

The possibility of choice: are we asking the wrong question?

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Abstract

In the last few decades, there has been a growing consensus on the deepening of informality in Ecuador. The share of workers in the informal economy has remained constant. There has not been a sustained increase in formal job opportunities despite economic growth and expansion of global trade. Further, there has been an expansion of atypical work arrangements, as the share of self-employment has escalated. Informality has thus become the rule rather than the exception. With the increase of informality, unregulated workers receive little, if any, access to welfare and work-related benefits. Because of this, more attention has been given to informal and/or nonstandard employment and the accompanied erosion of state-provided welfare benefits. The core of debate lies now on how social protection can be implemented in such way which it is made accessible to informal workers without discouraging from securing a formal job. Indeed, the recent promotion of cash transfers in Latin America has arguably been a response to such challenges of providing social security to highly informalised labour forces. This paper explores the recent changes in social protection in Ecuador as an ideal case to examine the difficulties in providing welfare via cash transfers in a highly informalised context. Drawing on extensive field observation in Ecuador, the paper uses data from household surveys in tandem with in-depth interviews, in order to address the question: does the cash transfer programme *Bono de Desarrollo Humano* (Ecuador) encourage informalisation via perverse incentives? The paper argues that the question as such, influenced by the dominant debates on the perversity of transfers might be largely misplaced. If we bring to the floor the structural constraints impeding people from gainfully accessing and securing a formal job, then the role of social protection can be seen as marginal for the deepening of informalisation.

The possibility of choice:

Are we asking the wrong question?

In the last few decades, there has been a growing consensus on the deepening of informality in Ecuador². The share of workers in the informal economy has remained constant. Job finding rates are higher within the informal sector. There has not been a sustained increase in formal job opportunities despite moderate economic growth. There has been an expansion of atypical work arrangements, as the share of self-employment and temporary employment has escalated. Further, a significant proportion of workers in the formal sector are still unprotected. The traditional mechanisms of social security, typically provided through entitlements derived from formal employment, are accessible for a minority of the workforce only. If an increasing number of people are engaging in informal activities, the necessity of providing social protection through alternative, non-work based mechanisms, becomes increasingly important. Indeed, the recent promotion of cash transfers in Latin America, Ecuador being no exception, is a response to such challenges of providing social security to informalised labour forces.

However, the mainstream economic thinking that is dominant in IFIs and in national policy debates on these matters tends to revolve around a concern that runs in the opposite direction, that is, of the perverse incentives towards informality that social protection instils. The core idea behind this is that social protection has distortive features: the cash delivered to individuals provides them (of the perverse) incentives to exit the formal sector and opt for informality. Along these lines, it is argued that cash transfers programs prompt moral hazard among workers who receive these benefits. An extensive body of literature has dealt with the analysis of this interrelation³. This contention not only has gained increased attention in international debates about social protection (such as in World Bank, Inter-American Development Bank and similar institutions) but it has also influenced policy making within countries.

This view has permeated the public domain. Often times, the cash transfer program in Ecuador *Bono de Desarrollo Humano* (BDH), has been attacked stating that it supports poor people laziness at the cost of middle classes work. With recent increases in payroll taxes in Ecuador, the criticism to non-work based welfare provision has intensified and further divided public opinion. After a decision to finance the increase of the monthly transfer to US\$50 by creating a punitive corporate income tax for the private banking sector, a multitude of columnists have argued for a dismantling of the cash transfer program, convincing readers that is the reason behind the increased informalisation—portrayed as evasive practices—in the country. Hence, the emphasis coming out of

² This is acknowledged by Gonzalez-Rozada, & Llerena-Pinto 2011; Banco Mundial 2012; Goñi Pacchioni 2013; and ILO 2014.

³ See for example Maloney 2004. The association of informality to evasive practices follows a similar logic as the literature concerning unemployment insurance effects (Mortensen 1976; Moffitt 1985; Meyer 1991)

this concern and debates has been to design social protection in such way so as to minimise this perverse incentive and distorting effect on labour markets.

In light of this, I have researched the question: do cash transfers encourage informalisation via perverse incentives? My thesis in response to this is that the question as such, influenced by the dominant debates discussed above, is largely misplaced. If we bring to the floor the structural constraints impeding people from gainfully accessing and securing a formal job in Ecuador, then we might see the role of social protection as marginal to the deepening of informalisation. For the bulk of the labour force, crucial circumstances constrain the possibility for making an actual employment, more specifically, to opt for a formal employment.

This argument stands in contrast to the rationale behind the association of cash transfers to increased informality. The majority of contemporary authors adhere to microeconomic foundations, namely rational choice, to argue that individuals optimally choose to be informal, striving to get the best bargain in the labour market (Maloney 2004; Perry et al. 2007). Only a minority has perceived informality as a structural outcome or a result of marginalisation (Moser 1978; Harriss-White 2003 and 2006). Consequently, most of the debate is centred in the individual sphere where (employment) choices are supposed to be made, without considering the structure within people make a choice. Yet, the deepening of informalisation to a large extent can be explained by the structural constraints to access formal employment. In light of these broader institutional and structural constraints, the role of cash transfers is arguably marginal in conditioning people's choices. To put it simply, what can be chosen if there are no formal jobs to queue for? Job availability, combined with poor qualification largely restricts the options that can be taken. But job finding is not constrained by training only. As informed by many interviews and also confirmed in employment statistics, choices are largely constrained by gender, age and background. Gendered roles, being childrearing duties the most pressing, can be very restrictive. Family pressure to remain at home, the need to perform paid work to obtain some income, and the cost and unavailability of childcare centres, impinge on each other and hamper the possibility of choice.

Whereas it might be the case that cash transfers are having an effect on informality, albeit not through the perverse incentives channel, but rather through the institutional channel of implementation of targeted modes of social protection. The emphasis on targeted modes of social protection, not only fails in tackling the underlying causes of economic inequality, like the valuation of work and vulnerability to shocks among informal workers, but it entrenches further institutional stratification and segmentation of the population.

This paper focuses on recent changes in social protection in Ecuador as an ideal case to examine the difficulties in providing welfare via cash transfers in a highly informalised context. The discussion is situated in the context of the *Twentieth First Century Socialism*, regarding the recent changes introduced by the '*Revolución Ciudadana*' in Ecuador from 2007 onwards (Ponce and Acosta 2010). The first part describes macro trends obtained from labour survey data in Ecuador, exploring the

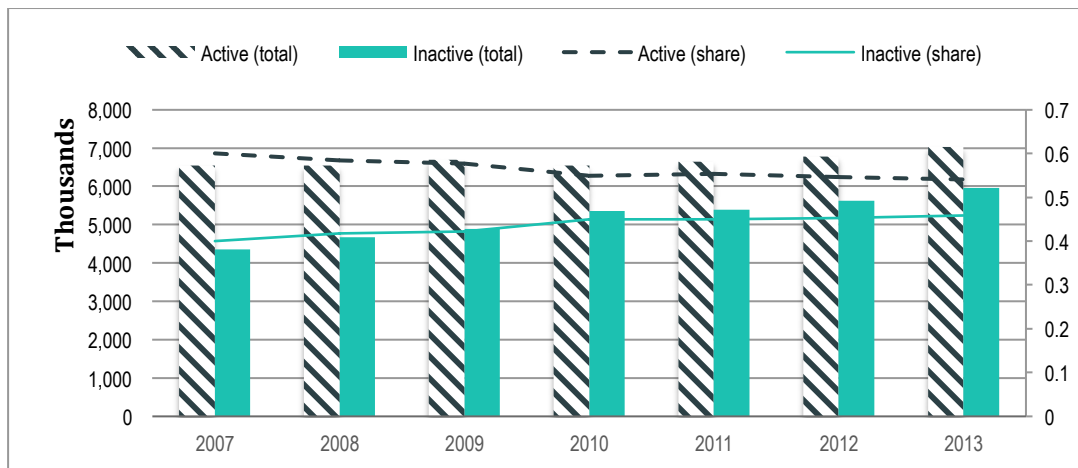
structural constraints to access formal employment. Then, by means of using longitudinal data, the second part presents a preliminary estimation of employment transition, aiming to understand how workers shift among inactivity, unemployment and different employment categories. An approximation to identify what is the role of cash transfers in the persistence of informality is also presented in this section. The last part of this paper sketches out an institutional discussion drawing on the revision of qualitative work conducted during the field visits to southern Ecuador. The role of cash transfers in institutionalising targeted modalities of social protection and the way such programs are reaching (or not) the informal population is further discussed from this data.

The context: informality in Ecuador

Drawing on the *Encuesta Nacional de Empleo, Desempleo y Subempleo* ENEMDU labour surveys, the following section includes an analysis of labour market trends. From the outset, it should be noted that for this purposes, informality is understood as both a sector of the economy, following the vast amount of studies on informality in Ecuador that keep on using the firm based definition of informal sector; and, from the worker's point of view, regarding access to social protection. Statistical findings are presented with various references to fieldwork interviews that shed light on the most pressing aspects of employment that have guided the selection and compilation of employment data.

From a preliminary compilation of labour survey data, three important trends could be identified. First, there is no sustained change in the share of workers in the informal sector, despite efforts to formalise employment and regulate informal firms. Second, the share of both contributing family workers and domestic workers has decreased, and there is a growing consensus in analysts for this to be a consequence of recent reforms in labour regulation. Third, although unemployment rates have consistently declined since 2007, labour force participation rate remains flat and even decreasing (see Figure 1). This suggests first, that unemployment rates are not a good indicator of labour market distress. For instance, as of 2013 the unemployment rate in Ecuador (4.7 per cent) was below the regional average (6.3%) and considerably lower than in OECD countries (11.5 per cent) (ILO 2014). Second, the rather low unemployment rate suggests that some people might be dropping out the labour force rather than getting jobs.

Figure 1 Participation in the labour force (non-agricultural employment 2007-2013)



*Absolute number and proportion of working age population (10 years and older)

**Economically active population: all persons who furnish the supply of labour during each year (see ILO 2014). More specifically, it accounts for the persons who were working in the reference week, or if they were not working, had a job or were available to work (see INEC 2009).

***Economically inactive population: all persons who are not in employment or unemployed. More specifically, it accounts for the persons who did not have a job, did not look for a job or are not available to work in the reference week (see INEC 2009).

Source: ENEMDU surveys compiled from INEC (2014) and calculated by the author

Informality: general trends

To a great degree, in Ecuador, like in many other countries in the region, it is more adequate to talk about an employment problem, with a great majority of workers in the lower-paying segments of the labour market, rather than an unemployment problem as such. Informal employment, here understood as those work arrangements that are not regulated by the state and are not covered by social security, captures some of the adverse aspects of informality. In Ecuador, a small share of the labour force is working as permanent employees in offices, whilst the largest percentage is in casual positions. Informal workers have to negotiate with tight employment structures and struggle to gain a better deal, on a daily basis. As explained by informants:

'Office jobs are for the middle classes, we (informal workers) have to piece together some money day by day'⁴.

'It would be great if someone offers me a job at an office.'⁵

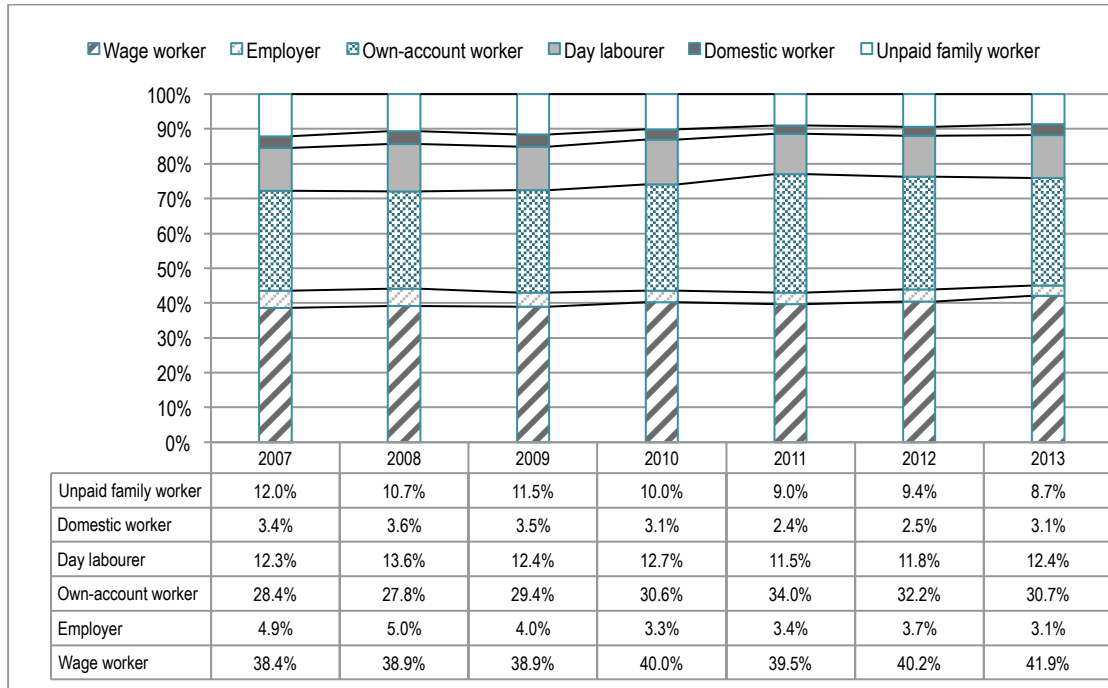
Informality is highly associated to the type of employment, or status in employment. As a proportion of non-agricultural employment, own-account workers, informal wagedworkers, casual day labourers and domestic workers—while declining—are the most important forms of employment in the country. These occupations are often insecure, poorly paid and unprotected. In fact, own-account workers

⁴ Waste collector interviewed in Loja, Ecuador (Fieldwork 2013)

⁵ Street vendor interviewed in Loja, Ecuador (Fieldwork 2013)

share rose from 2010 onwards (see Figure 2), dividing analysts between those who blame state's regulation for the lack of private investment and therefore, reduction of wage employment; and those who attribute it to cash transfers and microcredit programs for the expansion of micro enterprises.

Figure 2 Status in (non-agricultural) employment (share of total)

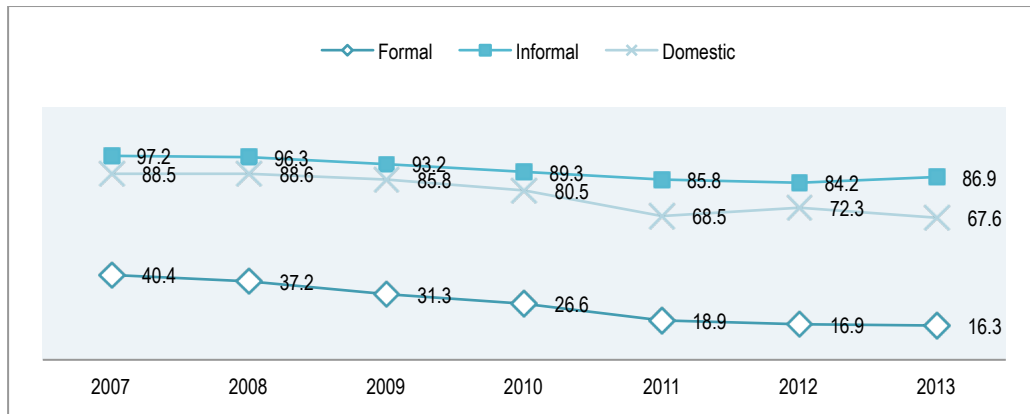


Source: ENEMDU surveys compiled from INEC (2014) and calculated by the author

Nonetheless, to better understand what is behind wage employment I rely on the concept of informal employment. Informality, under the social protection view is thus studied based on social security contributions. Access to social security is often used a good proxy to distinguish formal from informal employment. Accordingly, it is possible to find informal employment to occur both in the formal and informal sector. This distinction is particularly relevant in disclosing informal arrangements prevailing even among wagedworkers.

In figure 3 it can be seen that although in recent years the proportion of workers contributing to the social security system has increased among workers in the formal sector, the proportion workers who can secure a job and are working under a legal contract has remained the same regardless of the sector. For work-errs in the informal sector, the situation has even worsened.

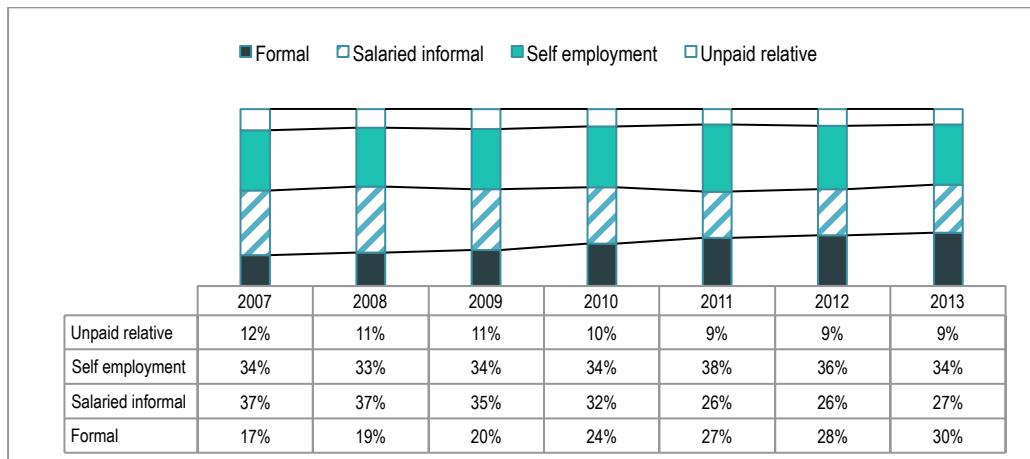
Figure 3 Share of non-agricultural employment with no social security



Source: ENEMDU surveys compiled from INEC (2014) and calculated by the author

The bulk of the labour force is independent, that is, working into self-employment (see Figure 4). Independent workers usually do not contribute to the pension system, and thus, are the most prominent proportion of labour informality. Opinion is also divided on this issue. Some analysts argue self-employment to be the space for entrepreneurs to advance their business ideas, while others find it to be the result of ill-working labour markets and the dismantling of formal wage work. In the lowest income strata, opinion on the motives for self-employment is also mixed. From field observations it could be argued to be mostly a space of precariousness and vulnerability.

Figure 4 Labour force compositions as a share of total non-agricultural employment



Source: ENEMDU surveys compiled from INEC (2014) and calculated by the author

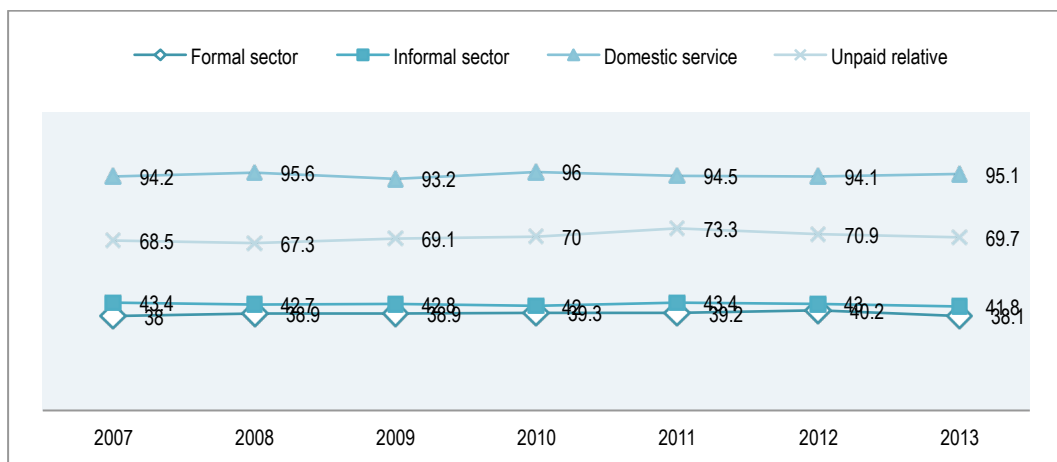
The service sector is particularly prompt to informal arrangements. As a respondent explained:

‘When you start a new job, companies would try to avoid paying any work related benefits. A way to devise this is by asking you to apply for a tax number (RISE). It took my husband a year of struggle to convince his employer to sign for an employment contract.’

Many employees are asked to apply for a tax number, after which they are treated like self-employed, that is independent workers offering services to a company. This means, that although these workers often do not have an employment contract as dependant employees (or have a ‘service contract’) they are economically dependent on a single employer and/or firm for their source of income. This is a loophole in the social security system that businesses seem to be exploiting. The emergence of this sort of work arrangements, common practice even within the public sector, is not specific to Ecuador only, but has become a growing trend that some authors have coined as ‘bogus self-employment’ (Frade 2005). These employment relationships are the outcome of employers and firms’ strategies to avoid the payment of social security contributions and profit sharing.

A large proportion of informal workers are women. They also make the great bulk of domestic workers. On top, women account for most of the unpaid domestic work. In point of fact, the further down the chain of lack of protection and loss of security, the more women can be found. Gendered household responsibilities seem to reinforce employment segmentation.

Figure 5 Share of women in non-agricultural employment by economic sector



Source: ENEMDU surveys compiled from INEC (2014) and calculated by the author

The problem with this overrepresentation of women in the most vulnerable sectors of employment is worrisome. Chances are that a middle age woman who has not completed secondary education would not find any job. When gender intersects with age, the possibilities to find a job reduced greatly. Not to mention that it becomes more difficult if a woman has any children. As pointed out by one of the respondents:

*If you mention that you have children, and they will tell you “thanks, but no thanks”*⁶

⁶ Unemployed woman interviewed in Machala, Ecuador (Fieldwork 2013)

Most of the employers would try to find a way round regulation pertaining maternity or simply avoid hiring women. A frustrating scenario that is, as a large amount of women interviewed⁷ indicated to prefer securing a job rather than queuing for state's support (e.g. BDH transfers), but were aware of the limited possibilities of finding one, considering the gendered nature of the labour market, with gender-based segregation of jobs, unequal pay and differentiated recognition of skills and/or training.

The response: cash transfers *Bono de Desarrollo Humano (BDH)*

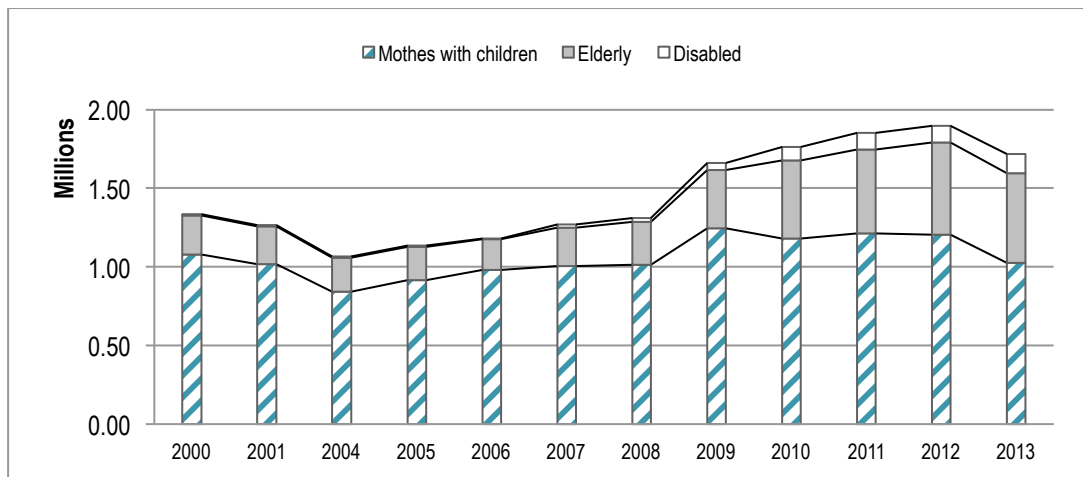
Within this context, the idea *Bono de Desarrollo Humano* is nothing new. It builds on already existing conditional cash transfers (CCTs), popular schemes throughout Latin America. CCTs have become the tool of choice in poverty-reduction throughout Latin America (Cecchini, & Madariaga 2011). Based on ideas of human capital formation within targeted modes of social protection, BDH provides a stipend equivalent to \$50 per month to poor mothers with school-age children, conditional on school attendance and health check-ups (Gonzalez-Rozada, & Llerena-Pinto 2011). It also includes a pension component, targeted to adults above the age of 65 and disabled people without need of fulfilment of any condition (Ibid). Technical criteria are used to select the target public. As of 2012, BDH benefited 1,882,542 households and reached more than 9.5 million persons, presenting the largest CCTs coverage rate in the region—44 per cent of the population. By 2014, this number reduced in about 200 thousand after depuration of households' records and graduation in the last quarter of 2013.

As Figure 6 suggests (see below), there has been a shift towards making of the BDH a non-contributory pension instead of emphasising the human capital component—captured by the decrease the number of mothers receiving the grant for children's education and health expenses. This trend was supported by key informants⁸ who indicated an explicit change in policy priorities making of the BDH a non-contributory pension, together with a decision to reduce the total number of recipients. It can be seen that in recent years, the total number of recipients has reduced. It seems that the government is contemplating ending the BDH program as a conditional cash transfer proper, as it can be noticed in the figure from 2012 onwards.

⁷ Interviews collected during fieldwork conducted in southern Ecuador in 2013.

⁸ Social Cabinet (Fieldwork 2013-2014).

Figure 6 Total BDH recipients, group composition



Source: ENEMDU surveys compiled from INEC (2014) and calculated by the author

This late emphasis on graduation of mothers from the cash transfer program together with the inclusion of more old-age population can be seen as responsive measure to post-retirement age poverty, in order to provide some protection to people whom did not contribute to a pension system in the past because they were informal workers. With regard to this last aspect, it is worth noting that BDH graduation mechanisms are not clear, and arguably, despite the relatively long permanence in the program—about five years (author's own calculations from survey data⁹) recipients perceive the transfer as a temporary income, uncertain about their continuation in the programme. With no certainty on their permanence in the programme and in light of the obstacles to enter the formal sector described above, most of the recipients seem to be risk adverse rather than showing opportunistic behaviour, as argued in the perverse incentives literature.

The perverse incentive rhetoric steps in

All over the map of social and labour policies, the idea of 'perverse incentives' lingers. Either to explain the drop out to informality or the misuse of social policies, incentives are used as the ultimate variable explaining (lack of) development outcomes. The perversity argument is closely tied to the idea of self-regulating markets: any public policy aiming at change market outcomes automatically becomes noxious interference with beneficent equilibrating processes (Hirschman 1991: 27).

Levy (2008) better represents the current view on the perverse effects of social policy. He argues social benefits segment the labour market, drawing on the assumption that formal workers are the ones contributing to social security, while social protection is covering informal workers. Therefore, informality not only results from the existence of barriers to entering the formal sector but chiefly as an outcome of the perverse incentives presented to individuals by social policies. The author,

⁹ Own survey data collected in southern Ecuador (Fieldwork 2013).

architect of CCTs in Mexico, considers that the combination of social policies in the region contributes to trapping the poor in poverty, as they self-select into informality. Summarising his review of social policy in Mexico: social protection distorts the labour market. It creates a formal/informal dichotomy in which the state subsidises the latter.

Barrientos (2006) offers an alternative narrative about incentives created by social policy. Based on the premise that growing informalisation leads to an increased demand for social assistance because of the reduction in social insurance coverage to the 'formal' labour force, he makes a case to maintain targeted social assistance as it might be the only protection that informal workers have access to. He finds a positive effect from social assistance in labour outcomes, helping in the reduction of labour supply of children and older people—who ideally should remain inactive. The author finds that an increase in unearned income leads to a reduction in the labour supply of children and the elderly, target groups of education subsidies and/or pensions (2006: 175).

The consensus right now is that transfers have (some) impact on labour supply, although the size and direction of the impact differ greatly, as well as the mechanisms through which these are understood to operate. The vast majority of studies rely on consumer theory—under the umbrella of welfare economics, considering individuals' choice between work-leisure options, given budget constraints. That is to say, individuals face an income effect (related to the extra cash) and an income substitution effect shaping work-leisure decisions (Carling et al. 1996). As a result, transfers distort individuals' decision-making.

The incentives related to BDH have been often studied at two moments: those that affect recipients' choices to be eligible for the cash transfer, and those that are introduced to keep on accessing the transfer (Gonzalez-Rozada, & Llerena-Pinto 2011). Yet, most of the models applied to the Ecuadorian case do not consider the great differences around social provisioning between North and South (de Haan 2014), in particular with reference to the size of the incentive. A large amount of the literature discusses the incentives provided by unemployment insurance in the North with benefits that get close to a formal worker's salary. On the contrary, unemployment insurance is set very low in most of the countries of the South, or worse, there might be no insurance scheme at all, like in the case of Ecuador. In this context, income support i.e. cash transfers, once accounting for transaction costs and local prices, might not be enough incentive to stop searching for a job. Basically, the size of the transfer matters. This remark is very pertinent for the BDH program, which offers a fixed benefit no matter family size and composition¹⁰.

With unemployment insurance beyond reach for the majority of informal workers¹¹, it is difficult to argue that cash transfer recipients have any incentive to remain in idleness considered that

¹⁰ Other social assistance schemes in the region do provide a variable transfer accounting for the number of dependent children, like the Universal Allocation per Child in Argentina.

¹¹ Consider that in order to access unemployment benefits, a worker is required to have contributed continuously to the security system for at least 5 years and be out of job for at least 3 months. From the author's

the stipend does not even reach a quarter of the minimum wage (US\$318 as of 2013). What can be occurring is then, that the large share of informal employment is rooted precisely in the lack of social protection, no in its vicious use, leaving workers with no option but to take up any job, no matter if it guarantees no rights at work.

The issue of timing has also been largely debated, exploring whether people ‘get serious’ in looking for work as their benefits are near expiration or there is a constant threat of benefits revocation. In the matter of social protection provisioning in Ecuador, authors have criticised the lax graduation mechanisms and extended permanence in the program (see Ponce 2013), arguing that it triggers unrealistic expectations, as individuals perceive the transfer as a permanent source of income. BDH graduation mechanisms are not clear. Despite the relatively long permanence of recipients in the program—about five years —recipients seem to perceive the transfer as a temporary income, uncertain about their continuation in the programme. With no certainty about their permanence in the programme, unclear graduations mechanisms and therefore, constant fear of existing the program, most of the recipients seem to be risk adverse rather than showing opportunistic behaviour as argued in the perverse incentives literature.

Worker flows: using panel data to contest the rhetoric

In the previous section some general patterns of informal employment in Ecuador were described. The following section presents an analysis of panel data from ENEMDU surveys¹². Exploiting the features of longitudinal data a comparison between the states of employment experienced by individuals in a one-year window was implemented. Each worker who remained in the sampling frame of the labour survey data for at least two discrete periods was considered for the analysis. The combination of the state in which each worker was observed was used to compute a (discrete time) transition matrix, in a year time window.

A preliminary calculation¹³ of workers flows is presented in Table 1. The table elements correspond to the transition probabilities, which comparison shows two possible outcomes: unchanged states, captured in the table’s diagonal, or transitions across states, with inflows captured in each column, outflows on each row. All together describe the changes in the stock of inactive, employed

own calculations using administrative registers, the average duration of formal employment (covered by social security) is about 370 days. And informal workers, by definition, do not contribute to the social system at all. These elements suggest that unemployment insurance is unattainable for the bulk of the labour force (Fieldwork 2013).

¹² Consider that in order to access unemployment benefits, a worker is required to have contributed continuously to the security system for at least 5 years and be out of job for at least 3 months. From the author’s own calculations using administrative registers, the average duration of formal employment (covered by social security) is about 370 days. And informal workers, by definition, do not contribute to the social system at all. These elements suggest that unemployment insurance is unattainable for the bulk of the labour force (Fieldwork 2013).

¹³ It is worth noting that the data used to calculate transition probabilities for the subgroup of the labour force that has received cash transfers (BDH) is very thin and should be taken with caution.

and unemployed population. Employment accounts for non-agricultural activities only, and is further broken down into employment in the formal sector and employment in the informal sector. Adding the three main stocks gives us the total working age population in the panel (people ten years and above), while by adding unemployed and employed (in its various categories) I account for the total labour force.

Table 1 Transition matrix: Workers flows between 2007-2008

	OLF	U	SE	SI	FS	UR
OLF	79	2	7	7	1	4
U	36	8	14	30	8	4
SE	13	1	68	13	2	3
SI	11	1	17	58	12	2
FS	3	0	3	9	85	0
UR	28	1	17	12	2	41

OLF out of the labour force

U unemployment

SE self-employment

SI salaried informal

FS formal salaried

UR unpaid relative

Source: ENEMDU panels compiled from INEC (2014), probabilities calculated by the author

Table 1 shows a detail of workers flow between 2007-2008 from informal employment into salaried informality, self-employment and unpaid family work, it can be seen that workers flows are quite intense within these states—for instance, from salaried informality to self-employment. What is more, it can be noted that self-employed workers and unpaid workers rarely transit towards formal employment. It also provides some evidence of the effectiveness of regulation of wage employment, with workers experiencing a higher probability of going from salaried informality to salaried formality (that is, dependent workers accessing social security). Most of the inflows to self-employment are coming from salaried informality and unpaid family work. The perverse incentive rhetoric contending that workers are discouraged by social security fees and choose to go informal as to evade such payments seems beside the point. Quite the contrary, most of the self-employment seems to be rooted in already unprotected work i.e. salaried informality.

The same method applied to information on cash transfer recipients only is presented in Table 2.

Table 2 Transition matrix: BDH recipients' flows between 2007-2008

	OLF	U	SE	SI	FS	UR
OLF	72	1	13	11	0	2
U	40	0	20	40	0	0
SE	23	0	64	9	1	4
SI	16	1	25	53	4	1
FS	0	0	0	83	17	0
UR	29	0	38	0	0	33

OLF out of the labour force

U unemployment

SE self-employment

SI salaried informal

FS formal salaried

UR unpaid relative

Source: ENEMDU panels compiled from INEC (2014), probabilities calculated by the author

If we consider BDH recipients who were part of the program in 2007, the probability of finding a formal employment in 2008 was 0. They were either absorbed into informality or dropped out the labour force. Whatever they did, they did not afford to stay unemployed (the diagonal value is 0). And if it happen that someone had a formal job in the initial period, chances are this worker would remain as formal with only 17 per cent probability. Interestingly, the inflows to self-employment are quite intense, mostly coming from unpaid family workers and salaried informal workers—one could argue they are trying to improve their working prospects and become independent. Inflows to informality are very weak, and chances of formalise salaried employment seem constrained (4 per cent).

It is worth noting the initial status of workers as it reminds us the conditions upon which the cash transfer program was designed: a non-work based form of social protection in a context where informality was already high and formal jobs were hard to find. If there are no jobs to be found, it is not surprising to find that recipients have failed to secure a formal job. The chances of accessing a formal job seem limited, new incumbents most likely enter the informal sector, and the permanence in a formal position is difficult to secure. Their much lower levels of schooling makes them less prompt to uptake a formal job in the market.

Complementing this analysis with the employment trends presented before, it is possible to argue that the permanence in informality might be related to structural features of the labour market: segregation, unregulated employment arrangements, and low absorbing capacity in the formal sector, rather than welfare dependency. With no unemployment support; new entrants and dismissed workers are pushed into informality. They have to take up any job available, often less productive and poorly rewarded. Workers are left with no option but to live from their own efforts, instead of getting access to sufficient public income support to queue for the 'right' job.

Entering the field: qualitative work on employment, welfare, and choice

Until now, the attention has been placed in providing some quantitative support for the interweaving of employment and social protection, by first describing the macro trends in employment in Ecuador, weighing up the incidence of informal work arrangements, and the possibilities of transiting out of informality for cash transfer recipients in this context. The following section drawing on qualitative work goes deeper on the making of social protection and the diverse ways in which it connects with informal employment. Making use of primary research findings¹⁴: interviews, surveys and documentary research, the attention is now placed on the design and implementation of the cash transfer programme BDH, addressing issues like normativity and stratification.

Primary data disclosed the complexity involved in the institutionalisation of the BDH programme. This section revisits some of the profound effects of targeted modes of social protection on the possibilities of choice, in particular employment decisions. The cash transfer program has put a strong normative pressure on recipients, incentivising certain decisions and penalising others, by means of imposing conditions on recipients on the grounds that the poor are ‘unable to make efficient choices’ (rationale discussed in Lavinás 2014).

Work and normativity

Work is already socially divisive, in terms of status, earnings, and position towards the state. This subsection sets out to explore how social distance operates on the ground, presenting marginality in the form of informality. What a formal worker feels entitled to demand from the state greatly differs from what an informal worker would feel enabled to ask. As discussed elsewhere, if we consider the gendered nature of the labour market, the distance between the various social positions faced by female informal workers widens.

In this context, where cash transfers operate, employers can build on the programme rationale to keep workers informal. For instance, many families exploit the ambiguities in social insurance, convincing domestic workers that they should not claim social security, as it would lead to an exit of the BDH programme. Although at the beginning of the programme this held true, it is no longer the case: a person remains eligible to the programme regardless of accessing social security, as long as the household ranks below the poverty line set for the programme. The problem is though,

¹⁴ Primary data on which this paper is based is the outcome of author’s research conducted in Ecuador, 2013-2014. It combined quantitative and qualitative methods. Interviews consisted of open-ended questions and conversations, whilst surveys involved about 700 observations. Interviews with recipients took place in few homes but mostly in public spaces, like health centres and open markets; whereas, interviews with key informants were conducted in government agencies. Surveys were conducted mainly at homes, open markets, and streets, with the help of research assistants. The selection of informants followed a range of sampling methods. The author also engaged in everyday conversations, informal observation of routine activities, and took notes of all the tacit information as it emerged from the field.

there has not been a consistent campaign to inform about these changes, allowing for its misuse by employers in order to bypass employment regulation.

Even without stepping into evasive practices, targeted modes of social assistance can end up contributing to the deepening of informality. For the specific subgroup of cash transfer recipient mothers, it is assumed that they would accept cash support for their families even if (more) unpaid work were expected from them. Conditional cash transfers are built on assumptions about the ‘natural’ role of women as mothers provided certain normative understanding of what it means motherhood—and reinforced by cultural and religious values, in particular in the Ecuadorian highlands. Targeting bounds ‘poor mothers’ as a standardized recipient group. However, there are many ways of being a mother. The Ecuadorian society is particularly harsh to single mothers, with the state arguably deepening this social differentiation. Anxieties about incentivising poor women to have more children have pushed to a recent decision to rule out single mothers who are formally employed for having some semblance of job security—although their income might fall below the statutory wage. This can be seen as a rather punitive measure.

‘When I got pregnant, my husband asked me to stop working and stay at home ... I did not plan to get pregnant, I was using contraceptives but something went wrong ... during my pregnancy, I stop working. We were living from my husband earnings only. A couple of days before birth, we had not enough money. My husband was jobless. And you know, even if you go to the public hospital you will have to cover some expenses. Over the weekend, I went to withdraw my BDH money. I was in labour pain while queuing. By the next morning, I was giving birth to my child. That money saved me! We bought baby clothes and medicines. My husband? It took him two weeks to get a job.’

Field observations suggested that cash transfers could come at the cost of contributing to ease men’s responsibilities within the household and encouraging women to take part-time jobs. It has been extensively discussed how conditional cash transfers can deepen divides and perpetuate gendered roles within the household (see for instance Molyneux 2006). Conditional cash transfer programmes often portray women as the responsible ones, in charge of all tasks and duties related to social reproduction, assuming women to remain idle to bear household duties in order to fulfil imposed conditions e.g. taking the children to medical check-ups. This would imply that the transfer can induce transition toward more flexible work arrangements, like self-employment carried out from home, in order to fulfil the aim of the program to improve child care.

Welfare and control

Intrusive levels of control exercised by the state can easily drive cash transfers. Extensive data matching to identify overpayment of false positives is often carried out (e.g. checking for pensioners

accessing also cash benefits), together with verification of conditionalities reinforced by the threat of losing the cash transfer (e.g. random checks to make sure recipients' children are attending school on a continuous basis).

Fifteen years of cash transfers in Ecuador¹⁵ have taken their toll and somehow regulated the recipient population creating a great dependence on external norms. Throughout policy documents, recipients are presented as subjects who need both to be cared for and disciplined in order to become independent from state's support. By means of offering incentives or by the imposition of coercive measures, social assistance has been devised as a means of ruling and attaining certain moral order, depicted as a tool to both, provide some income support whilst influencing behaviour. And by imposing restrictions on recipients a moral justification is being provided to taxpayers for paying the poorest such benefits.

Discussion: a matter of choice?

The notion of choice is widely acknowledged to lie at the heart of economic theorising. This has highly influenced the way in which social policy is conceptualised, informing the principles or 'standards of behaviour' that it should induce or discourage among its recipients. Within the broader field of social policy, social protection has been seen as particularly effective in regulating behaviour, as shown by the tremendous spread of conditional cash transfers, depicted as a tool to both, provide some income support whilst influencing behaviour by imposing restrictions on recipients. This based on the idea that the right incentives and/or sanctions will result in 'rational choices'. Nevertheless, what we have witnessed in the field of social protection is a shift towards (a rather restricted) individual choice, in which the costs of 'self-improvement' e.g. investment in education, and loss of economic security e.g. informal employment, are imposed on recipients themselves. Yet, such individualistic approach does not consider crucial circumstances not of people's choosing. Then, is it possible that we might be asking the wrong question? Shall we start asking about the possibility of choice (if any)?

Closing remarks

The deepening of informality has two important implications for social protection. First, an increasing number of people engage in informal employment getting very limited access to welfare and work related benefits. This posits a challenge for welfare provision, provided the necessity of increasing its coverage to informal workers. Second, and as informality remains, it is assumed that welfare provision schemes shall adapt to a vast share of the population not contributing to the welfare system in a consistent way.

¹⁵ Launched in 2003, the BDH programme is a successor to the *Bono Solidario*, which started operating in Ecuador in late 1998.

Barrientos (2006) noted that the current trend in social assistance programmes, cash transfers in particular, is to ‘unlock’ the potential of poor households by increasing human capital and skills formation. The ultimate objective is, then, contributing to greater labour productivity. The mechanism works as follows: gains in skills translate in increased labour productivity. As schooling is negatively correlated with informality, social assistance improves labour market outcomes (Ibid). Yet, after years of increased investment in health and education in the poorest segment of the population, informality remains. As evidenced in this document, this can be explained by the lack of employment opportunities. Human capital interventions deal with the supply side, making sure that the workforce is sufficiently qualified to meet the demands of a highly industrialised economy. But in the demand side, the private sector has not advanced in the scale necessary to absorb a better-qualified labour force in a regulated manner. In other words, the problem seems not be rooted in the lack of investment in ‘raw’ human capital, but in the inability of generating and absorbing a more qualified labour force in the country.

The 2010 UNRISD flagship report reflects the current reassertion that social assistance programmes, e.g. cash transfers, have limited impact on employment outcomes unless they are complemented by broader interventions that address the structural conditions keeping people in poverty (UNRISD 2010). It ascertains the pressing need to incorporate employment more centrally in social and economic policy. It is stated that the link between employment and poverty runs both ways. On the one hand, poverty increases total household employment, mostly in marginal activities among the vulnerable segments: women and children. On the other hand, additional wages earned in this way influence the incidence of poverty. Therefore, the report makes a case to adapt social protection to the particular needs of employment structures.

Consequently, and until employment is integrated centrally in Ecuadorian social policy, social assistance provides some income support to an otherwise invisible, unprotected and marginalised segment of the labour force, like evidenced in this paper. Although the transfer cannot on its own guarantee economic autonomy and security, it has been a means to accessing state provided benefits for low-income informal workers, in particular for middle-age women with children. Income support plays a key role in helping mothers to provide care.

But then, the problem of continuity in social assistance is a fundamental stumbling block. The BDH programme was designed as a transitory programme, but after fifteen years is still operating. However, recipients themselves acknowledge its transient nature. Consider that from 1.9 million recipients, about 250 thousand exited the programme in 2013 and a similar number of recipients would be graduated in 2014¹⁶. The recent emphasis on graduation of BDH recipients speaks of the impossibility to provide support solely on the means of cash based welfare. What is more, there is no transparency about the graduation mechanisms. Aside of some cases in which it was informed that it

¹⁶ Key informant interview, Social Cabinet-Ecuador (Fieldwork 2014).

was a result of crosschecking data with governmental agencies, in order to exclude functionaries who were accessing the program otherwise, the great majority of graduated recipients do not know which was the reason why they exited the programme. The only answer they would get is a text message on their mobile phones indicating: *'You do not need it, other people need it the most'*¹⁷. There is no public scrutiny on which graduation is based. For the most persistent ones, when approaching officials would get to know of a highly technocratic process through which graduation is advanced, only to reinforce knowledge barriers between the state and recipients.

Notwithstanding, there could be more empathetic ways of delivering social assistance, without turning it into an ethos for disciplining the recipient population. In understanding targeted modes of social protection, it is not sufficient to read off from policy objectives the effects of governing practices, but it is necessary to understand it as a political exercise (Rodger 2012). From targeting, to implementation and graduation, the effects of the BDH transcend incentivising human capital investments among recipients. The language of conditionalities (or more explicit, in Spanish, *corresponsabilidades*) can be seen as a highly moral discourse. The bottom line of such approach is to influence the behaviour of the poor to counteract welfare dependency. The idea is to provide of income support only if recipients change their behaviour in return. Along these lines, recipients face a complex regime of disciplinary measures in order to maintain eligibility for the benefit, inducing a self-discipline (Henman 2004). As experienced in the field visits to Ecuador, recipients are extremely self-conscious of their condition.

This not only brings along tremendous distress among beneficiaries, but it has very concrete consequences in terms of developmental outcomes, in particular, employment choices, as evidenced in the quantitative data presented in this paper. With such levels of control, recipients might end up surrendering to their own fate, like rightly explained by one of the informants¹⁸. Queuing for a job, claiming work-related benefits or investing in a business idea, all of these might end up highly constrained by the institutionalisation of targeted modes of social protection operating in a highly segregated context. Choosing a job, for the bulk of cash transfer recipients, would be an accomplishment on its own, result of an exhausting exercise of mediation and reaffirmation of their position in the social landscape. A crucial role of social policy is then, to provide them at least of the possibility of choice.

¹⁷ As shared by various respondents who had exited the programme (Fieldwork 2013).

¹⁸ Interview in Loja (Fieldwork 2013).

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Resources

INEC census data available at <http://redatam.inec.gob.ec>

ENEMDU labour survey data available at

http://www.inec.gob.ec/estadisticas/?option=com_content&view=article&id=92&Itemid=57