latter would be financed from the commission received for credit intermediation.

The proposals formulated and the results obtained in the simulations may be summarized as in the following table:

Table 15. Summary of the proposals' effects (in terms of costs)

Components	Current situation	Proposed situation	US\$	
				Variations
Total cost	185,649,201	180,607,105	-5,042,096	-2.7
Optimal targeting	179,141,031	120,227,826	-58,913,206	-32.9
Administrative cost	6,508,170	8,923,433	2,415,263	37.1
Job training	0	19,392,907	19,392,907	
Microcredit cost	0	32,062,940	32,062,940	

Source: Prepared by author.

In terms of the information presented, the main challenge presented by the *Bono Solidario* Programme is the presence of errors of inclusion and exclusion, which significantly detract from the efficiency of its targeting. This is particularly relevant when it applies to a programme that accounts for the greatest share of the nation's social expenditure after education.

Despite the foregoing, this Programme, which was initially designed to provide cash transfers to poor and indigent sectors as compensation for the withdrawal of energy and fuel subsidies, has tended to be maintained for a prolonged period to offset the deterioration in economic conditions experienced by Ecuador during the 1990s. In such a context, and despite its low amount and effective losses over time, the *Bono Solidario* remains an important aid as far as the incomes of the poorest segments are concerned. However, it has no connection to other programmes that would encourage the adoption of behaviours for overcoming beneficiaries' current poverty status.

The foregoing proposals have been developed on the basis of these two observations. The results obtained by the simulations suggest that progressing towards optimal targeting of the Programme would produce significant gains in efficiency. These would effectively benefit the eligible population and reduce current costs by one-third, or the equivalent of US\$59 million per year. While it may be reasonable to think that such an objective cannot be achieved in the short term, there is enough evidence to suggest that gradual steps taken in this direction are justified.

At the same time, it is proposed that payment of the transfer be linked to other programmes aimed at enabling current beneficiaries to develop productive activities, whether through job training or financing their own-account work. Both prongs of the proposal are complementary since investments in targeting will have the effect of freeing up resources for implementing the programmes in question.

Nevertheless, it should be pointed out that with regard to the exercise described in this paper, it is only possible to obtain an approximation of costs, since it is highly likely that the application of the proposed criteria will give rise to new needs in terms of resources, whether as a result of more clearly identified costs or through the inclusion of others not yet considered.

Although the final test can only take place when the proposals are implemented, an estimate of the orders of magnitude involved is already to hand.

4 Main conclusions

The *Bono Solidario* is not well targeted with respect to its eligibility criteria; however, it mainly benefits the poor and indigent segments of the population. It is a vast social programme that provides direct cash transfers to the population in the form of a large-scale social expenditure mechanism.

It is precisely because of the volume of resources it handles, in the context of severe restrictions such as that prevailing in Ecuador, that focusing on its design and effects is justified. Initially conceived as a programme to compensate for price hikes owing to the withdrawal of a number of subsidies, it has been maintained for an extended period of time to compensate for the scarcity of resources accompanying the spread of poverty.

This paper has sought to identify the main problems presented by this transfer mechanism, as well as possible areas for its redesign. The results obtained, although preliminary and subject to empirical comparison, suggest that it is possible to obtain gains in efficiency if appropriate mechanisms are developed to effectively target the benefits among those whom the Programme itself has defined as eligible. In effect, optimal targeting would enable current costs to be reduced by one-third.

Moreover, it would also be possible to link the payment of the transfer to complementary programmes aimed specifically at educating current beneficiaries in the development of productive activities. Through job training and the creation of a microcredit arrangement, the proposal seeks to link short-term needs with those stemming from the creation of the conditions conducive to overcoming poverty in the medium term.

In short, the proposed exercise suggests that the foregoing may be possible and that more efficient targeting is consistent with the implementation, over time, of measures aimed at supporting current beneficiaries themselves to overcome their present conditions of poverty. It is possible that both prongs of the proposal could imply costs no greater than the current ones since, in the final analysis, it would be a matter of re-allocating existing resources.

Lastly, the discussion on the role of the income-transfer programmes in the current socioeconomic context, which is characterized by a high level of economic and institutional vulnerability, is especially complex, given that the Programme will continue to exist so long as such factors remain. However, cash transfers are only one of the many possible strategies for overcoming poverty.

Far-reaching solutions point more towards the development of a viable social security system and an unemployment protection scheme, as well as towards active labour market policies and social policies that integrate such factors as education, health, and economic and social infrastructure.

5 Bibliography

ILO: *Empleo y Protección Social en Ecuador. Propuestas de la OIT*. ILO Andean Multidisciplinary Advisory Team (Quito, 2001).

Inter-American Development Bank (IDB): *Social Protection for Equity and Growth* (Baltimore and Washington, D.C., John Hopkins University Press, 2000) (for the Inter-American Development Bank).

Suhas Parandekar: *Protecting the Poor in Ecuador: Priorities and Options for the Bono Solidario*, in World Bank (2000a).

ESS Papers already published

16. Sabates-Wheeler, R.; Kabeer, N. Gender equality and the extension of social protection¹.
15. Ferreira, O. Extending social security: Challenges for Cape Verde¹ (2003). *Versión Portuguesa: A extensão da protecção social: o caso de Cabo Verde*¹.
14. Falconi Palomino, J. Social programmes, food security and poverty in Peru¹ (2003). *Versión español: La seguridad alimentaria en el Perú como forma de seguridad de los ingresos*¹.
13. van Ginneken, W. Extending social security: Policies for developing countries¹ (2003).
12. Gbossa, F.L.; Gauthé, B. Social protection and crises in the Congo: From humanitarian aid to sustainable development¹ (2002). *Versión française: La protection sociale et les crises au Congo : de l'aide humanitaire vers une protection sociale durable*¹.
11. Schwarzer, H.; Querino, A.C. Non-contributory pensions in Brazil: The impact on poverty reduction¹ (2002). *Versión español: Beneficios sociales y los pobres en Brasil : Programas de pensiones no convencionales*². *Versión Portuguesa: Benefícios Sociais e Pobreza: programas não contributivos da seguridade social brasileira*³.
10. Jütting, J. Public-private partnerships in the health sector: Experiences from developing countries¹ (2002).
9. Fall, C. Extending health insurance in Senegal: Options for statutory schemes and mutual organisations¹ (2002). *Versión française: Etendre l'assurance santé au Sénégal : possibilités à travers les régimes statutaires et les organisations mutualistes*¹.
8. Durán-Valverde, F. Anti-poverty programmes in Costa Rica: The Non-Contributory Pension Scheme¹ (2002). *Versión español: Los programas de asistencia social en Costa Rica : El régimen no contributivo de pensiones*².
7. Steinwachs, L. Extending health protection in Tanzania: Networking between health financing mechanisms¹ (2002).
6. Schleberger, E. Namibia's Universal Pension Scheme: Trends and challenges¹ (2002).
5. Bertranou, F.; Grushka, C.O. The non-contributory pension programme in Argentina: Assessing the impact on poverty reduction¹ (2002). *Versión español: Beneficios sociales y pobreza en Argentina: Estudio del programa de pensiones no contributivas*².
4. Chaabane, M. Towards the universalization of social security: The experience of Tunisia¹ (2002). *Versión française: Vers l'universalisation de la sécurité sociale : l'expérience de la Tunisie*¹.
3. Reynaud, E. The extension of social security coverage: The approach of the International Labour Office¹ (2002). *Versión française: Extension de la sécurité sociale: la démarche du Bureau international du Travail*¹. *Versión español: Extensión de la cobertura de la seguridad social: La actuación de la Oficina Internacional del Trabajo*¹.
2. Cruz-Saco, M-A. Labour markets and social security coverage: The Latin American experience¹ (2002).
1. Kwon, S. Achieving health insurance for all: Lessons from the Republic of Korea¹ (2002).

¹ <http://www.ilo.org/public/french/protection/socsec/pol/publ/index.htm>
<http://www.ilo.org/public/english/protection/socsec/pol/publ/index.htm>

² *Pensiones no contributivas y asistenciales : Argentina, Brasil, Chile, Costa Rica y Uruguay*. F.M. Bertranou, C. Solorio, W. van Ginneken (eds.). Santiago, Oficina Internacional del Trabajo, 2002.

³ *Discussion Text 929* de Instituto de Pesquisa Economica Aplicada); December 2002, sur: <http://www.ipea.gov.br>.