

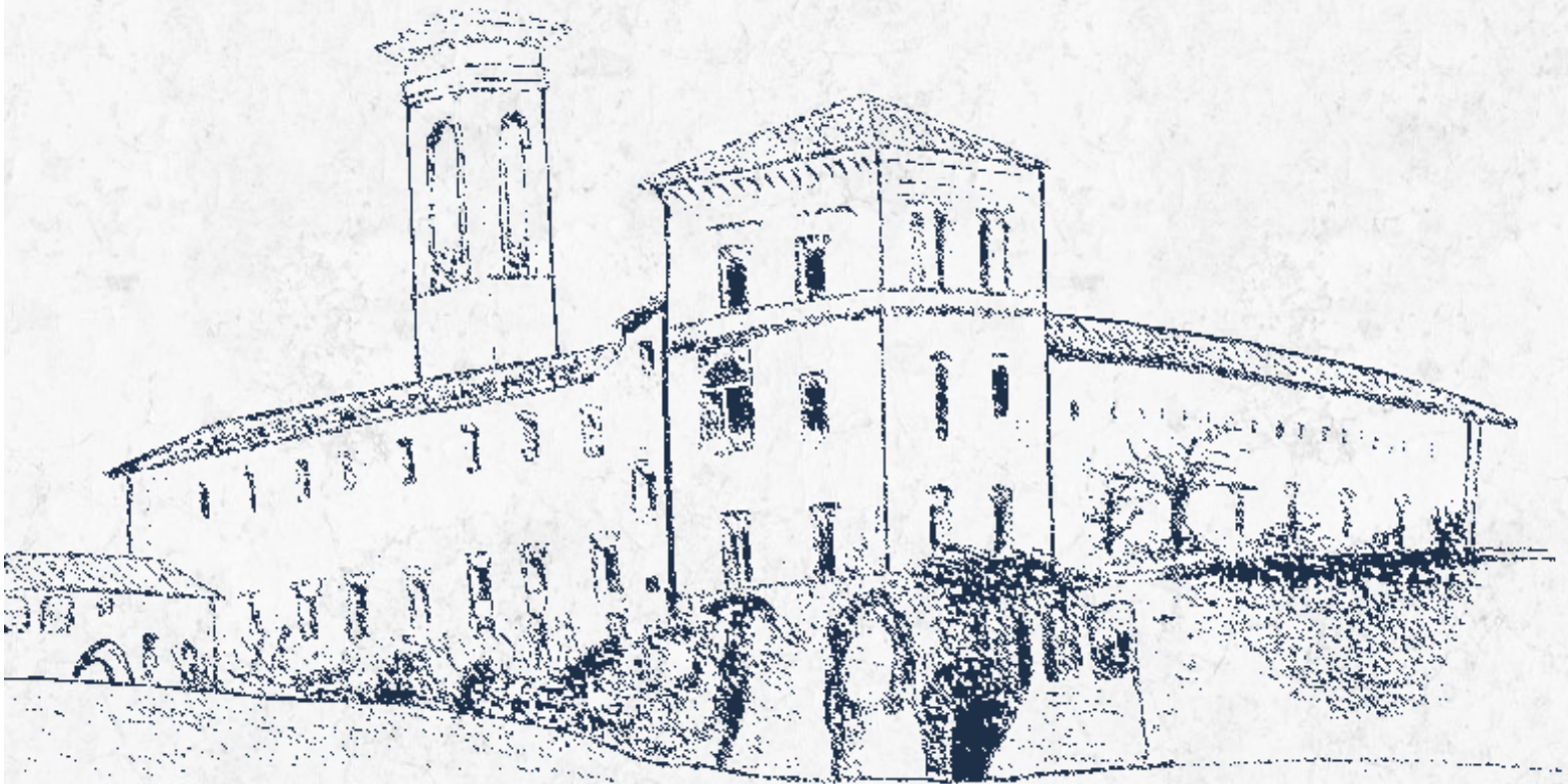
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# The Process towards Labour Formalisation in Ecuador over the Last Decade

Raúl Lorente Campos and Adoración Guamán Hernández <sup>1</sup>

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## Abstract

**Purpose.** The aim of this paper is to analyze the transition from informal to formal labour in Ecuador in the last decade.

**Design/ methodology/ approach.** The analysis will focus on two current challenges: the inclusion of self-employed workers and that of unpaid home workers (TNRH) in the national social security system.

**Findings.** Ecuador has become an interesting case with significant changes in terms of formalisation, labour market composition and the evolution of the labour and social security legal framework.

**Research limitations/implications.** Although significant progress, economic and labour informality is still a major issue in Ecuador, as it affects some 50% of its working population.

**Originality/ value.** The paper presents some proposals concerning public policies aimed at promoting formalisation and decent work by adopting a gender perspective.

**Paper type.** Issue paper.

**Keywords:** *Formalisation, Informal work, Productive Structure, Labour Policy, Social Security System.*

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## 1. Introduction

One of the biggest challenges in the promotion of decent employment is concerned with informal work. Aware of this situation, the International Labour Organization (ILO) has emphasised actions promoting the transition of economic and labour activity from informality to formalisation. The approval of the 204 Recommendation of the ILO on the transition of the informal to formal economy (2015) – the first international regulation specifically addressing this problem – should be seen as a guide to design and implement more effective policies for the promotion of work formalisation on a global level (Monereo & Perán 2016; Baz 2016).

Concretely, in 2013 the ILO regional office in Latin America developed the program for the promotion of formalisation (FORLAC) with the aim of assisting governments and social actors in consolidating policies and strategies to facilitate the transition from the informal to the formal economy in the region. Among other things, the program was also intended to generate and disseminate knowledge on the transition towards a formal economy.

As is well known, the promotion of formal employment is an urgent issue in Latin America and the Caribbean, where labour market informality is well rooted (Capecchi 1988; Portes, Benton & Castells, 1989). In this sense, it is estimated that around 130 million people work in informal conditions, that is 47.7% of the workers in the region (ILO 2013a).

The Ecuadorean labour market, which will be examined in this paper, confirms this trend. As we will see below, half of the population engaging in paid work operates in the informal sector. However, this state of affairs should not play down the significant progress made in the last decade. Between 2007 and 2016, the economically active population increased by 1.5 million people, and unemployment dropped to 4.4% (ENEMDU - INEC March-2017), one of the lowest rates in Latin America.

The most relevant feature is the increase in the number of those who register with social security, that has gone up by 20 percentage points. In 2006, there were 1.5 million people registered to the IESS, whilst in 2016 this figure rose to 3.5 million people. Another significant aspect that was reported in this decade is the extension of social security to non-salaried, stay-at-home workers, through the “unpaid home workers program” (TNRH).

Therefore, it is safe to argue that there have been steps towards formalization, although more must be done to promote formal and decent

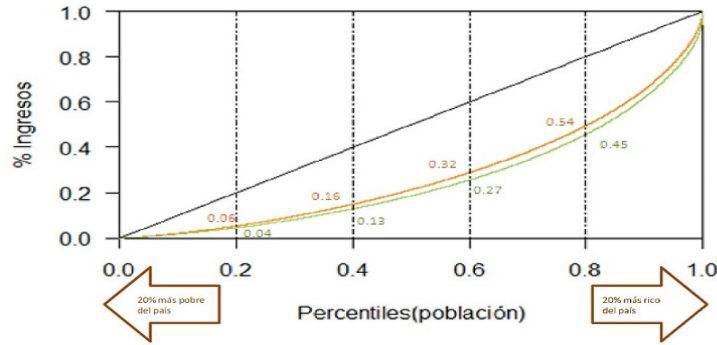
labour. Against this background, this paper sets out to examine paid work in Ecuador and the implementation of reforms and proposals devised to tackle informal labour. Emphasis will be given to the advisability to overhaul the national social security system in order to make it possible for all to benefit from it. The analysis will prioritise a gender perspective, which should be the starting point of any political measure regarding employment and care work.

## **2. The Evolution of the Labour Market in Ecuador in the Last Decade**

The economic growth experienced by Ecuador in the last decade is the most relevant one in its recent history and one of the most significant in Latin America. In real terms, GDP growth was steady between 2007 and 2016, on average higher than 5% (Ecuadorean Central Bank, BCE). Importantly, this growth took place in a context of a global recession, though certainly favoured by the high price of crude oil, Ecuador's main export commodity. This economic growth has been spectacular in some years (e.g. in 2011 it was equal to 8%, whereas in 2008 and 2012 it was higher than 6%).

The process of economic growth in the country in the last ten years also featured a rather socially-inclusive character. As can be seen in Diagram 1, the Lorenz curve in Ecuador for 2015 is closer to the 45<sup>th</sup> line – which shows that income was evenly distributed among the population – than it was in 2009 (INEC - ENEMDU), pointing to a more favourable trend after this year.

Diagram 1. Lorenz curve in 2009 and 2015



Note: the green line indicates 2009, the orange one refers to 2015.  
 Source: ENEMDU (INEC). Elaboration: Central Bank of Ecuador (BCE in Spanish).

The even distribution of income amongst the population is also reflected in the reduction of poverty in the country. Between 2007 and 2016, the poverty rate dropped by 13.8 percentage points – involving 22.9% of the population at the end of the reference period – with the extreme poverty rate that was almost halved. Although the extreme poverty rate in 2007 was 16.5%, it was reported at 8.7% in 2016 (INEC).

Diagram 2. Rate of poverty and extreme poverty in Ecuador.



Source: INEC – ENEMDU. Elaborated by BCE.  
 Note: The share of poor, indigent or those experiencing extreme poverty is calculated as a percentage of the total population in a given year.



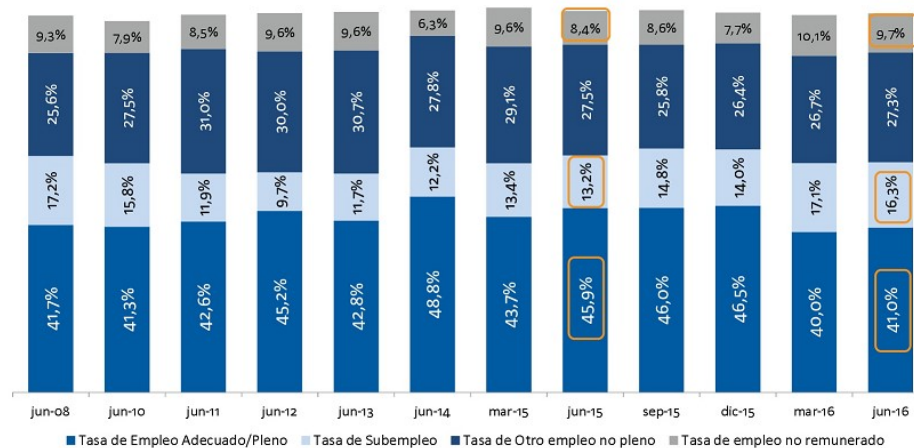
Economic growth has also affected paid work, in that it improved variables (see the following section). The table and diagram below provide some statistics concerning paid work:

Table 1. Composition of population in relation to employment: A national overview

	dec-2007	dec-2008	dec-2009	dec-2010	dec-2011	dec-2012	dec-2013	dec-2014	dec-2015	dec-2016	mar-2017
<b>Total Population</b>	13.682.302	13.878.704	14.081.060	14.279.685	14.478.129	14.682.556	15.872.755	16.148.648	16.404.531	16.714.929	16.738.420
<b>Working Age Population (PET)</b>	9.309.490	9.648.996	10.032.716	10.291.500	10.533.003	10.864.147	11.200.371	11.159.255	11.399.276	11.696.131	11.726.450
<b>Economically Active Population</b>	6.336.029	6.385.421	6.548.937	6.436.257	6.581.621	6.701.014	6.952.986	7.194.521	7.498.528	7.874.021	8.084.382
Employment	6.019.332	6.005.395	6.125.135	6.113.230	6.304.834	6.424.840	6.664.241	6.921.107	7.140.636	7.463.579	7.728.968
Adequate / Full Employment	2.737.158	2.858.659	2.565.691	2.875.533	2.996.566	3.118.174	3.328.048	3.545.802	3.487.110	3.243.293	3.112.953
Underemployment	1.155.872	957.978	1.071.615	889.255	706.458	603.890	809.269	925.774	1.050.646	1.564.825	1.726.030
Unpaid work	557.146	523.928	582.204	528.991	505.484	537.431	493.182	508.476	574.061	660.893	879.801
Other employment not full	1.504.000	1.649.349	1.778.578	1.765.688	2.056.875	2.018.582	2.019.279	1.924.634	1.981.205	1.978.071	1.994.537
Not Classified jobs	65.155	15.481	127.047	53.763	39.451	146.763	14.463	16.421	47.614	16.497	15.648
Unemployment	316.697	380.026	423.802	323.027	276.787	276.174	288.745	273.414	357.892	410.441	355.414
<b>Economically Inactive Population</b>	2.973.460	3.263.575	3.483.779	3.855.244	3.951.382	4.162.884	4.247.385	3.964.734	3.900.748	3.822.110	3.642.068

Source: ENEMDU (INEC). Own elaboration.

Diagram 3. Employment evolution (\*) at the national level.



\* The employment category includes waged and independent workers.

Note: Non-classified workers are excluded (0.3%)

Source: ENEMDU (INEC). Elaborated by INEC.

### *2.1. The slow path towards decent employment*

The decent/adequate employment<sup>2</sup> category includes 3,113,000 workers (March 2017), that is 40.3% of the employed population. There has been a growing trend recently, although it has been below overall employment growth. In December 2007, 2,737,000 workers with decent/adequate employment were reported out of a total of 6,019,000 workers (45.47%). This leads one to stress that at the end of this period, the share of decent/adequate employment reduced by 5 percentage points in relative terms. The growing evolution of this variable between 2008 and 2014 was offset by a reduction in the last few years, during which the economic crisis has worsened employment conditions, resulting in a negative net wage in the ten-year period under evaluation. At any rate, it is evident that this variable continued adjusting and showed a high degree of elasticity in relation to the economic cycle, especially during recessions<sup>3</sup>.

The underemployment category includes 1,726,000 workers (ENEMDU, INEC March 2017)<sup>4</sup>. The “other non-full employment”<sup>5</sup> category includes nearly 2 million workers (1,995,000 people). The “unpaid work” category includes 880,000 workers. As of March 2017, the unemployed in the country were 355,000 – indicating a 4.4% unemployment rate – one of the lowest in the region, though it increased in the last couple of years.

The above data reveals that Ecuador does not have a serious problem in terms of unemployment (Guamán & Lorente, 2017), but issues can be seen in relation to low-quality employment. This means that 60% of

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<sup>2</sup> The category of decent/adequate employment includes those workers whose salary is equal to or higher than the minimum wage, established in 2017 at 375 USD, those working the standard 40-hour workweek, and therefore are full-time workers and voluntary part-time workers (who work up to 40 hours and do not wish to work additional hours).

<sup>3</sup> The decent/adequate employment rate stood at 46.5% of total employment in December 2015, dropping to 41.2% in December 2016 (INEC. ENEMDU).

<sup>4</sup> This category is further divided into "underemployment due to insufficient income", which includes those with a monthly salary below the minimum wage, who work 40 hours or more a week and are available to work additional hours, and "underemployment due to insufficiency of working time", including those who work part-time for lack of an alternative: they work fewer hours than the standard 40 hours per week yet they wish to and are willing to work longer hours. This sub-category does not consider remuneration, although it is assumed that in most cases it does not reach the minimum wage.

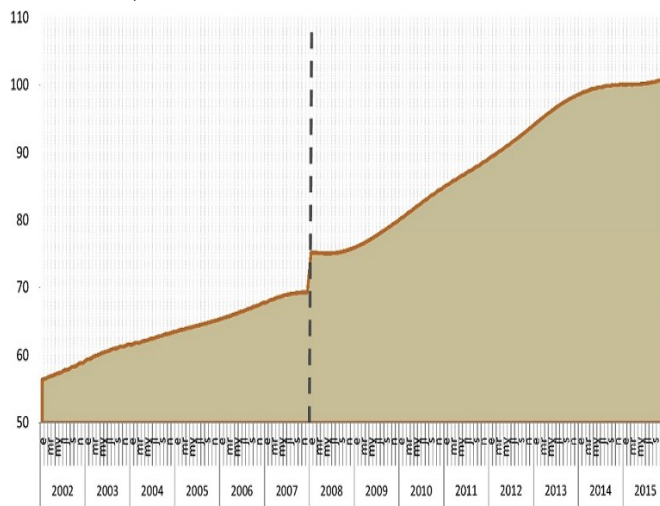
<sup>5</sup> This category includes those whose salary is less than the minimum wage, who work less than 40 hours a week and do not have the desire and/or availability to work additional hours.

workers do not enjoy decent or adequate employment. Presently, the improvement of this figure is one of the biggest challenges faced by the Ecuadorean labour model.

## 2.2. Growth in real salaries

A second factor is the significant growth in real salaries in the last 15 years in Ecuador. As can be observed in Diagram 4, between 2002 and 2016, real wages practically doubled, from an index value of 56 to 102 (in 2014 the index value was 100). The purchasing power of wages almost doubled in just ten years, indicating a reduction in the poverty index as well as growth of household consumption. This process of economic and social development in Ecuador has helped the country to expand and to train a part of the working class with the qualifications needed to strengthen the development process. This is the starting point for the transition towards full economic and social development and for poverty reduction, although it is true that implementing measures promoting the transition from the informal to the formal labour market should be an ongoing process. Paid work “formalisation” is taking place in Ecuador, as reflected in the Social Security (IESS) affiliation index in this period, yet it is necessary to accelerate and expand this process in the near future, especially considering the magnitude of the phenomenon.

Diagram 4. Evolution of the Real Salary. Real salary index (2014=100, 2002-2016).



Source: INEC. Elaborated by: Central Bank of Ecuador (BCE)  
\*2007 change of series.

Table 2. Real Salary average<sup>6</sup>, 2014=100

2007	69,0
2008	74,9
2009	77,6
2010	82,5
2011	86,8
2012	91,4
2013	96,9
2014	100,0
2015	100,2
2016	101,8
2017*	103,8

\*4-month average

Source: Labour Ministry, BCE. Own elaboration.

### *2.3. Minimum Wage Growth (Unified Basic Salary)*

The third significant factor is the 10% increase of the minimum wage or the Unified Basic Salary (SBU) over the 2009-2014 time-period (e.g. from USD 218 to USD 340). From that date, pay raises have been less significant (4%), standing at USD 375 in 2017. These increases have always been higher than the inflation rate, making employees' purchasing power constantly depending on this wage floor, especially between 2009 and 2014. This significant and sustained growth of the minimum wage shows the government's unequivocal willingness to dignify the wage floor and to extend this growth to other forms of remuneration. In light of the evolution of the average real wages referred to above, we can argue that the policies laid down have been successful.

<sup>6</sup> This refers to the value of the average nominal wage divided by the consumer price index of the reference month. It is expressed as an index whose base is 2004 = 100.

In January 2017, INEC set the Average Family Basic Basket at USD 701.9 – with family income being slightly lower – estimating coverage of the basic basket at 99.72%.

Table 3. Evolution of the minimum wage in Ecuador (SBU)

2009	218 \$
2010	240 \$
2011	264 \$
2012	292 \$
2013	318 \$
2014	340 \$
2015	354 \$
2016	366 \$
2017	375 \$

Note: quantities in USD

Source: CONADES.

#### *2.4. The increase in the number of those registered with the Social Security System*

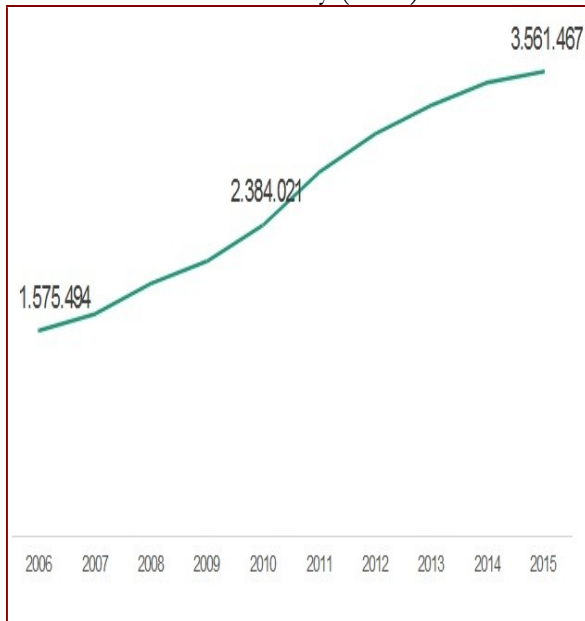
The fourth factor that we must take into account when analysing the Ecuadorean labour market is the upward trend regarding registration with the social security system. The effectiveness of the reforms is reflected in the qualitative and quantitative growth of the scope of the system. According to the data released by the Coordinating Ministry for Social Development (MCDS), coverage of the Ecuadorean Institute of Social Security (IESS) increased from 1.5 million members in 2006 to more than 3.5 million as of December 2015.

Practically, 2 million more workers have registered with the IESS in 10 years (+126%). In relative terms, it can be observed that in the 2003-2007 period, affiliation to social security concerned 25% of the working population, taking into account both dependent and independent workers (INEC). In 2007, 19.8% of the working population was affiliated to IESS, 9.7% to other insurances, and 70.5% did not have any social security at all. In 2016, the scenario was different, since 32.8% workers were registered

with IESS, 12.4% with other social security schemes and 54.8% were not affiliate to any social security scheme. In the last year, registration decreased, as did the share of those in decent and adequate employment. Statistics relating to March 2017 show that 29.1% of the working population was affiliated to IESS, 13.2% to other social security and 57.7% of workers lack any social security at all.

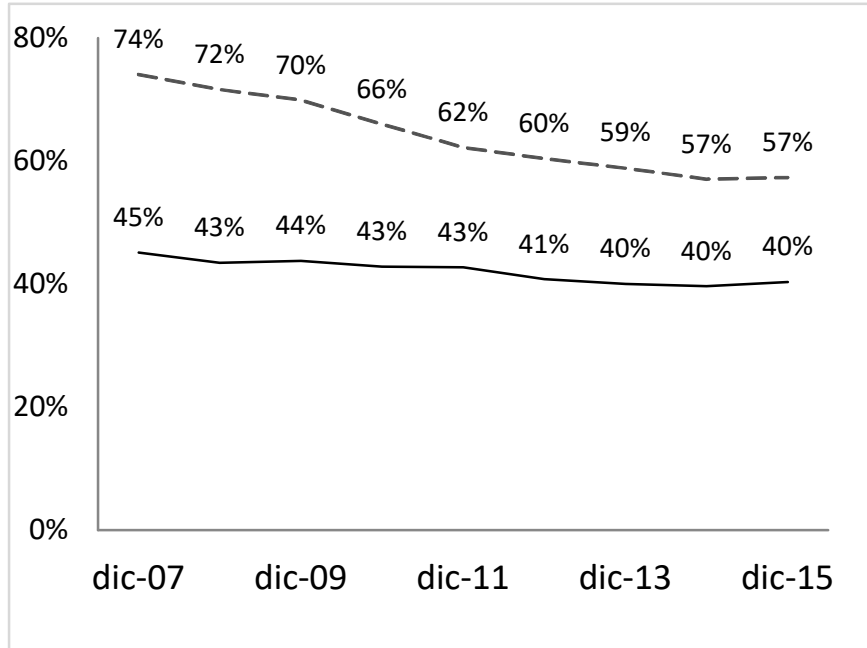
Despite significant progress, the information we have shows that a number of barriers still exist in relation to informality. The National Plan for Good Living (PNBV) recalls the obligation of monitoring the affiliation of dependent workers and generating incentives and procedures for the voluntary registration of self-employed and non-paid workers.

Diagram 5. Number of active members affiliated to the Ecuadorean Institute of Social Security (IESS)



Source: administrative register of the IESS, December 2015.

Diagram 6. People in employment without social security in relation to the total (dependent or independent) and employment in the informal sector



Note: The dashed line corresponds to employment (dependent and independent) without social security in relation to total employment. The continuous line refers to employment in the informal sector. Source: ENEMDU – INEC.

From a qualitative point of view, the data shows two fundamental aspects: the low level of contributions / benefits of the system and the inequality between contributions and benefits awarded under various social security schemes, in particular between the general scheme and the special schemes concerning military and police officers (Guamán et al. 2016).

Furthermore, and although the system is based on solidarity as a guiding principle, disproportions can be seen in terms of benefit value, not only within those provided by IESS and the special regimes (the police and the army), but also within the general scheme. There is an inverse proportion between wages and benefits, which is typical of a contributory system but it is more pronounced in this case. Thus, it would be necessary to introduce redistributive mechanisms and appropriate minimum limits to ensure solidarity of the system.

From a demographic point of view, it must be taken into account that Ecuador has a suitable context for the development of a universal social security system, with sufficient benefits linked to a decent standard of living (Guamán et al. 2016).

### 3. The magnitude of labour in the informal sector in Ecuador

Assessing the scope of informal work in Ecuador raises methodological issues resulting from the definition of the “informal work” category itself. According to the definition used by the INEC<sup>7</sup> in the formal sector, two types of workers are identified. Firstly, employees who report working in production units with 100 employees or more, since it is assumed that these units adopt a Single Taxpayers Registry (RUC); secondly, employees reporting working in production units with less than 100 employees and that adopt a Single Taxpayer Registry (RUC). In the informal sector, this definition includes people who declare themselves as working in production units with less than 100 workers and that do not have RUC. There are also those who consider themselves as home workers, and lastly there’s a category comprising “non-classified” workers who state that they do not know whether the production units where they work have RUC or not.

In labour terms, the classification of employment in the formal economy is linked to the business or economic activity of the production unit the worker operates in, the applicable tax regime, invoices and registration with the RUC. The application of RUC in the productive unit is the only criteria enabling one to classify a worker as being part of the formal economy, and this criterion does not take into account all the possible situations relative to the worker and the social security system. Article 15 of the IESS's portfolio insurance, collection and management Regulation (Resolution number: CD 516) establishes that if the employer fails to produce a registry, the Affiliation and Coverage Unit will go on and enter worker in the system with their ID or with RUC. Assumably, even without RUC, an employer can be prompted to register his/her employees. Of course an employer with RUC may not register their

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<sup>7</sup> INEC (2015): Actualización metodológica: Empleo en el sector informal y la clasificación de los ocupados según sectores; Julio.

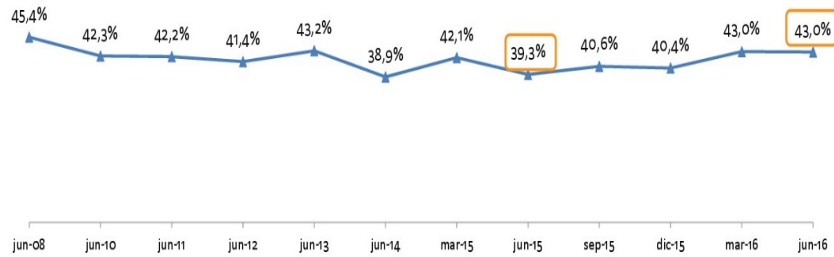
INEC (2016): Metodología para la medición del empleo en Ecuador; Septiembre: [http://www.ecuadorencifras.gob.ec/documentos/webinec/EMPLEO/2016/Septiembre-2016/Nota%20metodologica%20final%20actualizada%20\(Septiembre-16\).pdf](http://www.ecuadorencifras.gob.ec/documentos/webinec/EMPLEO/2016/Septiembre-2016/Nota%20metodologica%20final%20actualizada%20(Septiembre-16).pdf)



workers with the social security system, acting illegally even though they are part of the formal labour sector.

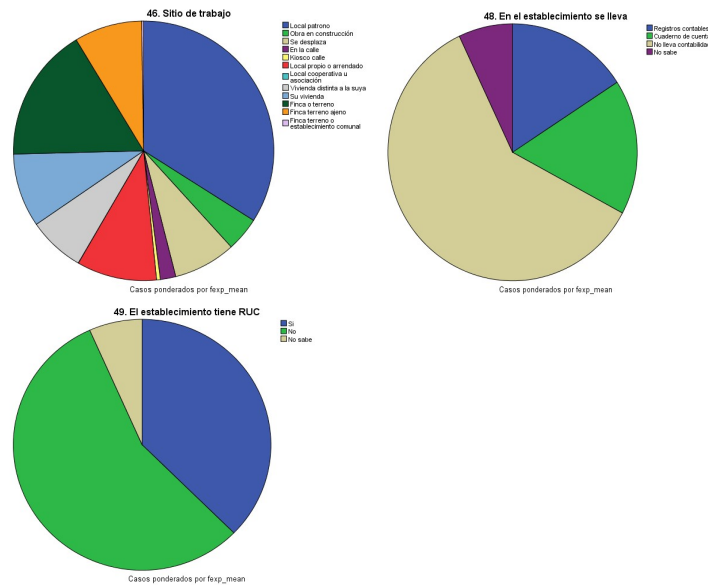
Lastly, a worker (either a dependent or independent one) operating in the informal economy is a worker who works on his/her own account and does not have RUC, or who works for/with a company which does not provide him/her with invoices for him/her services or production. Evidently, this classification is not in line with the labour categories discussed above, although decent/adequate employment can be found in the formal economy and the rest of the categories (underemployment, other non-full employment, and non-classified employment) are seen as being part of the informal sector. Some available data is presented below:

Diagram 7. Ecuador’s total share of employment in the informal sector



Source: ENEMDU (INEC)

Figure 8: 1. Place of work: Lugar de trabajo: variable *proxi* to informality<sup>8</sup>.  
 2. Work establishment with Accounting Records  
 3. Work Establishment with RUC



Source: INEC – ENEMDU Microdata 2016. Own elaboration.

In Ecuador, but this also happens in other nations in the region, more than 4 out of 10 workers work in the informal sector of the economy. This may represent nearly half of total employment in the country, with important manufacturing sectors which escape the work of National Accounting.

This significant share of workers operating in the informal sector, which has not diminished in recent times, also shows links with the economic cycle, as informal work is performed to deal with economic difficulties. This aspect is confirmed by the 3.7 percentage point growth rate of

<sup>8</sup> The workplace can be used as an indicator of the employment relationship and its degree of formality, so can the conditions of work linked to this relationship. Only 44% of the workers work in a specified place: 34% operate on the employer's premises and 10% on their own premises. Some 38% work on site, which is a particularly high percentage. 24% in the field, 8% in foreign land and 16% on land owned by an individual or a number of people.

employment in the informal sector in 2016 due to the crisis, frustrating the progress made in the previous seven years<sup>9</sup>.

It also shows that informal work prevails in rural areas, as here the percentage of informal workers is twice as high as that reported in urban areas (59.3% against 29.1%).

Tough with some fluctuations, the employment rate stands at 64%. This also indicates that the problem in Ecuador, as in the rest of countries of the region, is not the volume of occupation but its characteristics, and due to this the transition towards the formal sector becomes a matter of urgency.

Table 4. Sectorization of the employed population (15 and older)

		dec-2007	dec-2008	dec-2009	dec-2010	dec-2011	dec-2012	dec-2013	dec-2014	dec-2015	dec-2016	mar-17
National	Formal Sector	41,0%	43,9%	43,7%	47,2%	46,5%	48,7%	49,3%	50,9%	50,5%	47,6%	47,0%
	Informal Sector	45,1%	43,5%	43,8%	42,8%	42,7%	40,8%	40,1%	39,7%	40,4%	43,7%	45,6%
	Domestic Work	3,3%	3,5%	3,4%	2,9%	2,3%	2,5%	3,1%	3,2%	2,7%	2,8%	2,8%
	Not Classified	10,6%	9,2%	9,1%	7,1%	8,4%	8,0%	7,5%	6,2%	6,5%	6,0%	4,5%
Urban	Formal Sector	54,1%	56,2%	57,3%	60,8%	59,9%	62,5%	61,9%	60,6%	60,8%	56,6%	57,9%
	Informal Sector	34,0%	33,2%	32,6%	31,2%	32,5%	29,8%	29,8%	30,9%	31,3%	35,2%	34,9%
	Domestic Work	4,3%	4,2%	4,1%	3,4%	2,7%	2,9%	3,6%	3,8%	3,2%	3,3%	3,7%
	Not Classified	7,7%	6,4%	6,0%	4,6%	4,8%	4,9%	4,7%	4,7%	4,7%	5,0%	3,5%
Rural	Formal Sector	15,5%	19,1%	17,2%	20,5%	19,6%	21,2%	23,6%	31,0%	28,7%	29,6%	26,7%
	Informal Sector	66,7%	64,2%	65,6%	65,7%	63,2%	62,8%	61,1%	57,6%	59,5%	60,6%	65,8%
	Domestic Work	1,5%	1,9%	2,0%	1,8%	1,6%	1,7%	2,1%	2,2%	1,6%	1,8%	1,2%
	Not Classified	16,3%	14,8%	15,2%	11,9%	15,6%	14,3%	13,2%	9,3%	10,1%	7,9%	6,3%

Source: ENEMDU (INEC). Own elaboration.

It is equally important to stress the high incidence of informality among women which somehow resembles the existing gender gap in paid work. Women in Ecuador report a significantly low employment rate, low levels of decent/adequate work, registration with social security, lower contributions and benefits, lower wages. They also experience a much greater incidence in relation to labour informality (Guamán et al. 2016).

<sup>9</sup> Comparing the data of the recent trajectory of informal employment with the evolution of economic growth in Ecuador, a correlation emerges. The size of the informal sector shrunk by 6.5 percentage points over the period of economic growth (i.e. between 2008 and 2014). This reduction is due to the relative growth of formal versus informal employment, and to a certain extent, to the fact that a larger number of jobs are performed in the formal sector. In the last stage, concurrently with the slowdown of economic growth and the recent crisis, informal employment is growing again. In just one year, from June 2015 to June 2016, it increased by 3.7 points.

#### **4. Regulation Reforms towards the Formalization of Employment: Social Security as a Point of Departure towards Formal Employment**

The legal framework of the social security system in Ecuador has undergone major changes in recent times. Since the enforcement of the 2008 Constitution, many reforms have been implemented aimed at building a universal and sustainable social security system including the majority of the working population.

The changes in the last decade could be seen as a combination of the following factors: a) Labour inspections; b) Compulsory affiliation to the social security system for certain new professional categories, i.e. domestic workers; c) Incentives to affiliate certain professional groups, among others non-dependent workers (artists and transport workers) and unpaid homeworkers (TNHR).

One of the most innovative and much-debated moves has been the recognition of unpaid homework (TNHR). Article 34 of the Constitution states that the right to social security “includes people who engage in unpaid work at home...”. The second paragraph of Article 369 of the Constitution states that “benefits for persons performing unpaid homework and care work will be financed by state contributions” establishing a shared responsibility between the family and the state (MCDS 2015: 25).

It should be underlined that the contribution of women<sup>10</sup> in unpaid homework and care work makes up 15.4% of GDP (MCDS 2015: 11). The reasons that have been used for justifying their inclusion in the social security system are mainly two: home or care work benefits the whole society and the recognition of the right to a public pension prevents poverty, exclusion and discrimination. This new right is intended to strengthen the autonomy of home helps, most of whom are women<sup>11</sup>.

In order to apply the Law for Labor Justice and Recognition of Work in the Home, the Regulation for the affiliation of persons performing unpaid

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<sup>10</sup> Women undertake 99.8% of unpaid work of the PEI.

<sup>11</sup> The number and percentage of women is especially high among the IEP: according to the ENEMDU Survey, in December 2013, housewives were 1,834,188, equivalent to 43.18% of persons in the IEP, 99.8% of whom were women and less than 0.2% men. 66% of them were less than 50 years old. Both the number and percentage of unpaid household workers is significantly lower among the employed EAP: 542,743 people, which amounts to approximately 8% of the EAP. The percentage of women performing this work within the EAP is also lower than 69%.

home work was approved through Resolution C.D. 492 of 6 August 2015. As stated in Article 1 of the Regulation, the unpaid home worker is understood as a person who carries out unpaid work in the household, exclusively performing personal care tasks without receiving any economic remuneration and without carrying out any of the activities set out in the guidelines (MCDS 2015). Their protection is ensured only when they are not covered by other social security schemes.

The contribution base depends on family income (Family Economic Unit) which considers four levels: income less than 50% of the minimum wage; income between 50% and 100% of the minimum wage; between 100% and 150% of basic income; and above 150% of basic income. The lower contributions will be proportionally compensated by more substantial subsidies from the state.

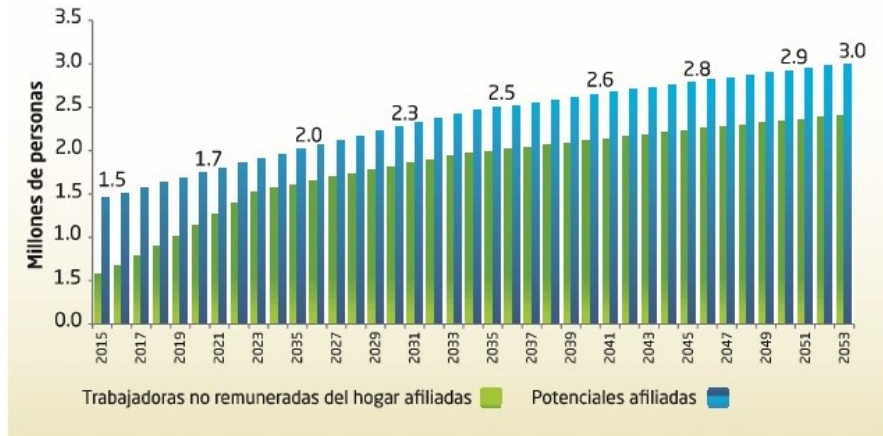
However, two problematic aspects can be underlined. In the General Social Security System (SGO), access to pensions means longer contribution careers, that is the provision of 240 or more forms of contributions to IESS. This period exceeds the 15-year timeframe stated in article 29.2.a) of Agreement no. 102 of the ILO on minimum standards of social security for access to retirement or old-age benefits, and we therefore believe that there some amendments are needed.

The second aspect is a more general one and refers to the role of social security protection for unpaid work. As we have already stated, we agree with establishing regulations that specifically protect those who are mostly engaged in unpaid work, i.e. women. As stressed in the report by the Coordinating Ministry of Social Development, women are placed at a disadvantage by the “gender” labour division and by policies that increase women’s economic dependency, including at an old age, failing to acknowledge the productive contribution of domestic unpaid labour (MCDS 2015: 38 and ff.). The report also foresees a practically constant distribution of the inactive population among men and women in the next decades (70% inactive women and 30% inactive men in 2013, changing to 67% and 33% in 2053, respectively).

According to the report’s forecast, the proportion of women who undertake unpaid work at home does not vary significantly, going from 43% in 2013 to 41% in 2053 (MCDS 2015: 53). The stabilisation of this percentage seems problematic, since it would acknowledge a sexual division in terms of labor to the detriment of women. In order to reduce it, and in addition to other educational and labor measures, rules should be established to increase women’s pensions, so that they are motivated to engage in paid work. Examples of this include contribution repayments

during certain periods in which women are out of work because child care and/or other career duties.

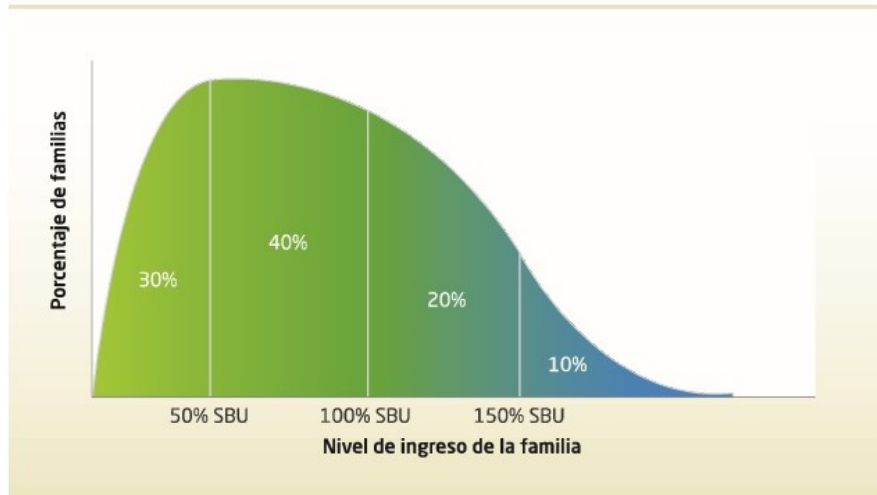
Diagram 9. Forecast of the evolution of people covered by membership scheme for home-based, unpaid work



Source: Cover model, ILO-COV, ILO. Elaboration: Coordinating Ministry of Social Development MCDS (2015)<sup>12</sup>

<sup>12</sup> MCDS (2015): Afiliación a la Seguridad Social del Trabajo No Remunerado del Hogar: Estudio de sostenibilidad financiera y actual. Quito. MCDS Coordinating Ministry of Social Development.

Diagram 10. Income distribution of families with unpaid workers in the household



Source: National Survey of Employment, Unemployment and Underemployment (ENEMDU)

Elaboration: Coordinating Ministry of Social Development MCDS (2015)

### 5. Some Proposals for the Future: Universality of the Social Security System as a Path towards Formalization of the Labour Market

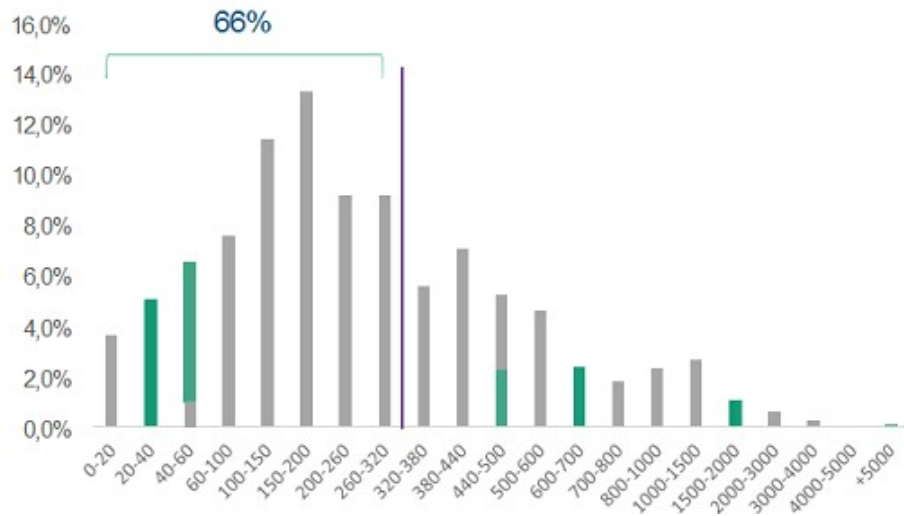
As we have pointed out, in order to guarantee system sustainability, it is necessary to continue, and if necessary to accelerate, participation in the social security system, and thereby reducing the share of the working population in the informal sector.

In this sense, the first proposal refers to compulsory registration with social security for all non-dependent workers, first through a transition period that encourages workers to join voluntarily and shows the benefits of affiliating to the system. Obviously, self-employed or independent workers should pay their own social contributions, thus incentivizing means to reduce the costs of those who cannot afford the current rates of 20.6%, without limiting access to protection measures. In order to comply with the incentives and procedures for self-employed workers mandated by the PNBV, it should be necessary to modify current regulations to include specific measures, similarly to the ones addressing young workers laid down in Article 38 of Regulation 516 of 2016.

Contribution-based economic support will help to overcome another major obstacle. It should be noted that 70% of the country's independent

workers report an average income that is lower than the basic salary of USD 375 calculated in 2017 (USD 354 in 2015). All this must be seen in a context that is not entirely negative, since Ecuador is faring well if compared with other countries in the region. On average, it reports a higher average wage and in the last ten years is experiencing significant growth of real wages, thus expanding consumption.

Diagram 11. Distribution of incomes of self-employed workers (USD)



Source: ENEMDU (INEC). December 2015.

The second proposal is to reform “Peasant” Social Security (SSC). It should be remembered that the number of agricultural workers in Ecuador, between 1.9 and 2 million in the primary sector (INEC), is affected by the 290,000 SSC leaders who are mandatorily registered with SSC<sup>13</sup>. This raises the challenges of expanding the base of contributors, making it as one of the main objectives that of affiliating all people working in these rural activities and not just one person per household

<sup>13</sup> In 2012, 289,551 people were registered as heads of families, SSC contributors. In 2015, this number increased to 350,553 (IESS, 2015). In the classification of the employees by branches of activity carried out by the ENEMDU, the following sectors: "agriculture, livestock, hunting, forestry and fishing" employed 28.6% in 2012 (27.2% in June 2016 of the total of employees in the country). This is the activity that most weighs on the occupation (also with a lot of difference with respect to the following activity, which is commerce) and a volume of employees of 1,884,245 people (2,016,907 for 2016).



(the leader). This would increase contributions and the rights associated with membership (e.g. pension). In this sense, we consider that in the medium term, social security affiliation could be extended through the SSC to 1,5 million out of a total of two million rural workers (the ENEMDU registers 2,016,907 employees in the “agricultural, livestock, hunting, forestry and fishing” sectors in 2016).

This would mean a 5-fold increase in the number of those receiving a social insurance in the countryside and coverage for the risks of disability, occupational accidents and old age or retirement for 1.2 million workers. The latter are currently excluded from these measures and the system of family affiliation provides them with insufficient protection.

However, widening the recipient base may also require a review of the system and the amount of contributions. In other words, changes are needed as regards: a) Extension of the membership base, b) A substantial increase in the amount of retirement benefits, and c) Increased membership requirements, linking the specificity of peasants’ social insurance to low income or low family income, and traditional farms.

In this sense, we suggest that the reduced sub-scheme contribution to the IESS is kept (22.5% of the basic income at a monthly rate of 2.5%), and that this is extended to farm workers, not only to the head of the household. This extension of the base of contributors to the general group of workers would increase the base of contributors to the system and would expand the retirement or old age pension to all members.

Furthermore, it is a more accurate reflection of the people under this scheme and of the community’s levels of productivity. This process would help multiply the number of contributors to the SCC to between 6 and 9 people, based on the average number of members of each unit grouped under the head of household. This would lead to a significant increase in the number of contributors to the system. In a more conservative situation of 6 active members per family unit grouped under a head of household, the number of contributors increases from 350,553 contributors (IESS Register, 2015) to more than two million contributors (Guamán et al., 2016).

This more accurately reflects the rural, and largely indigenous, reality of Ecuador, and more specifically the importance of traditional agriculture. It contemplates the impact that this subsystem of the Peasant Social Security system has on the social empowerment of these communities and on the construction and development of community cohesiveness. It also helps to analyse the important work carried out by these communities in terms of food sovereignty, agricultural diversity, and helps dignify rural

communities, reducing the phenomenon of urban migration that ultimately uproots, assimilates and impoverishes the population.

By way of conclusion, it should also be noted that we are examining a social security regime originally intended as a means for guaranteeing the subsistence of those families who may lack essential resources in the event of retirement, disability or death. However, this aim is no longer enough within the current constitutional framework; the SSC must evolve along the lines suggested above.

## 6. Conclusions

The scenario outlined above shows that the transformation that must be promoted in Ecuador's labour market is wide-ranging and must have short, medium and long term goals, with a clear progress schedule towards higher rates of decent work. This process must be adapted to the peculiarities and idiosyncrasies of the country, and to the strategic importance of employment in rural areas and the closeness of rural populations to their environment, thus avoiding the flood of rural migrants towards the urban environment. The process must also be modelled upon the particularities of indigenous communities that require specific policies and, possibly, different development initiatives.

In general, the challenge of modernising the labor market in Ecuador is mainly concerned with boosting overall participation and activity rates. First and foremost, it should increase the rate of female activity to match that of their male counterparts, overcoming gender gaps that limit women participation in the labour market.

The above conditions suggest that the problem in Ecuador, as is in the rest of the countries in the region, is the volume of employment but its characteristics, and thus it is important to lift the bulk of labour from underemployment and informal activity towards formality and regulated forms of labour relations. The country must contemplate, as one of its fundamental pillars, the affiliation to the obligatory insurance of IESS. For this to happen, it is necessary to concentrate efforts on increasing salarization – e.g. the total number of salaried workers as compared to the total employed – thereby reducing the share of low-income self-employed workers engaged in informal activities<sup>14</sup>.

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<sup>14</sup> The literature highlights the positive relationship between higher GDP per capita in PPT and lesser weight of self-employment. Ecuador is at an intermediate point in the context of Latin America with a 44% self-employment, a percentage similar to Colombia

In this regard, Ecuador must carry on with the policies that have promoted an unprecedented expansion in the last decade, the 10% increase in overall employment, and to whatever extent possible the expansion and acceleration of affiliation to the social security system. It is necessary to continue to encourage the voluntary affiliation of different groups of workers to the social security system (such as unpaid home workers), the obligation of affiliation for all commercial work, both dependent and independent one, and the expansion of supervisory mechanisms and corrective sanctions laid down by the government.

This is a complicated process that requires reflection, flexibility and policies so that, in the transition from informality to formality, the least possible forms of employment are lost and destroyed. It also requires workforce mobility towards work in full and adequate employment, with all labour rights, including affiliation to the social security system.

The investment effort of both the public and private sectors in the mobilisation of all available capital resources is thus a necessity. In the last decade, Gross Capital Formation has practically tripled at constant prices, going from approximately USD 5 billion to USD 15 billion in 2007; social spending in relation to GDP has more than doubled and tax collection in relation to GDP has increased by more than two percentage points (BCE and Ministry of Finance). This data gives us an optimistic view regarding the country's potential for change and transformation.

Ecuador's economic planning, through the National Secretariat of Planning and Development and the Second National Plan of Good Living, can be seen as a long-term program that considers the transformations we have suggested above. The strategy for long-term accumulation, distribution and redistribution includes focusing on the country's production of services with high added value, expanding industrial production and reducing the relative weight of primary production, including extractivism. This radical transformation of the productive model, that should change the country's profile towards the middle of the 21st century, requires a labor market centred on workers' skills and the high value of the services and goods that they produce. The investment effort made by the state concerning different levels of the education system is certainly indented to pursue this objective.

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and Peru, lower than Bolivia (60%) and significantly higher than that of the most advanced countries: Brazil, Chile, and Argentina. In contrast, Spain's salaried rate stands at 83.14% (EPA, INE), in Ecuador according to ENEMDU's data we can approximate that it is at 56.43%, more than 25 points less, showing a disproportionate weight of self-employment in activities of very low productivity, low value-added and unprofitability.

This transition involves a change in which the primary sector, especially agriculture, loses its primacy to the benefit of the industrial sector, and especially to the tertiary sector, whose high-productivity and added value services should expand. In this sense, we believe that it is strategically vital for the country to invest primarily on workers, education, health services, tourism, financial services, telecommunications and energy. Additionally, these branches also feature better and more adequate employment ratios, meaning that improvements in these activities would lead to higher quality employment.

The agricultural and retail sector should gradually abandon the prominent role in terms of volume of employment, increasing their productivity through the incorporation of capital. Policies that have been effective in improving employment and reducing informality have to be continued. Economic growth, for example, has a positive correlation in the creation of formal employment, particularly by providing it with an inclusive qualitative character. Other policies benefitting the worker (Dignification of the minimum wage and domestic employment -both remunerated and TNRH-, Constituent Mandate 8 about prohibition of outsourcing...) are also effective in reducing informality.

Equally important is effective inspection and sanctioning policies, which penalise non-affiliation to social security (increasing the powers of the Labour Inspection and Comprehensive Criminal Organic Code). In addition, we consider it necessary to undertake reforms that limit compulsory part-time work, as well as the provision of public services such as nurseries and other care facilities for dependents, thus favouring labour participation of those who perform most of these tasks, e.g. women.

It is crucial to consider the difficulties of the formalisation process, subject to economic structural constraints: a notable structural rigidity towards the informal sector, linked to the preponderance of micro productive units and low productivity, and the varied nature of workers as far as their specialisation is concerned. It is therefore necessary to continue with public policies (education, higher education, business training, financial and microcredit services, industrial and science policy, technology and innovation) that increase the labour productivity of micro, small and medium enterprises so that they can afford the higher labour costs such as compliance with the minimum wage and the social security affiliation of their workers.

Social security measures should first of all grant workers access to the system as affiliate-contributors and then help them expand their sources

of funding and access to benefits. Simultaneously, it is necessary to plan the future sustainability of comprehensive social security financing, which will possibly demand reforms and a redesign of state subsidies contributing to the system. This way, an integrated, social protection system can be put forward that combines and coordinates the contributory social security subsystem with the non-contributory subsystem.

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