



# Ecuador

Area	272,045 km <sup>2</sup>
Population <sup>i</sup>	14,204,900
Age structure (%) <sup>ii</sup>	
• 0-14 years	31.5
• 15-64 years	62.2
• 65 years and over	6.4
Infant mortality rate (per 1,000 live births) both sexes <sup>iii</sup>	21
Life expectancy at birth (years) female	78.2
Life expectancy at birth (years) male	72.2
Maternal mortality ratio (per 100,000 live births) <sup>iv</sup>	210
GDP per capita	
• Current USD <sup>v</sup>	4,056
• PPP (current international \$) <sup>vi</sup>	8,014
• Constant local currency	1,745
Public social security budget as % of GDP <sup>vii</sup>	8.41
Total social protection budget as % of GDP <sup>viii</sup>	10.6
Unemployment rate <sup>ix</sup>	7.44
Human development index (HDI) rank <sup>x</sup>	80
HDI poverty indicators – Human poverty index rank	38
Minimum wage per month in \$ <sup>xi</sup>	240

# Towards a Universal Pension Protection Scheme

**10**

**Ecuador**

Ruth Alicia Lucio Romero

## Summary

2010: Process of establishing a social security system that will allow the fostering of a universal, equitable and financially sustainable pension system:

- basic universal pension system;
- a contributory scheme. For approved exceptions only, a non-contributory scheme in which the State subsidizes the contributions of the poor;
- financing: individuals and employers. The initiative proposes a progressive and equitable State subsidy based on the income level of the contributors.

## Milestones

1. Work with the President and the Cabinet for approval of the proposed reform.
2. Creation of the National Secretariat of Social Security.
3. Organic Law on Social Security.
4. Establishment of the Single Service for Registration, Affiliation and Collection of Social Security.
5. Generation of administrative and organizational institutional conditions for the incorporation of the Ecuadorian population into the system.

Key actors: Government ministries, institutes of social security, trade unions and business organizations.

Coordination of actors: Carried out by the Ministry of Coordination and Social Development until the establishment of the Regulatory Institution.

Institutional reform	→	Improved membership, collection, control
Financial sustainability	→	Parametric reforms to the system and change in the State contribution
Coverage increase	→	Extended to universal coverage integrating the contributory and non-contributory pillars
Fiscal efforts	→	Redirect the tax effort of the non-contributory tax
Progress in subsidies	→	The State subsidy improves the distribution of income

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## BACKGROUND

### SOCIAL SECURITY SCHEMES AND COVERAGE

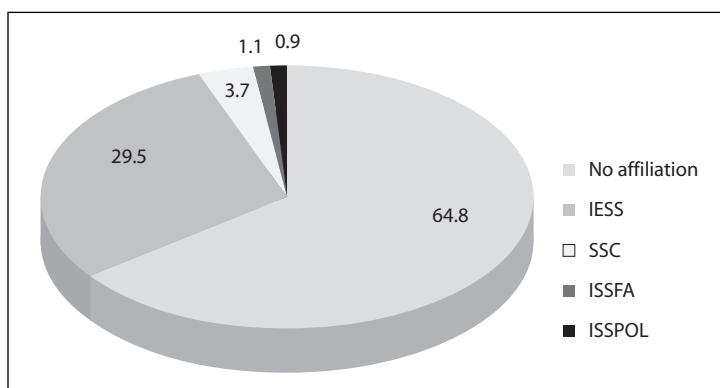
Currently, only one fifth of Ecuadoreans or one third of the economically active population is covered by one of the four social security schemes: the Ecuadorian Social Security Institute (Instituto Ecuatoriano de Seguridad Social, IESS),<sup>1</sup> Farmers' Social Insurance (Seguro Social Campesino, SSC), the Social Security Institute of the Armed Forces (Instituto de Seguridad Social de Fuerzas Armadas, ISSFA) and the Social Security Institute of the National Police (Instituto de Seguridad Social de la Policía Nacional, ISSPOL). Each scheme works independently and there is no coordination among them (graph 1).

The protection is largely guaranteed to those in formal employment. It does not cover the family except for very basic coverage in the case of the police and

armed forces and farmers' social insurance. Family coverage consists of access to health services within the network of the institute to which the contributing member belongs. In the case of the Ecuadorian Social Security Institute (IESS), membership is individual and has only recently been extended to children under six years of age and spouses, enabling them to access health-care services.

The principal challenge of the Ecuadorian social security system is its low coverage rate. Of the economically active population, the proportion of premium payers hovers around 35 per cent (table 1) so that out of 100 economically active persons, 65 do not pay social security premiums.

In the field of social protection for the poor, the State also provides (since 1998) a conditional cash transfer programme known as the Human Development Bond (Bono de Desarrollo Humano, BDH) for the elderly who do not have a pension



**Graph 1** | Affiliated economically active population, 2009.

Source: Social Security Institutions, 2009, National Institute of Statistics and Censuses of Ecuador (INEC).

<sup>1</sup>IESS administers the following programmes: the farmers' social insurance (health-care and old-age benefits); individual and family health insurance, including cash benefits; job risk insurance; and general insurance for disability, old age and death.

**Table 1** | Structure of the population covered by social security, 2009.

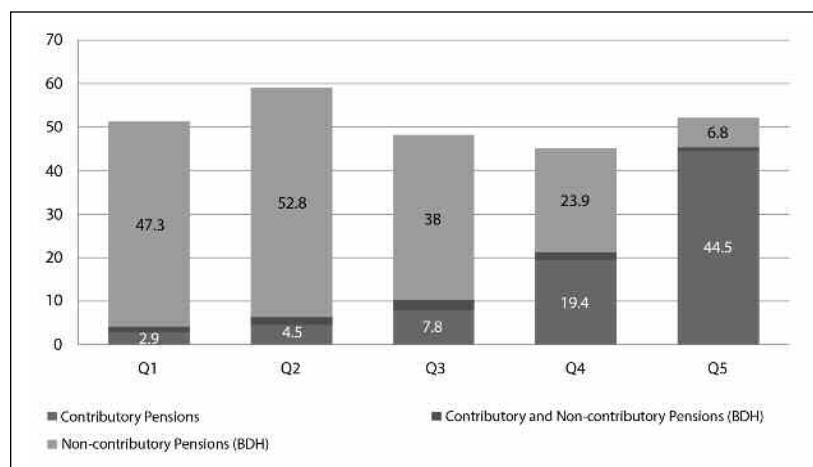
Membership Scheme	Affiliated Population	Population with Health Coverage	%
Ecuadorian Social Security Institute (IESS) - Farmers' Social Insurance (SSC)	2,367,305	3,602,713	89.26
Social Security Institute of the Armed Forces (ISSFA)	74,674	223,058	5.53
Social Security Institute of the National Police (ISSPOL)	56,352	210,531	5.22
<b>Total number of affiliated people</b>	<b>2,498,331</b>	<b>4,036,302</b>	<b>100.00</b>
Affiliated population/total population of Ecuador, 2009			17.8
People insured/total population of Ecuador, 2009			28.8
Affiliated population/economically active population			37.8

Source: Institutional records, National Institute of Statistics and Censuses (INEC). Elaboration: Ministry for the Coordination of Social Development (Ministerio de Coordinación de Desarrollo Social).

and who are recognized as living in conditions of poverty. In 2008, pension assistance increased substantially, rising to US\$35 per month per person and covering 371,000 elderly people.

Thanks to the incorporation of pension assistance, the number of people not covered by social security is now less

than 50 per cent of the total population. Nevertheless, the coverage gap remains significant, especially in low-income quintiles, as shown in graph 2. On average, 31 per cent of the elderly are covered by pension assistance, 18 per cent by social security pensions and 1 per cent by both systems.



**Graph 2** | Population covered by pensions, per income quintile, 2009 (as a percentage).

Source: National Institute of Statistics and Censuses (INEC), Employment and Unemployment Survey, 2009. Produced by the Ministry for the Coordination of Social Development.

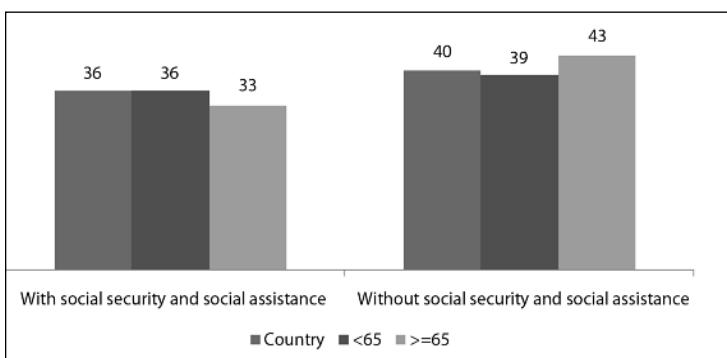
## FINANCING, PROGRESS AND SUSTAINABILITY

As currently applied, the State subsidies for social security are highly regressive since they are concentrated in the wealthiest deciles of Ecuadorian society

**Table 2 |** Distribution of pension subsidies per income decile, 2009.

Income Decile	Average Amount per Month (in US\$)	Total amount per Year (in US\$)	%
1	27	1,644,348	0.3
2	37	3,271,176	0.6
3	46	4,500,828	0.9
4	74	8,851,764	1.7
5	74	12,774,360	2.5
6	72	14,539,224	2.9
7	98	34,612,596	6.8
8	114	57,439,956	11.3
9	123	110,805,492	21.7
10	176	261,191,844	51.3
All	128	509,631,588	100.0

Source: National Institute of Statistics and Censuses (INEC), Employment and Unemployment Survey, 2009. Produced by the Ministry for the Coordination of Social Development.



Source: National Institute of Statistics and Censuses (INEC), Employment and Unemployment Survey, 2009. Produced by the Ministry for the Coordination of Social Development.

(table 2). The State transfers to the richest 20 per cent (9th and 10th income deciles) US\$370 million annually as subsidies to pensions.

Therefore, for the Ecuadorian reform process, it is of primary importance both to increase coverage and to define a progressive system that will allow the funnelling of subsidies to precisely those segments of the population in greatest need of assistance, thereby ensuring a more equitable system.

Another important issue relates to ensuring, through social protection measures, that population groups do not slip into poverty. In an analysis of the impact of social protection on poverty through its two main components, social security and social assistance (the Human Development Bond, BDH), it was reported that, under current policies, in 2009 the

**Graph 3 |** Poverty rate, 2009.

country prevented about 11 of every 100 adults over 65 years of age from falling into poverty (graph 3).

### **Social Security Contributions**

Currently, the financing of existing social insurance systems in Ecuador is borne by members and employers, and, in terms of pensions, it rests on a wide range of State

contributions to civilian and police and Armed Forces schemes.

To maintain the level of required contribution, the 2010 social security budget has put forward a projection of 8.4 per cent of gross domestic product (GDP). This historic budget implementation, however, notes that between 20 and 30 per cent of what is planned in the budget

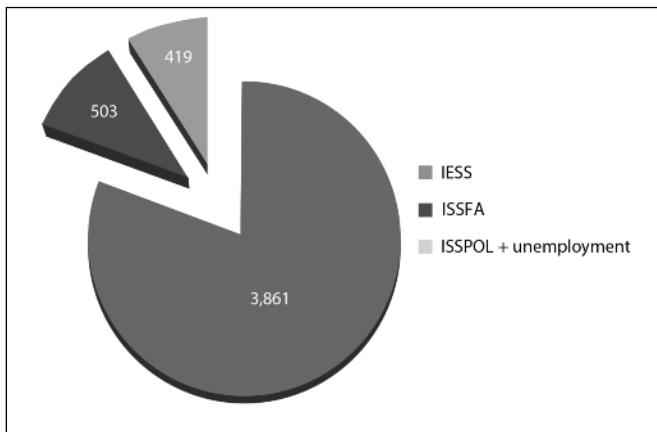
**Table 3 | Rates of contributions to social security, 2010 (as a percentage).**

<b>Contributions over Wages (Stated Income)</b>	<b>Ecuadorian Social Security Institute (IESS)</b>	<b>ISSFA Armed Forces Scheme</b>	<b>ISSPOL Police Force Scheme</b>
Pensions			
• Invalidity, Old Age and Death	from 9.74 to 11.74		
• Retirement, Invalidity and Death		25.55	23.27
Dismissal Indemnity	3.00	12.50	15.75
Sickness and Maternity	5.71	9.20	5.50
Occupational Hazards	0.55	0.30	0.15
Reserve Funds	8.33	8.33	8.33
Life			1.01
Funeral Services		0.40	0.38
Housing Fund		1.05	2.40
Contingency Fund			0.50
Professional Indemnity			0.14
Total Individual Contribution	9.35-11.35	23.00	23.10
Total Employer Contribution	17.48-19.48	34.33	34.33
Total Individual and Employer Contribution	26.83-30.83	57.33	57.43
Contributions over Total Pension			
State Contribution to Total Pension	40% of total pension of civil system	60% of total pension of military system	60% of total pension of national police system

Source: Law and Regulation Institutions. Produced by the Ministry for the Coordination of Social Development.

every year is not executed because of bureaucratic inertia.<sup>2</sup> Furthermore, the health expenditures via the National Health System, projected at 2.2 per cent of GDP, should also be added to the social

security budget. This brings the total budget for 2010 (graph 4) to 10.6 per cent of GDP. If 1.2 per cent is added for the Human Development Bond (BDH), the total becomes 11.8 per cent of GDP.



Note: IESS = Ecuadorean Social Security Institute; ISSFA = Social Security Institute of the Armed Forces; ISSPOL = Social Security Institute of the National Police.

#### Graph 4 | Social security budget, 2010 (in millions of US\$).

Source: Institutional Budget. Produced by the Ministry for the Coordination of Social Development.

Within the social security budget, the highest percentage of the budget (about

52 per cent, on average) is concentrated on the pension sector (table 4). The het-

**Table 4 | Social security budget per scheme, 2010 (% of total).**

	Ecuadorian Social Security Institute (IESS)	Social Security Institute of the Armed Forces (ISSFA)	Social Security Institute of the National Police (ISSPOL)	Social Security Budget
Pensions	48.24	77.79	57.66	51.78
Sickness and Maternity	34.40	8.80	15.23	30.71
Dismissal Indemnity	11.21	13.09	24.22	12.13
Occupational Hazards	2.08	0.52	2.89	1.97
Farmers' Social Insurance	4.06			3.42
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Institutional budgets 2010. Elaboration: Ministry for the Coordination of Social Development.

<sup>2</sup>Bureaucratic inertia is responsible for the gap between what is planned and what is executed, particularly in sectors such as health care where the planned health services are not implemented. This is changing rapidly thanks to improvements and changes in the bureaucracy in some regions. For example, in the regions of Pichincha, Santo Domingo, Tsachilas and Esmeraldas, where the local administrations have recently changed, the problem of the delays in the payment of millions of dollars to service providers has been solved in one trimester.

erogeneous figures for each scheme reflect the non-existence of a uniform social security system.

## **THE INITIATIVE FOR SOCIAL SECURITY PROTECTION: TOWARDS A UNIVERSAL PENSION MODEL**

The initiative to expand the social protection system was not an unfamiliar topic in the debates of the last decade in Ecuador, but it was not until the new government came into office in 2008 that a Constitutional provision for a universal model was implemented.

The new Constitution includes among its main guidelines the establishment of social security as an inalienable right. Executing and upholding this right constitute the duty and primary responsibility of the State, which is also responsible for legislating, regulating and controlling activities relating to social security and ensuring that it is a public and universal system.

Following the new legal and policy framework, President Correa and the political movement that supports him are the drivers of the social security reform in Ecuador today. In order for the reform to be successful, it is necessary to put forward the creation of an organic law to incorporate the different laws that govern each system, allowing the changes that had been needed by the Ecuadorian social security system in the last several decades to take place. Within this frame-

work, a key element among those necessary to guarantee continuity in time is maintained, although the political conditions for approval are just developing.

The purpose of the social security system, through mandatory universal insurance, is to provide coverage to the entire population – regardless of employment status – for contingencies such as sickness, maternity, paternity, occupational hazards, dismissal indemnity, unemployment, old age, invalidity, disability and death.

## **POLITICAL FEASIBILITY**

In Ecuador, this is the first time in several decades that a government is able to come to power and promote a comprehensive structural reform of social security. This being a topic whose definitions are usually anchored in lobbyist groups, the majority of past governments chose not to alter even minimal elements of the system's structure. The government of Rafael Correa counts among its assets the following: the President's popularity; the evident political will to reform the country; the experience in implementing and reforming other complex issues in Ecuadorian society; and the emergence of previously unseen conditions such as a majority in parliament and independent and reliable technical institutions. These factors make the approach seem serious, relevant and politically feasible.

## **PROCESS TO ACHIEVE THE PENSION PROTECTION SCHEME**

It is necessary to point out that the guidelines outlined below are only preliminary guidelines that will probably still be subject to a number of changes during the technical analysis phase by the Office of the President, other members of the Cabinet and their technical teams.

### **COVERAGE INCREASES**

At present, there are 1.8 million employees covered by the Ecuadorian Social Security Institute (IESS) while the Social Security Institute of the Armed Forces (ISSFA) reaches 37,700 affiliates and the Social Security Institute of the National Police (ISSPOL) 39,300.

The initiative to reform the social security system seeks to extend social protection in order to include all those who do not have access to social security. This initiative has two strategies: to aggressively increase the wage-earning contributory population (i.e., those who are not affiliated although their affiliation is compulsory) and to include contributory independent workers and poor people. The objective is to achieve universal coverage; in order to do so, compulsory and persuasive strategies and incentives have been carefully and specifically designed, with the aim being to impact Ecuadorian society as a whole.

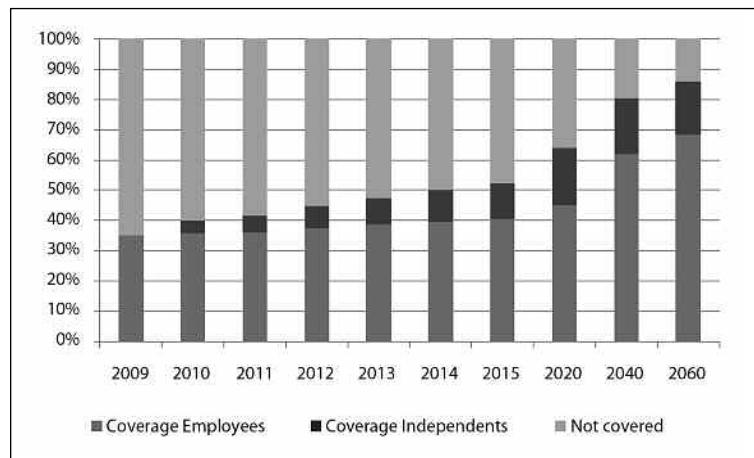
Historically, the social security coverage has been expanding, especially for

those layers of the population that have better working and living conditions given the institutional, administrative and legal designs in force in the institutions in charge of the issue. In the last two years in particular, the involvement of wage earners has been strong and estimates foresee the inclusion of between 5 and 10 per cent more people per year in the future.

In the current view, the progressive expansion of coverage towards universal coverage is seen as a key objective of the reform. Therefore, plans have been drawn up for the inclusion of independent workers in the social security system at a rate of coverage extension of 5 per cent per year in order to cover 70 per cent of independent workers, starting with a population of independent workers of 10 per cent in 2010. The possibility of setting more aggressive goals to complete the process in the next decade is also analysed.

On the other hand, an increase in the minimum coverage of the poor at a rate of 5 per cent per year has been planned in order to reach a coverage rate of at least 85 per cent of the poor population. However, since this part of the population is already included in the census, this group will become an easier one to target and recruit. This will consequently imply developing an effective mechanism to incorporate these new members into the system in a timely manner.

It should be noted that the developed modelling is far less ambitious and considers the inclusion of members as a



Source: ILO actuarial models and specialized studies. Elaboration: Ministry for the Coordination of Social Development.

medium-term process of at least two decades (graph 5). Obviously, if the incorporation proceeds at a faster pace, this will only improve the likelihood of sustainability of the social security system.

In any case, the initial strategies to increase the population covered by social security predict the prioritization of interesting and flexible mechanisms that reflect an understanding of the groups that are to be included and their efficient recruitment. By 2040, it is hoped that at least 75 per cent of the Ecuadorian population will be included in the social protection system and that it will be possible to maintain this coverage in the following decades.

## CONTRIBUTIONS

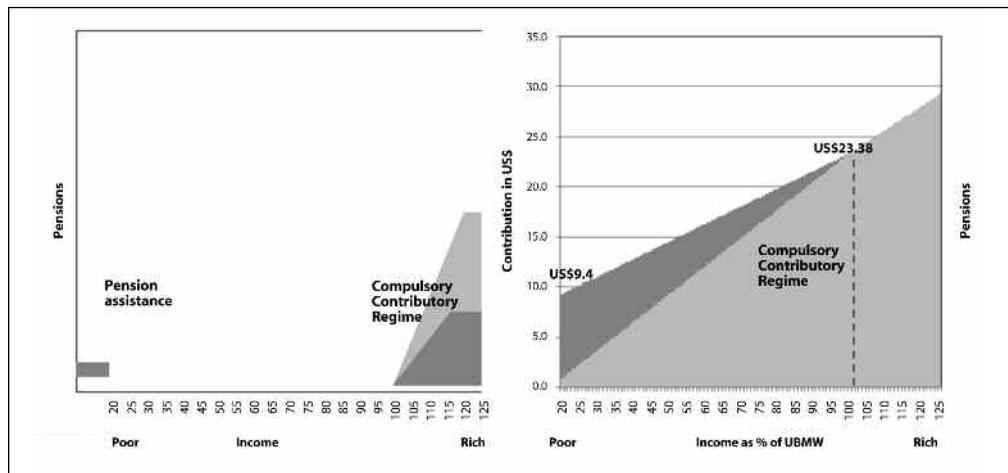
The proposal establishes the universalization of rights and contributions, therefore proposing to extend the contributory system by mandatorily incorporating the largest part of the population, even that part that lives in poverty and can con-

**Graph 5 |**  
Progressive coverage of the Ecuadorian population by the social security system.

tribute only minimally to a future retirement pension (graph 6). Only in the case of indigents would the State consider subsidizing 100 per cent of the contributions. In summary, the proposal puts forward a contributory scheme and, for approved exceptions only, a non-contributory scheme in which the State subsidizes the contributions of the poor.

The initiative establishes that, within the social security system, financing of the contributory pension scheme rests on individuals and employers. This highlights the possibility of eliminating, for the first time in decades, the 40 per cent State contribution to the system. It proposes a progressive and equitable State subsidy, based on the income level of the contributors, and whose approach will be examined at a later time.

The current contribution of the State to the pension scheme amounts to 40 per cent of total expenditure on pensions, which is equivalent to about 5.62 per cent of payroll. It will be replaced by the

**Graph 6** | Towards a universal and equitable model.

Note: UBMW = unified basic minimum wage.

current employer contributions for health insurance (3.41 per cent of payroll). The remaining 2.21 per cent of the required contribution is under analysis to delegate the contributions of employee, employer or State because the system requires the same general average premium (5.62 per cent) to adequately cover the financial needs of the fund pension.

In addition, in striving for balance in the social security system, the full financing of the health sector would become the sole responsibility of the State, which would commit to financially covering the amount needed for health coverage. This responsibility is made explicit in the Constitutional framework.

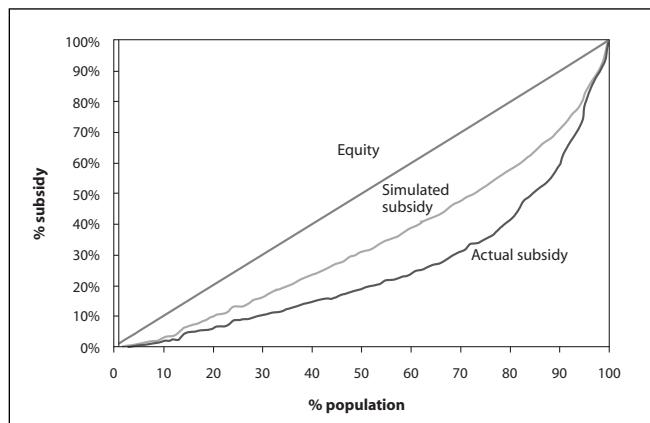
As well as implementing a supplementary contribution for pension coverage in general, the State should also contemplate the implementation of an equitable subsidy for those independent workers who are not able to earn an average income at least equal to the unified

basic minimum wage (UBMW) – US\$240 in 2010 – and whose minimum declared earnings correspond to 20 per cent of the UBMW.

Through the contribution meant to complement the declared income in an inversely proportional way and reach the minimum contribution quota, the State hopes to significantly impact the regressive nature of the subsidy, thereby achieving a significant improvement with respect to equity in Ecuadorian society as a whole (graph 7).

With regards to the social security schemes of the police and the Armed Forces, the proposal discussed above analyses the possibility of homogenization of these pension systems so that they will be comparable to the civilian scheme both in terms of contributions and benefits. However, it should be clear that, since these are closed systems with small population groups, the proposal will have to consider that State contributions are necessary

**Graph 7** | Subsidies from the State pension system (actual and simulated).



for the systems to be sustainable.

After evaluating financial sustainability, the State will have to be transparent in revealing how much it contributes to each scheme in order for the Ecuadorian people to know the specifics of contribution amounts. If this option is implemented, it remains to be seen what the required transition period would be to unify contributions and what would happen to the individual contribution of soldiers and the national police, which at this point are higher than civilian contributions.

### How COULD THE STATE SUBSIDIZE THE SYSTEM?

The first thing to consider is that a new

obligatory regimen is being created for the independents. In this initiative, independent workers contribute to the system only if they earn an amount equal to at least 20 per cent of the unified basic minimum wage (UBMW). This is what will be recognized as the minimum income contribution (MIC) (= \$48 in 2010). However, to calculate the subsidy (i.e., the complementary part), a presumed

income must be estimated, which will be at least 40 per cent of the UBMW (= \$96). The presumed income will be the basis on which to estimate the amount of subsidies to be received (table 5).

In addition, with the purpose of making the system equitable as a whole, a general contribution of 9.74 per cent has been established, whose division between employer and employee is currently being analysed.

In order to make the system equitable, an equal minimum pension for employees and independent workers cannot be established. To be able to comply with the principle establishing that the

**Table 5** | Examples of the calculation of State subsidies for independent workers (in US\$).

Declared Income	Presumed Income	Total Contributions	Personal Contributions	State Subsidies
20% of UBMW	40% of UBMW	9.74% of 40% of UBMW	\$1.00	\$8.35
25% of UBMW	43.75% of UBMW	9.74% of 43.75% of UBMW	\$1.88	\$7.83

higher the contribution the higher the pension, the minimum pension is scaled depending on the number of contributions. According to this definition, in order to calculate the pensions of independent workers, a "presumed income" will be taken as a reference point, and it is on this basis that the values of the State

subsidy and the pension are estimated, which directly recognizes the greater or lesser effort of the contributor, rewarding contributory efforts as a basic principle.

To understand the model proposed for the subsidy and estimations realized, the required variables and the subsidy formula are presented in table 6.

**Table 6 |** Subsidy formula.

Abbreviation	Variable	Formula
0	UMW	Unified basic wage Issued and adjusted by the Government
1	SMA/MIC	Minimum salary or income of contribution $20\% \text{ UMW minimum} = 0.2 * 240 = \text{US\$48}$
2	Y	Income declared
3	YMP	Minimum income presumed $40\% \text{ UMW minimum} = 0.4 * 240 = \text{US\$96}$
4	YP	Income presumed $Y + (YMP - MIC) * PR$
5	PR	Relative weight $PR = (UMW - Y) / (UMW - SMA)$
6	9.74%	Total rate of contribution (TAT) TAT (issued and adjusted by law)
7	TYMP	Individual rate of contribution with income $\text{US\$1/YMP} = \text{US\$1/US\$96} = 1\%$
8	TSMP	State rate of contribution (subsidy) $TSMP = (TAT - TYMP) * PR$

On the basis of these formulas, a system is established in which the State subsidy is progressive and related to citizens' efforts in making their contribution. The State contribution will be proportional to the level of income of the employees and higher for those layers of the population with fewer resources. Pensions are determined also by individual effort, therefore constituting a direct reward for the effort made. However, in an attempt to maintain not only an equitable system but also a fair one, the pension amount is established through estimation formulas in order to have a minimum pension that

enables people to adequately carry on with their lives.

## PARAMETRIC REFORM

In addition to the issue of the reconfiguration of contributions and financial responsibilities, the possibility of establishing a set of minor parameter changes has been discussed. The aim of this would be to make the reform sustainable, taking into account the labour market structure and the labour history of Ecuador as well as international conventions. The proposal that has been worked

**Table 7 |** Parametric reform.

Parameter	>= 45 years of age (Actual Scenario)		< 45 years of age (New System)	
Conditions for access to pensions	40 years of contributions			
	30 years of contributions	/60 years	30 years of contributions	/60 years
	15 years of contributions	/65 years	15 years of contributions	/65 years
	10 years of contributions	/70 years		
Calculation base	Average of the best 5 years		Average of the last 10 years of contributions	
Replacement rate formula	$43.75\% + 1.25\% * (\# \text{ of contributions} - 5)$		50% + 0.67% * (# of contributions - 15)* Average (10 years of contributions) Present value	
			50% + 0.67% * (# of contributions - 15)* Average (years of contributions) Reduced pension	
	50% of UBMW	10 years of contributions	Formula proposal for minimum pensions for employees 50% + 0.67% * (Number of contributions - 15) * UBMW	
	60% of UBMW	11-20 years of contributions		
	70% of UBMW	21-30 years of contributions		
	80% of UBMW	31-35 years of contributions		
	90% of UBMW	36-39 years of contributions		
	100% of UBMW	40 years +	Formula proposal for minimum pensions for employees 50% + 0.67% * (Number of contributions - 15) * 40% UBMW	

out to date is summarized in table 7.

### **FINANCIAL FEASIBILITY: FISCAL EFFORTS**

The parametric reform discussed in the previous section predicts significant

results in the national economy. Above all, however, it entails the possibility of rearranging the tax sources, which will contribute to the sustainability of a more comprehensive and less expensive social security system – less expensive for the

State and therefore for the Ecuadorian population (table 8).

With the changes that will be intro-

duced, it is projected that the tax burden will be balanced in such a way that from 2030 onwards and with the help of the

**Table 8 | State contribution pension, Ecuadorian Social Security Institute (IESS) (as a percentage).**

	2009	2010	2011	2012	2013	2014	2015	2020	2040	2060
<b>Current scheme</b>										
Total (% of GDP)	1.0	1.0	1.0	1.0	1.1	1.1	1.2	1.3	2.5	5.0
<b>New Scheme</b>										
Total (% of GDP)	0.3	0.3	0.5	0.6	0.6	0.7	0.7	0.9	1.1	0.7

new model, the tax effort will increasingly distance itself from what would otherwise be required if a broader reform were not undertaken.

The reform thus proposes balance and ensures the sustainability of the pension system of Ecuador's civilian population.

Thus, the reform is crucial not only for guaranteeing the fiscal sustainability of the universal social security system but above all for building a progressive system that protects the Ecuadorian population as a whole.

## TECHNICAL FEASIBILITY AND ADMINISTRATIVE CAPACITY

Ecuador has at its disposition the skills and knowledge, developed by the main institutions of its social security system, that are needed for the reform process. The analyses carried out to achieve advances towards a social security protection scheme have established the require-

ment of incorporating the existing social security institutions and articulating them in a single social security system. The analyses have also established the procedures that result in adaptations and extensions of functions carried out today to strengthen the system's administrative capacity.

Therefore, Ecuador has the equipment and tools required although it will in time need more of these resources. Obtaining this boost in resources is feasible in the short term because of the existing human and financial resources. However, in the medium term, there is a clear need for human resources trained and specialized in the field of social security, which will be critical for driving the structuring and maintenance of the social security system.

## INSTITUTIONS AND ACTORS INVOLVED IN THE REFORM

One of the positive outcomes of the system reform was the consolidation of the

technical discussion within a coordinator ministry, in this case the Ministry for the Coordination of Social Development. This allowed for a social vision and a positive response to the call for meetings and open dialogue among the financial, political and economic institutions of the country and the same institutions administering insurance, which traditionally have been difficult to engage with in dialogue.

This outcome also became a cornerstone for the future implementation of an organic law, which will implement the substantive elements proposed by the reform since the environment of technical consultation has already been generated. In the transition towards a social policy of guaranteed rights, this environment enables the consolidation of an institutional system with redefined roles and functions that establish the difference with the previous system and ensure the systemic functionality that is required.

The social security system was designed according to the following:

- the establishment of a national secretariat to enable the policy direction and guidance necessary for the consolidation of a real social security system as well as efficient management of each subsystem or scheme administrator;
- the creation of a single body administering the national database, whose registration as well as collection functions enable the necessary coordination (which was previously nonexistent); and

- requirements for monitoring and quality control that will be implemented in existing institutions, enhancing their control and monitoring role by facilitating efficient management of social security resources.

## CHALLENGES

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In conclusion, social security is the basis and foundation on which social protection is articulated in Ecuador and on which all other human development programmes can establish levels of support and/or complementarity. Therefore, a successful reform is a strategic priority for the social policy of the country, which aims to deliver sustainable and equitable development for the decades to come.

One of the key challenges is the fact that although the reform is currently starting to be implemented in Ecuador, the preparation needed to achieve universal insurance, based on a segmented market, requires a close relationship between the model of economic growth and adjustments of the labour market that are generated by the model.

In addition, Ecuador's major challenge will be to organize the system and avoid duplication of activities and subsidies so as to expand the coverage achieved by optimizing resources and ensuring that public funding is committed to those who need it the most in a redistribution operation unprecedented for the country

Finally, the key challenge will be to

create, in a very short amount of time, a culture of contribution and respect of the law and not merely of public assistance since the practice of favouritism is still prevalent in Ecuador, particularly in the field of social security. This will require society to commit to a new learning period of co-responsibility and not patronage. The fostering of such a culture, through the fundamental pillar of education on social security, will make the proposed reform significantly more viable.

The long months of preparations and analysis have yielded many lessons, which focus largely on anchoring arguments in proven technical analyses. In this endeavour, having an open mind to collaboration with experts on this issue and the appointment of specially trained teams have been particularly important elements in taking decisive and technically adequate steps to meet these challenges.

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<sup>ii</sup> World Bank, *World Development Indicators* 2008.

<sup>iii</sup> WHO, Global Health Observatory, 2008.

<sup>iv</sup> WHO, UNICEF, UNFPA and World Bank, Global Health Observatory, 2005.

<sup>v</sup> World Bank, *World Development Indicators* 2008 and *Global Development Finance* 2008.

<sup>vi</sup> Ibid.

<sup>vii</sup> Ministry for the Coordination of Social Development, 2010, Public Social Security budget=Ecuadorian Social Security Institute (IESS)-Farmers' Social Insurance (SSC) budget + Social Security Institute of the Armed Forces (ISSFA) budget + Social Security Institute of the National Police (ISSPOL) budget.

<sup>viii</sup> Ministry for the Coordination of Social Development, 2010, Social Protection=Public Social Security + Public Health budget.

<sup>ix</sup> Central Bank of Ecuador, September 2010.

<sup>x</sup> UNDP, *Human Development Report* 2009.

<sup>x</sup> Ministry of Labour Relations, 2010, current US\$.