



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 21-Dec-2018 | Report No: PIDISDSC25627



BASIC INFORMATION

A. Basic Project Data

Country Ecuador	Project ID P167416	Parent Project ID (if any)	Project Name EC-Social Protection Systems Project (P167416)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Feb 04, 2019	Estimated Board Date Mar 28, 2019	Practice Area (Lead) Social Protection & Labor
Financing Instrument Investment Project Financing	Borrower(s) Republic of Ecuador	Implementing Agency Ministry of Social Inclusion and Equity (MIES), Secretaria Nacional de Planificacion y Desarrollo (SENPLADES)	

Proposed Development Objective(s)

The PDO is to improve access of the extreme poor to selected social protection programs in targeted localities, and to improve the effectiveness of those programs.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	262.00
Total Financing	262.00
of which IBRD/IDA	262.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	262.00
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Environmental and Social Risk Classification

Concept Review Decision

Track II-The review did authorize the preparation to



continue

Other Decision (as needed)

B. Introduction and Context

Country Context

- 1. Ecuador, an upper middle-income country,¹ witnessed substantial economic and social gains between 2001 and 2014.** During this period, real GDP annual growth averaged 4.5 percent, well above the regional average of 3.3 percent. High economic growth and changes in the distribution of income helped lift 1.4 million people out of poverty. Welfare gains intensified in the 2007-2014 period, when monetary poverty fell from 36.7 percent to 22.5 percent, extreme poverty fell from 16.5 percent to 7.9 percent and the income of the bottom 40 percent grew almost twice as fast as the national average.²
- 2. Labor income and public transfers were the main contributors to these welfare gains.** Labor income accounted for a decline of 10.7 percentage points in the national poverty headcount and 15.5 and 8.5 percentage points in rural and urban poverty, respectively. In rural areas, government transfers also played a key role, responsible for more than 3 percentage points reduction in total poverty. Improved access to basic services also contributed to improved welfare. The infant mortality rate fell from 23.7 to 17.8 per 1,000 live births, while the under-5 mortality rate decreased from 28.3 to 20.9 per 1,000 live births. Access to basic education became close to universal, and net enrollment rates in upper-secondary and tertiary education increased by 19 and 14 percentage points, respectively. But, in 2014, almost a quarter (24 percent) of children under age five suffered from chronic malnutrition, with rates particularly high among the poorest (43.5 percent).
- 3. However, macroeconomic vulnerabilities came to the fore when oil prices declined after 2014, hitting the Ecuadorian economy hard and affecting the country's fiscal capacity to protect the poor.** During the oil price boom, Ecuador opted for intensifying social gains by redistributing resources from oil. When oil prices – and revenues – dropped in 2014, Ecuador had little room to undertake countercyclical fiscal policy, and spending declined sharply, making it difficult to maintain social assistance coverage for the poor. Moreover, despite the contraction in spending, fiscal deficits widened, arrears accumulated, and the public debt more than doubled. External imbalances associated with lower oil exports led to a sharp decline in international reserves, thus pressuring the country's dollarization regime. All these events resulted in a sharp decline in economic growth and stalled poverty reduction. More Ecuadorians ended up in low quality jobs and relied more heavily on private transfers in response to lower labor incomes

¹ US\$10,459 Purchasing Power Parity 2011. Gross national income per capita using the Atlas method.

² During the 2007-2013 period the bottom percentiles grew between 7 and 9 percent annually, compared to an overall mean growth rate of 4 percent.



and the contraction of public transfers. The contribution of public transfers to poverty reduction between 2014 and 2017 therefore dropped significantly, and the main drivers of poverty reduction became the increase in labor occupation (particularly for female, younger and older cohorts) and private transfers.

4. **The Government of Ecuador (GoE), aware of the fiscal challenges, is committed to continuing the implementation of reforms³ that can deliver the needed fiscal savings while still protecting the poor and vulnerable. Establishing a well-targeted, efficient, and sustainable safety protection system is a key part of this commitment.**

Sectoral and Institutional Context

5. **Ecuador's Social Protection System consists of contributory and non-contributory schemes.** The contributory scheme consists of three social insurance programs (*Instituto Ecuatoriano de Seguridad Social, IESS, Instituto de Seguridad Social de las Fuerzas Armadas, ISSFA, and Instituto de Seguridad Social de la Policía, ISPOL*). These programs cover formal labor market workers and use mandatory saving mechanisms. Despite efforts to expand coverage, the contributory scheme only reaches 40 percent of the country's population (WB working paper, Apella, 2016). Most of the poor are therefore covered by the non-contributory scheme (the social safety net -SSN), which consists of a few conditional and unconditional cash transfers implemented by the Ministry of Social and Economic Inclusion (MIES). Three programs – the Conditional Cash Transfer *Bono de Desarrollo Humano* (BDH), the social pension (*Pensión para Adultos Mayores-PAM*) and the Disability transfer (*Pensión para Discapacitados*) – together with child care and Early Child Development (ECD) programs (*Creciendo con Nuestros Hijos-CNH* and *Centros de Desarrollo Infantil-CDI-*, made up 65 percent of total social assistance spending in 2016. In addition, the SSN includes in-kind transfers, such as school feeding (*Programa de Alimentación Escolar*), school uniforms, and textbooks, delivered by the Ministry of Education (MoE).
6. **Spending on the social safety net (i.e., social assistance (SA) programs) increased from 1.24 percent of GDP in 2007 to 1.9 percent of GDP in 2010. In more recent years, it has fluctuated but with a decreasing trend, reaching 1.05 percent of GDP in 2015. Not only is SA spending as a percentage of GDP in Ecuador on the lower side of the regional average,⁴ but it is strikingly the only case in recent years to show a decreasing trend instead of stability or growth. This is concerning for protecting the recent welfare gains, as safety nets are particularly necessary to support poor and vulnerable households during periods of crisis or low growth.**
7. **An international comparison shows that Ecuador's social assistance spending is effective – and efficient – at reducing poverty and inequality.⁵ Without it,** simulations using available household surveys in the region show that in 2012 Ecuador's poverty rate would have been 12 percent higher, the poverty gap 24 percent higher and inequality 3.5 percent higher. This is similar to what was achieved by Chile, but with half the expenditure, and placed Ecuador, together with Bolivia, Mexico and Uruguay, among the most efficient cases, within a group of ten countries for which comparable information is available (See Figure 2).

³ The main fiscal reforms are: The Production Promotion law to reduce fiscal deficit (fusion of institutions, reduction of public servants, reduction of selected energy subsidies); and the new Budget Law which includes the reduction of public expenditure in relative terms.

⁴ PER.

⁵ PER (2017).



8. **However, effectiveness has declined in recent years, largely due to the coverage reduction triggered by given the fiscal contraction.** In 2014, faced with tightening fiscal space, stricter eligibility conditions⁶ seeking to redirect the social programs towards the poorest (Q1), and a graduation strategy were introduced for the largest cash transfer program (*Bono de Desarrollo Humano-BDH*). Targeting improved as a result: the percentage of beneficiaries that belonged to the first quintile increased from 34.7 percent to 42 percent. This also led to lower coverage rates. By 2016, the BDH coverage of the first two quintiles had dropped to 40 (Q1) and 26 (Q2) percent, from more than 60 and 50 percent in 2008. The same simulations show that by 2016 BDH's effectiveness in poverty reduction was reduced (7 percent reduction of observed poverty rate) mainly due to the coverage reduction in the lowest quintile.
9. **In a context of imminent fiscal adjustments, and crucial efforts to improve the efficiency of public spending, the main challenges of the GoE's social safety network are to increase the coverage of the poor population and improve the effectiveness of existing programs to prevent and reduce poverty and promote Human Capital Development.** A simulation conducted by the World Bank in 2017 suggests that an increase in spending on the BDH from 0.6 to 0.96 percent of GDP combined with a major effort to target households in extreme poverty, would increase the impact on poverty reduction of program beneficiaries from 7 percent to 11.6 percent. In addition, international experience demonstrates that cash transfers can provide a platform to improve access of beneficiaries to complementary services within the social protection system if the following exist:⁷ (i) a well-defined target population, (ii) strong territorial presence with a close relationship to beneficiaries, and (iii) a cash incentive that facilitates and encourages family engagement in connecting them to additional programs and services.
10. **The GoE's Social Protection strategy "Plan Toda Una Vida" (PTUV) aims to reduce poverty and promote human capital investments among poor families through the provision of direct monetary transfers and incentives for households to access relevant complementary services.** The PTUV focuses on eradicating extreme monetary poverty (the goal is to move from 8.7 to 3.5 percentage points in 2021), reduce multidimensional poverty, increase the income of the poorest 20 percent of the population, expand the coverage of the social protection system, reduce the prevalence of childhood malnutrition (23.9 to 13.2 percentage points), and expand access to education. The PTUV Strategy interventions are organized under "Misiones," each comprised of a specific combination of cash and in-kind transfers, and social services directed at particular groups, largely organized around life-stages. The following are the most relevant Misiones to address the PTUV objective:⁸ a) "*Misión Ternura*", focused on increasing the participation of children under three years from the poorest families in child development programs and family counseling; b) "*Impulso Joven*" focused on access to education, employment and recreation for youth, c) "*Casa para Todos*" focused on closing the gaps in the access to affordable housing; d) "*Menos pobreza, más desarrollo*" to promote social inclusion and extreme poverty reduction through cash transfers and income generation activities; e) "*Mis Mejores Años*" to guarantee the elderly well-being through cash transfers and other care services; and f) "*Las Manuelas*" and "*Las Joaquinas*", that focus on cash transfers and care services for people with disabilities. The Technical Secretariat of the PTUV is responsible for the coordination of the ministries responsible for administering these programs (Ministry of Economic and Social Inclusion-MIES, Ministry of Education -MINEDUC-, Ministry of Health -MSP-, Ministry of Housing -MIDUVI-).

⁶ The eligibility threshold required to receive the cash transfer was reduced from 36,5 to 24 points in the Social Registry Index.

⁷ Camacho, Cunningham, Rigolini, and Silva (2014) "*Addressing Access and Behavioral Constraints through Social Intermediation Programs: A review of Chile Solidario and Red Unidos*" mimeo.

⁸ The PTUV also includes other activities related to gender-based violence, access to safe water and sanitation, and food and nutrition.



11. **MIES is a key actor in the implementation of the PTUV, and particularly the *misiones “Ternura”, “Menos pobreza, más desarrollo,” and “Mis mejores años.”*** As part of the “*Ternura*” and “*Menos pobreza, más desarrollo*” misiones, the programs/services to be expanded in terms of coverage are: (i) the CCT “*Bono de Desarrollo Humano Variable*” (BDH-V) which involves a monthly fixed transfer of US\$50, and an additional transfer amount, based on the number of children living in extreme poor households, up to a maximum of US\$100; and (ii) Early Child Development Services which include accompaniment and counseling services through three different modalities: Child Development Centers (CDI); (iii) home visits; and (iii) family coaching delivered through “*Creciendo con Nuestros Hijos*” (CNH). The *misión “Mis Mejores Años”* targets the elderly extreme poor and includes an unconditional cash transfer program “*Pensión Mis Mejores Años*” which provides a non-contributive pension of US\$100, and care services to elderly through spaces for revitalization, recreation, socialization and meetings; home care; and institutionalized day and residential care. **The GoE’s priority is on strengthening the effectiveness of and access to social programs for the poorest quintile of the population.** All the “*Misiones*” implicitly or explicitly target the poorest quintile and aim to progressively expand coverage over time, based on their target groups and objectives, and availability of fiscal resources. This choice is important in the current macroeconomic context, and consistent with a higher return on investments, given that focusing resources on the poorest provides greatest impact on poverty gap reduction, and human capital accumulation. In addition, strengthening programs’ targeting will be critical to reaching this goal.
12. **The targeting mechanism used by the safety nets system is the Integrated Social Programs Registry (RIPS for its Spanish acronym).** The Registry is currently managed by the National Secretariat of Planning (SENPLADES), under the leadership of the Sub-secretary of Information. To define eligibility of individuals (and households) for social programs, SENPLADES uses a socioeconomic classification index applied to the information within the database of the Social Registry. The index was recently (2018) revised to reduce inclusion and exclusion errors.⁹ The registry currently shares socioeconomic data on potential beneficiaries with several institutions (*Ministerio de Inclusión Económica y Social -MIES-, Ministerio de Desarrollo Urbano y Vivienda -MIDUVI-, Secretaría Nacional de Educación Superior, Ciencia y Tecnología -SENESCYT-* and Ministry of Labor) that use it for their selection process. The registry contains information on 8 million individuals (roughly 2 million households), mainly from per capita consumption quintiles 1 and 2.
13. **To support efforts to strengthen access of the poorest to selected social programs, it is essential to: (i) update the RIPS data on registrants; and (ii) implement outreach and data collection.** The last data collection sweep was carried out in 2014, and an update is planned, with an expected completion date of July 2019, covering a total of 2.4 million (tbc) households. The data collection strategy should ensure that it not only current individuals’ information is updated, but also that new individuals/households whose circumstances may have changed since data was first collected in 2014 are included

Relationship to CPF

14. **The objectives of this proposed project are aligned with the objectives and pillars included in the latest Country Engagement Note and with the main development challenges and opportunities identified in the Ecuador Strategic Country Diagnostic (SCD).** The SCD (Report No. 127987) approved by the Board on June 25, 2018 identified the key elements that need to be in place to ensure sustainable and inclusive growth in Ecuador, which include: i) promoting macroeconomic sustainability; ii) enabling an efficient allocation of resources in the public

⁹ The expected overall classification error dropped from roughly 40 percent to 13 percent.



and the private sectors; and iii) protecting the poor and the vulnerable. In this context, the Project supports SCD “Pillar 1: Addressing Macroeconomic Imbalances” by improving the efficiency of public spending at different government levels and shifting resources towards priority social spending. Likewise, the project contributes to SCD “Pillar 2: “Lifting barriers to private sector development” by supporting an increased effectiveness of the safety nets, and “Pillar 3: Building human capital and expanding economic opportunities” by: (a) strengthening coordinated efforts to address high levels stunting and reinforce preventive and primary health care; and b) enhancing integration of vulnerable groups and ethnic minorities who receive cash transfer benefits.

15. **Furthermore, the project is aligned with the World Bank Social Protection and Labor Strategy (2012-2022)** on its objective of “helping make social protection and labor more responsive, more productive, and more inclusive of excluded regions and groups” , and the strategy’s approach for the prioritization on investments during the first years of the life cycle, particularly as the Strategy identifies early child development as a crucial ingredient for resilience across the life cycle¹⁰—. The project is also aligned with the efforts to reduce the social risk associated to school drop outs “combining income transfers with education, nutritional and health objectives, to promote human development” (p.16). In this context, the operation will also be aligned with the Bank’s Global initiative on Human Capital which objective is to drive more and better investments in people.¹¹
16. **On the Government side, the proposed project is closely aligned with the National Development Plan 2017-2021 which supports citizens’ rights and a life cycle approach by “Guaranteeing a dignified life with equal opportunities for all” (Objective 1).**

C. Proposed Development Objective(s)

17. The PDO is to improve access of the extreme poor to selected social protection programs in targeted localities, and to improve the effectiveness of those programs.

Beneficiaries

18. Estimated total beneficiaries include 154,863 households living in extreme poverty, with children under five years (estimated 141,066 children); children ages 6 to 12 years (estimated 248,551 children); teenagers/youth 13 to 19 years (estimated 157,535 youth), and elderly (41,407 elderly persons)

Key Results (From PCN)

19. Proposed PDO Indicators include:

- % of extreme poor households with children under five years old receiving CCTs with corresponding accompaniment and relevant counseling services in targeted localities.
- % of extreme poor households with elderly members receiving UCT and elderly care services in targeted localities.
- % of exclusion errors in the Social Registry DataBase.

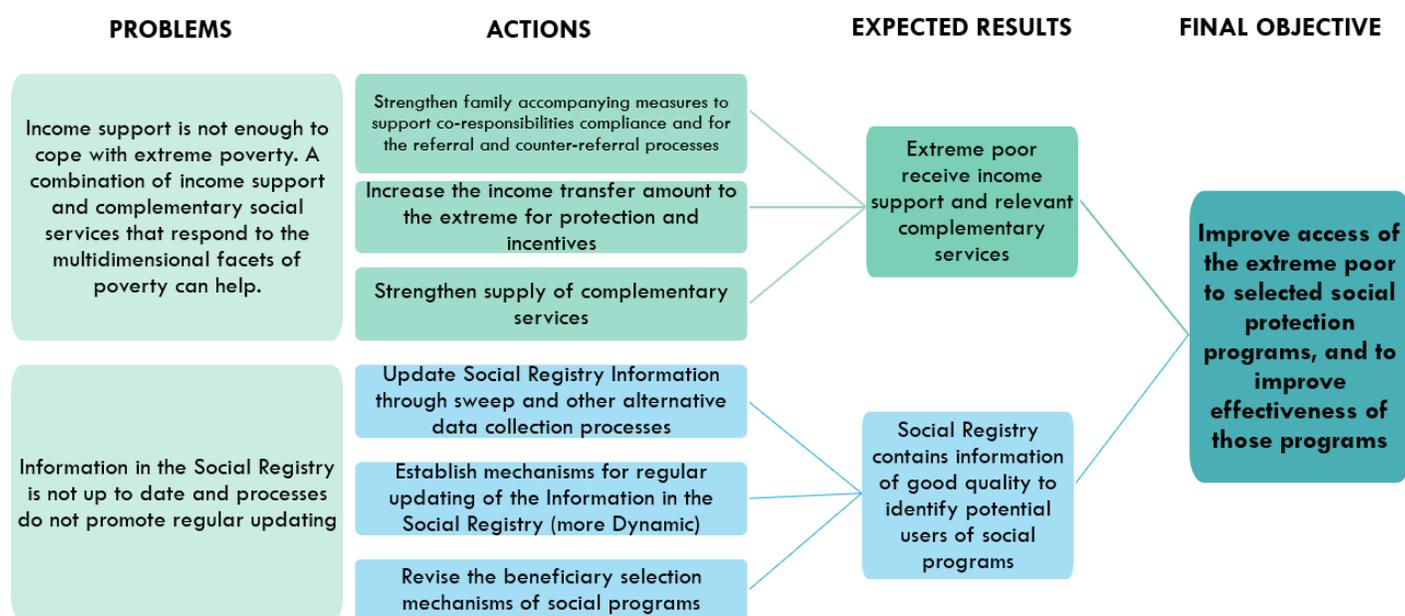
¹⁰ “...with adequate nutrition in infancy and early childhood being an important determinant of whether children can escape poverty.”

¹¹ A new Country Partnership Framework (CPF) for FY19-FY23 building on the approved SCD is under preparation and is expected to be discussed by the WB Board in May 2019.



D. Concept Description

Figure 1. Project Conceptual Framework and Expected Results



20. **Component 1: Improving effectiveness of the social protection system (US\$245million).** Following the conceptual framework described above (Figure 1), Component 1 institutional strengthening in the MIES and the SENPLADES, to support the implementation of key reforms needed for the achievement of Project results, at each stage in the results chain. This component would focus on two main areas: increase access of the extreme poor to a combined package of monetary transfers and pertinent services; and have updated quality information for the allocation of social programs and benefits. Tables below showed some DLIs that could fit for each of these areas.



21. Component 2: Technical Assistance for improving effectiveness of programs and institutional strengthening (US\$17 million). To achieve the results described in Component 1, the Project would provide the necessary technical assistance to improve effectiveness of the selected social programs and tools of the social protection system, and to support the necessary institutional capacity building activities

22. Component 2 would focus on improving effectiveness of selected programs and strengthening institutional capacity to implement changes to the design and delivery of social protection programs in line with the ultimate objective of increasing their effectiveness in order to make the overall system more efficient. Among the type of expenses that will be financed through this component are: (i) studies, evaluations and consultancies that could be used as inputs for the achievement of the results agreed under the first component; (ii) training activities for national and local teams, and (iii) equipment and software necessary to improve the technical and operational capacity of information systems. These activities listed will be revised carefully and costed together with the GoE during Appraisal as agreements are finalized regarding results areas under Component 1.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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APPROVAL

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