

Poverty & Equity Brief

Latin America & the Caribbean

Ecuador

April 2023

After the COVID-19-led contraction of 7.8 percent in 2020, the economy rebounded with a growth rate of 4.2 in 2021 but slowed down to 2.9 in 2022. The compounded shocks of the Russia-Ukraine war, the social tensions over indigenous people's demonstrations and the political instability have impacted Ecuadorians' welfare over the past year. Unlike other countries of the region, inflation was contained at 3.74 percent, with food inflation at 7.57 percent. Thus, by the end of 2022, poverty measured under the international poverty line of \$6.85 a day (2017 PPP) slightly declined to reach pre-pandemic levels at 29.9 percent, affecting 5.4 million Ecuadorians. Increased labor incomes partially explain this decrease for workers in the lower part of the income distribution. Between 2021 and 2022, average labor income for poor workers increased across economic activities, especially in informal service activities (18 percent) and industry (19 percent), where over a third of them are working. The size of the middle class remained smaller than in 2019 (1.1 pp below 2019) due to a stagnation of real incomes at the middle part of the income distribution. However, compared to the previous year, the middle class increased by 1.1 pp in 2022. Income inequality decreased mildly from 45.8 in December 2021 to 45.4 in December 2022 (Gini Index). The recovery of labor market conditions slowed down in 2022. Although employment is close to the pre-pandemic level, it is below the one of 2021 (66.4 percent in 2022 vs. 68 in 2021). Poverty reduction is also limited by the structurally low quality of employment, with two-thirds of workers still in the informal sector, above the pre-pandemic period (67 percent in 2022 vs. 61 in 2019), affecting mostly women (68 percent) and the youth (81 percent). Likewise, underemployment is still slightly above pre-pandemic levels in 2022 (21 vs. 19 percent in 2019).

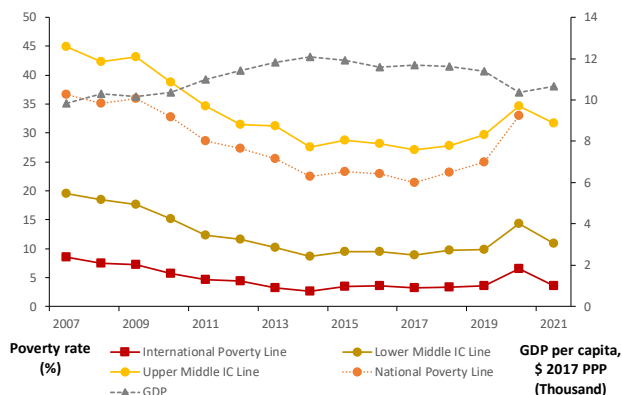
Using the national poverty line (\$4.93 PPP), poverty incidence in 2022 is 25.2 percent, a 2.5-point decrease since 2021. At the urban level, poverty decreased by 2.9 pp and 1.3 pp in rural areas. Extreme poverty also decreased by 2.3 percentage points since 2021, reaching 8.2 in 2022. The official multidimensional poverty rate reached pre-pandemic levels in 2022, at 38.1 percent, after decreasing by 1.1 pp since 2021.

Other dimensions of well-being affected by the combined shocks, such as education and food security, are slowly improving but will take longer to catch up. School attendance in June 2022 was 2.1 percentage points below the pre-pandemic level, and food insecurity-the proportion of households that ran out of food because of lack of money or other resources in the last 30 days- is almost twice the pre-COVID-19 levels at 44.5 percent (World Bank, High-Frequency Phone Surveys 2021-2022). Food insecurity mainly impacted households with children and those with fewer assets. The slow recovery by traditionally vulnerable groups -women, young workers, and people with low education levels- highlights the importance of targeted support interventions.

POVERTY	Number of Poor (thousand)	Rate (%)	Period
National Poverty Line	5,786.1	33.0	2020
International Poverty Line 1.2 in U.S. dollar (2021) or US\$2.15 (2017 PPP) per day per capita	637.7	3.6	2021
Lower Middle Income Class Poverty Line 2.1 in U.S. dollar (2021) or US\$3.65 (2017 PPP) per day per capita	1,941.9	10.9	2021
Upper Middle Income Class Poverty Line 4 in U.S. dollar (2021) or US\$6.85 (2017 PPP) per day per capita	5,640.1	31.7	2021
Multidimensional Poverty Measure		4.3	2021
SHARED PROSPERITY			
Annualized Income Growth per capita of the bottom 40 percent		-1.36	2016-2021
INEQUALITY			
Gini Index		45.8	2021
Shared Prosperity Premium = Growth of the bottom 40 - Average Growth		-0.60	2016-2021
GROWTH			
Annualized GDP per capita growth		-1.64	2016-2021
Annualized Income Growth per capita from Household Survey		-0.77	2016-2021
MEDIAN INCOME			
Growth of the annual median income/consumption per capita		-1.19	2016-2021

Sources: WDI for GDP, National Statistical Offices for national poverty rates, PIP as of April 2023, and Global Monitoring Database for the rest.

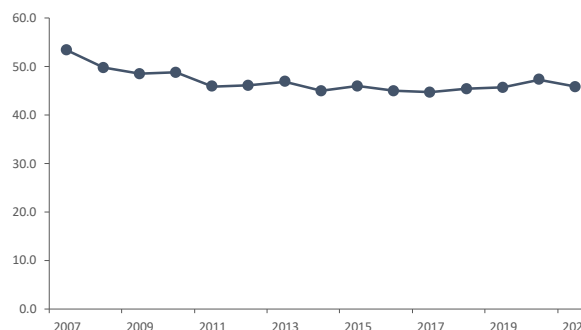
POVERTY HEADCOUNT RATE, 2007-2021



Source: World Bank using ENEMDU/SEDLAC/GMD

INEQUALITY TRENDS, 2007-2021

Gini Index



Source: World Bank using ENEMDU/SEDLAC/GMD

KEY INDICATORS

Distribution among groups: 2021	Upper Middle Income line(%)		Relative group (%)	
	Non-Poor	Poor	Bottom 40	Top 60
Urban population	73	27	35	65
Rural population	58	42	51	49
Males	69	31	39	61
Females	68	32	41	59
0 to 14 years old	55	45	55	45
15 to 64 years old	71	29	36	64
65 and older	90	10	15	85
Without education (16+)	70	30	39	61
Primary education (16+)	70	30	39	61
Secondary education (16+)	70	30	38	62
Tertiary/post-secondary education (16+)	90	10	14	86

Source: World Bank using ENEMDU/SEDLAC/GMD

Notes: N/A missing value, N/A* value removed due to less than 30 observations

Multidimensional Poverty Measures: 2021 (% of population)

Monetary poverty (Income)	
Daily income less than US\$2.15 per person	3.6
Education	
At least one school-aged child is not enrolled in school	2.3
No adult has completed primary education	3.0
Access to basic infrastructure	
No access to limited-standard drinking water	3.7
No access to limited-standard sanitation	5.0
No access to electricity	1.6

Source: World Bank using ENEMDU/SEDLAC/GMD

POVERTY DATA AND METHODOLOGY

Ecuador's official poverty numbers are based on income, published twice yearly (June and December), and because of consistency in both Encuesta Nacional de Empleo, Desempleo y Subempleo (ENEMDU) questionnaires and poverty methodology, are reported since 2007. The World Bank (WB) also uses income to estimate international poverty, but there are some differences with the official aggregate: (1) WB does not include contributions to social security and taxes for salaried workers; (2) WB includes other public transfers while the official aggregate includes only the Bono de Desarrollo Humano; (3) WB includes imputed rent using hedonic model using the QR approach; (4) WB is adjusted by differences in urban/rural prices, while the official aggregate does not correct by spatial differences; and (5) WB does not include domestic workers as members of the household. Regarding the poverty line, the official methodology draws these thresholds from the consumption aggregate adjusted by spatial differences. The fifth round of the Quality-of-Life Survey (ECV) conducted in 2006 was used to draw both the official extreme poverty line, which reflects a minimum threshold of 2,144 Kcal per person per day and the official moderate poverty line, which uses an Engel coefficient of 56 percent. The poverty lines are updated across time using the total CPI. Official extreme and moderate poverty lines are equivalent to \$2.78 and \$4.93 per day 2017 PPP. Official poverty numbers based on consumption are also available from 1998, but these are reported every eight years.

Note on new global poverty lines: Poverty data are now expressed in 2017 Purchasing Power Parity (PPP) prices, versus 2011 PPP in previous editions. As price levels across the world evolve, global poverty lines have to be periodically updated to reflect the increase of the value of the lines in nominal terms. The new global poverty lines of \$2.15, \$3.65, and \$6.85 reflect the typical national poverty lines of low-income, lower-middle-income, and upper-middle-income countries in 2017 prices. In addition to reflecting updates in nominal terms, upper-middle-income countries raised the standards by which they determine people to be poor from 2011 to 2017. Hence, the increase in the upper line is larger, and the population that does not meet the new standard is higher in most countries than it was with 2011 PPPs. See pip.worldbank.org.

HARMONIZATION

The numbers presented in the brief are based on the regional data harmonization effort known as the Socio-economic Database for Latin America and the Caribbean (SEDLAC) - a joint effort of the World Bank and CEDLAS from the National University of La Plata (Argentina). SEDLAC includes 18 countries and more than 300 household surveys since the 80s. Several Caribbean countries have not been included in the SEDLAC project due to lack of data. Since an income-based welfare aggregate is widely used in the region for official poverty estimates, income-based microdata is used for the Global Monitoring Database (GMD) and Global Poverty Monitoring. SEDLAC covers demographics, income, employment, and education. Terms of use of the data adhere to agreements with the original data producers.