

Expanded abstract

Social spending and multidimensional Poverty in Ecuador

Context and objectives

Social spending is a significant policy tool governments use to combat poverty, often allocated to sectors such as education, health, and social programs. Research generally shows that social spending on education and health contributes to poverty reduction. However, some studies suggest that education spending is particularly effective at the primary and pre-school levels. Education and health spending typically benefit a large portion of the population, unlike social programs targeting poverty, which often involve monetary transfers and have a well-established track record of effectiveness.

In Ecuador, public social spending is a key indicator of the government's commitment to social policies. This spending encompasses various sectors, including education, health, social well-being, urban development, culture, and labor, with a focus on the first three sectors due to their budgetary significance. Over the past decade, social spending in Ecuador has been on the rise, especially in education and health services. In 2018, these two sectors accounted for 4.5% and 2.6% of the Gross National Product (GNP), respectively, making them major components of social spending. In contrast, social well-being spending represented only 0.9% of the GNP in 2018, indicating a significant decrease since 2014. In this context, the present research aims to examine the impact of social spending on education, health, and social well-being on levels of multidimensional poverty in Ecuador.

Methodology

The data used in this study originates from two primary sources. The first source is ENEMDU, which was utilized for constructing the multidimensional poverty index based on fuzzy set theory. The second source relies on reports detailing the historical budget execution of social spending, provided by the Ministry of Economy and Finance of Ecuador.

An ordered multinomial model was applied to a dataset comprising 23 provinces spanning the years 2009 to 2017. The primary objective was to ascertain the impact of social spending on the likelihood of experiencing varying levels of poverty. In the model, the dependent variable was the degree of multidimensional poverty within each province, as determined by the multidimensional poverty index. The explanatory variables encompassed per capita social spending on education, health, and social welfare. Additionally, control variables were incorporated based on both a review of the existing literature and data availability. These control variables included gross value added per capita, the illiteracy rate, the proportion of female-headed households, and a dichotomous variable delineating the province's regional classification.

Results

The application of the econometric model yielded several key findings. Firstly, it revealed that only per capita spending on social welfare is statistically significant. This implies that a 1% increase in per capita spending on social welfare leads to a 5.3% reduction in the probability of provinces having “very high” poverty levels, while simultaneously increasing the probability of having “very low” poverty levels by 2.7%.

Conversely, per capita social spending on education and health did not exhibit statistical significance. Notably, both education and health services are provided as free public services in Ecuador. Consequently, identifying their specific effects in poverty alleviation is more challenging, as these spending benefit the entire population rather than being narrowly targeted at the poorest.

Furthermore, the results highlighted the significance of certain control variables, including gross value added per capita, the proportion of female-headed households, and regional classification. Specifically, a 1% increase in the proportion of female-headed households could lead to a 60% increase in the probability of experiencing “very low” poverty levels, emphasizing the crucial role of women in the fight against poverty in Ecuador. Additionally, a 1% rise in gross value added per capita reduced the likelihood of having “very high” poverty levels by 11%, indicating that provincial economic activity has a positive impact on multidimensional poverty. However, it’s worth noting that provinces in the Amazon region are 28% more likely to have “very high” multidimensional poverty levels compared to provinces in the highlands and coastal regions.

Conclusions

The analysis of the multidimensional poverty index reveals a reduction in poverty levels over the study period. However, it is important to note that this reduction has not been uniform across all population groups. Substantial poverty gaps persist, particularly between rural and urban populations, as well as between indigenous and mestizo communities. This underscores the necessity for a two-pronged approach in public policy: one to combat poverty and the other to bridge these disparities. Such an approach calls for increased and improved social expenditure on social welfare, tailored to the unique characteristics of each region and population, and promoting locally-driven policies.

Remarkably, while social welfare spending has proven to be a significant factor in addressing multidimensional poverty in Ecuador, it has ironically witnessed a reduction since 2014. It is therefore imperative to undertake fiscal measures to prevent reductions in social welfare spending during periods of economic stagnation. This is especially crucial as vulnerable populations face heightened challenges during such economic downturns. Implementing regulations that safeguard social welfare spending from reduction and incentivize its increase, contingent on anti-poverty objectives, could serve as a viable alternative. Additionally, the introduction of social programs that go beyond mere subsistence measures and provide genuine pathways out of the poverty cycle should be explored.