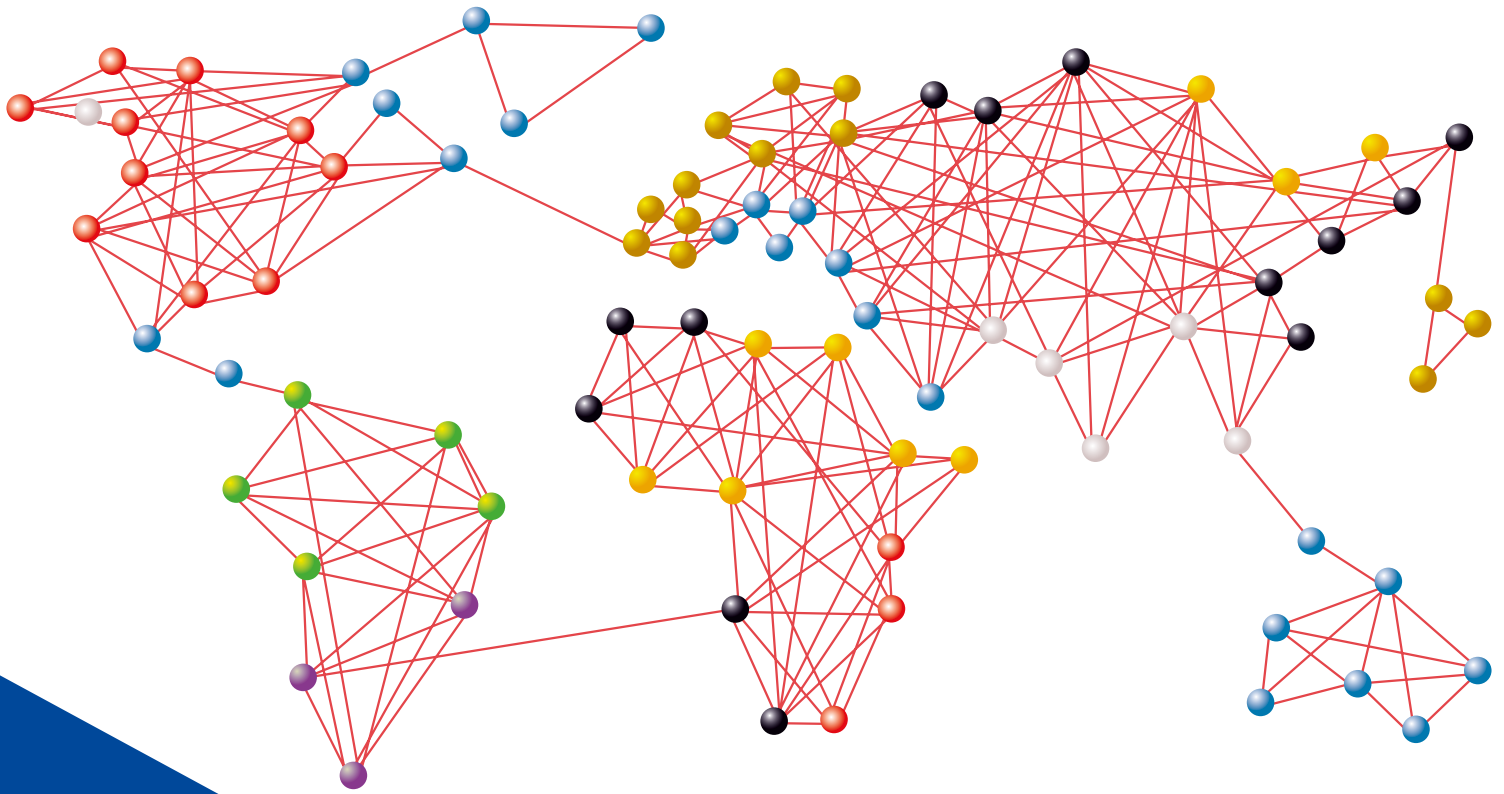




International
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► **Financial mechanisms for innovative social and solidarity economy ecosystems: The case of Ecuador**

Financial mechanisms for innovative social and solidarity economy ecosystems: The case of Ecuador



Javier Vaca

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First published 2021

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Financial mechanisms for innovative social and solidarity economy ecosystems: The case of Ecuador

International Labour Office. - Geneva: ILO, 2021 1 v.

ISBN: 978-92-2-035842-9 (print)
978-92-2-035843-6 (web PDF)

ILO Cataloguing in Publication Data

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Coordination by: Roberto Di Meglio, Valentina Verze (International Labour Organization); Samuel Barco, Riccardo Bodini, Michael Roy, Gianluca Salvatori, (EURICSE)

Design and layout by the International Training Centre of the ILO, Turin – Italy

► Abstract

Ecuador is a country with development inequalities, facing problems of corruption, the presence of economic power groups, high public indebtedness and dependence on primary export products. The US dollar is its official currency.

Something notable in the case of Ecuador is the development of its social and solidarity economy (SSE), which is based on Andean peoples' solidarity, reciprocity and collective property, along with other SSE concepts that have been introduced over time. As a result, several consolidation processes of community and associative organisations have taken place in different phases of the country's history, linked to regulatory and public policy actions. Today, there are multiple producer associations in the country, as well as cooperatives and community organisations, with savings and credit cooperatives being the most successful. In the government of President Correa (2007–

2017), the SSE has been conceptualised, leading to the reform of the National Constitution and giving way to the enactment of the Organic Law of Popular and Solidarity Economy, which promotes, supervises and regulates the sector's development.

This paper analyses the Ecuadorean SSE ecosystem, the main effects of the COVID-19 crisis and the role that the SSE may play in post-COVID-19 economic recovery efforts. The final section presents the conclusions and recommendations to support and develop the sector, focusing on the policies necessary to promote a dynamic and consolidated SSE. Based on different values compared with those of conventional systems, the SSE represents one of the most promising alternatives not only for the development of the country but also for the creation of a model that promotes greater equality.

About the author

Javier Vaca Espín, economist, MBA, has 25 years of experience in the financial sector of savings and credit cooperatives, private banks and non-government organisations focused on financial inclusion. He has several international specialisations in microfinance and financial inclusion.

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As an international consultant, he works on financial inclusion issues, financial, social and environmental performance evaluation, governance, customer centricity for product development, and green finance and climate change mitigation, amongst others.

Acknowledgments

I express my gratitude to Euricse, the International Labour Organization and their coordination team—Roberto Di Meglio, Valentina Verze, Samuel Barco, Riccardo Bodini, Michael Roy and Gianluca Salvatori—for the opportunity to collaborate on this document. My special thanks go to Samuel Barco for his support and direction. Likewise, I thank the National Corporation for Popular and Solidarity Finances for providing access to information and for its institutional performance, which contributed to the development of this document. I am indebted to the actors of the SSE of Ecuador from whom I have learned valuable lessons, especially rural NGO Fondo Ecuatoriano Populorum Progressio and Jardin Azuayo Cooperative, as well as all the people and institutions that support the development of the sector and contribute to the development and promotion of the Law of Popular and Solidarity Economy in Ecuador. Finally, I thank Zaskya Moncayo of the Institute of Popular and Solidarity Economy and Ruth Muñoz of the Instituto del Conurbano of the National University of General Sarmiento for agreeing to review this paper and providing insightful comments and feedback.

Foreword



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Enterprises Director
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The social and solidarity economy (SSE) is receiving increased attention for its role in addressing a variety of economic and social challenges, ranging from the future of work to the provision of social services. This role is particularly important in light of the COVID-19 pandemic, which has aggravated existing social problems, generated a major economic crisis and generally brought in sharp relief the need to reimagine many of the underpinnings of our economy and way of life. In this context, the organisations that compose the SSE, characterised by a strong focus on addressing basic human needs and a close alignment with the interests of the communities in which they are located, can be a major asset and one of the pillars on which to build post-COVID-19 recovery efforts.

As public and private institutions seek ways in which the SSE can be supported and developed, the availability of financial resources has been identified as a key lever for expanding the capacity of SSE organisations. Indeed, as SSE organisations engage in the production of goods and services, finance is important for them as it is for many other types of enterprises; it can help cover start-up costs, address cash flow issues, fund investments and so on. What is less clear is the extent to which SSE organisations have more difficulties than traditional enterprises in accessing financial resources, the kinds of financial resources that should be available to them, the purposes of using these resources and the ways in which such resources can be accessed. While there has been much discussion on these topics, empirical evidence remains scant.

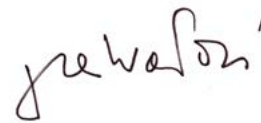
To answer some of these questions, in 2018, the International Labour Organization (ILO) commissioned to Euricse a study entitled, 'Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems'. The project, funded by the Luxembourg government, was structured in three stages. First, it developed a comprehensive overview of possible financial sources and mechanisms through which these resources could be accessed, both traditional and innovative, generic and tailored to the specific characteristics of SSE organisations. Second, with the help of national researchers, the project investigated how SSE ecosystems are structured and the kinds of financial resources SSE organisations use in eight countries around the world. Finally, it conducted a comparative

analysis of the findings to tease out cross-cutting themes and overarching issues and to develop a list of policy recommendations.

The national case studies that were developed in the context of the Financial Mechanisms project, in addition to being instrumental in developing the insights presented in the final report (ILO, 2019), are valuable pieces of research in their own right and are now available as free-standing documents. This report presents the analysis conducted in Ecuador, which has been updated to reflect the latest trends and data and with the addition of a set of observations on the impact of the COVID-19 crisis and the role of the SSE in post-COVID-19 recovery efforts.



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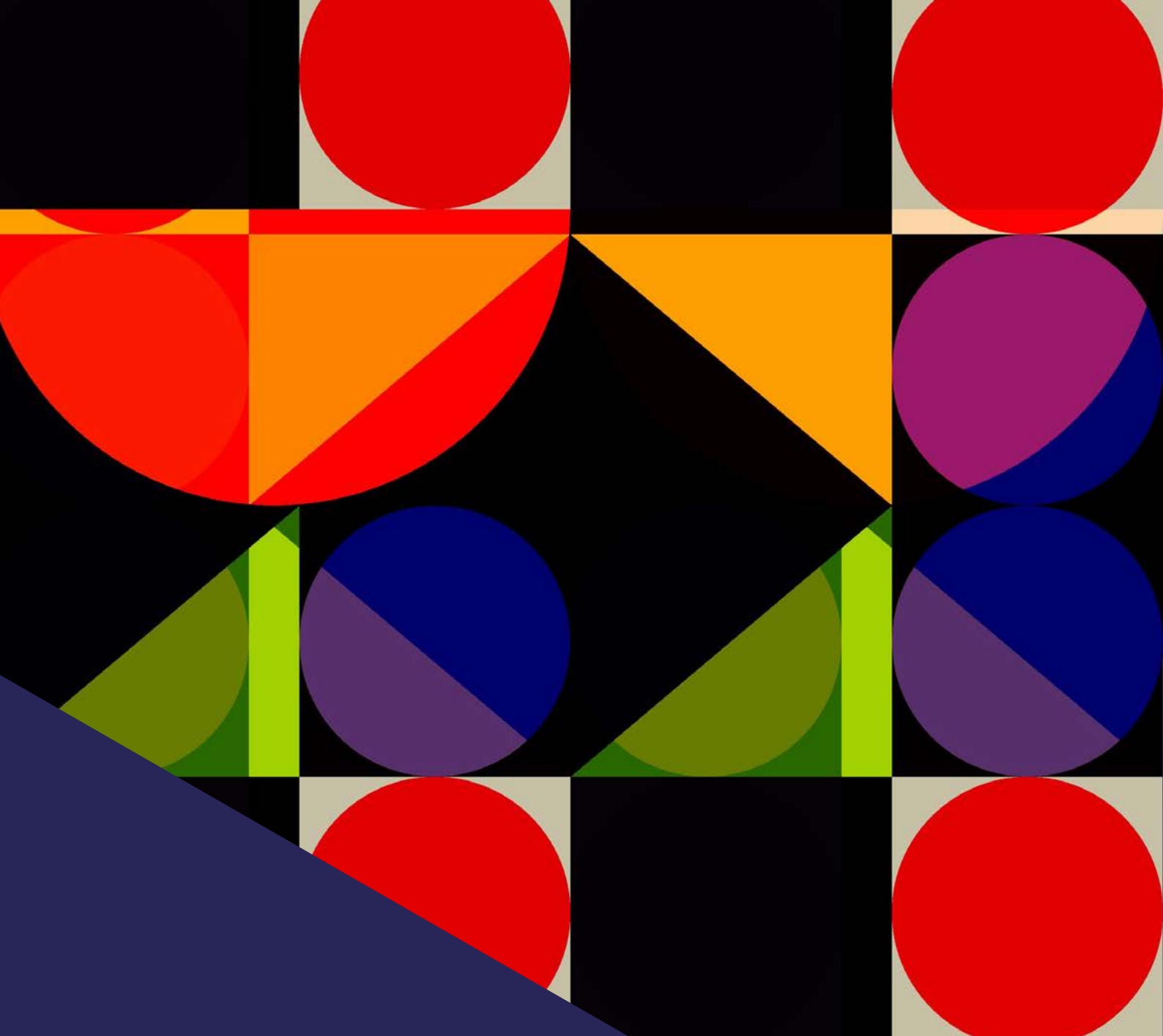
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► Introduction

This report is organised into four sections. The first section describes the social and solidarity economy (SSE) ecosystem in Ecuador, looking at its roots and drivers, the main actors and stakeholders involved and the policy framework that regulates it. The second section presents the main financial mechanisms available to SSE organisations in Ecuador, analysing their

features and providing specific examples. The third section examines the impact of the COVID-19 crisis, both in terms of its effects on SSE organisations and the potential role of the SSE in recovery efforts. Finally, the fourth section provides some policy recommendations on the issue of finance for the SSE, in particular, and for strengthening the SSE ecosystem overall.



▶ 1. The Social and Solidarity Economy Ecosystem in Ecuador



1.1. Main trends and issues characterising the country

Ecuador has a land area of about 284,000 square kilometres. It is located on the equatorial line in South America, with a total population of more than 17 million people. About two-thirds of its population live in urban areas, with a significant urbanisation trend. Its main export products are oil, shrimp, bananas, canned fish, flowers and cocoa. Its gross domestic product (GDP) for 2019 was USD107.4 billion, with -2% growth compared with that in 2018, which gives a GDP per capita of approximately USD6,183. In 2020, this decreased to USD5,520 due to the COVID-19 crisis.

By 2019, the economically active population (EAP) was around 8.2 million people, with an unemployment rate of 3.8%, an employment rate of 38.8% and an underemployment rate of 56.7%. This high percentage of the population not having a formal job is characteristic of a developing country, so Ecuador must generate its own self-employment through micro-enterprises.

It is estimated that 25% of the total population is poor, with a 17.2% poverty rate in urban areas and 47.8% in rural areas. An estimated 8.9% of the population is at the level of extreme poverty, with a 4.3% rate in urban areas and 18.7% in rural areas. The last year saw an increase in poverty because of the economic recession.

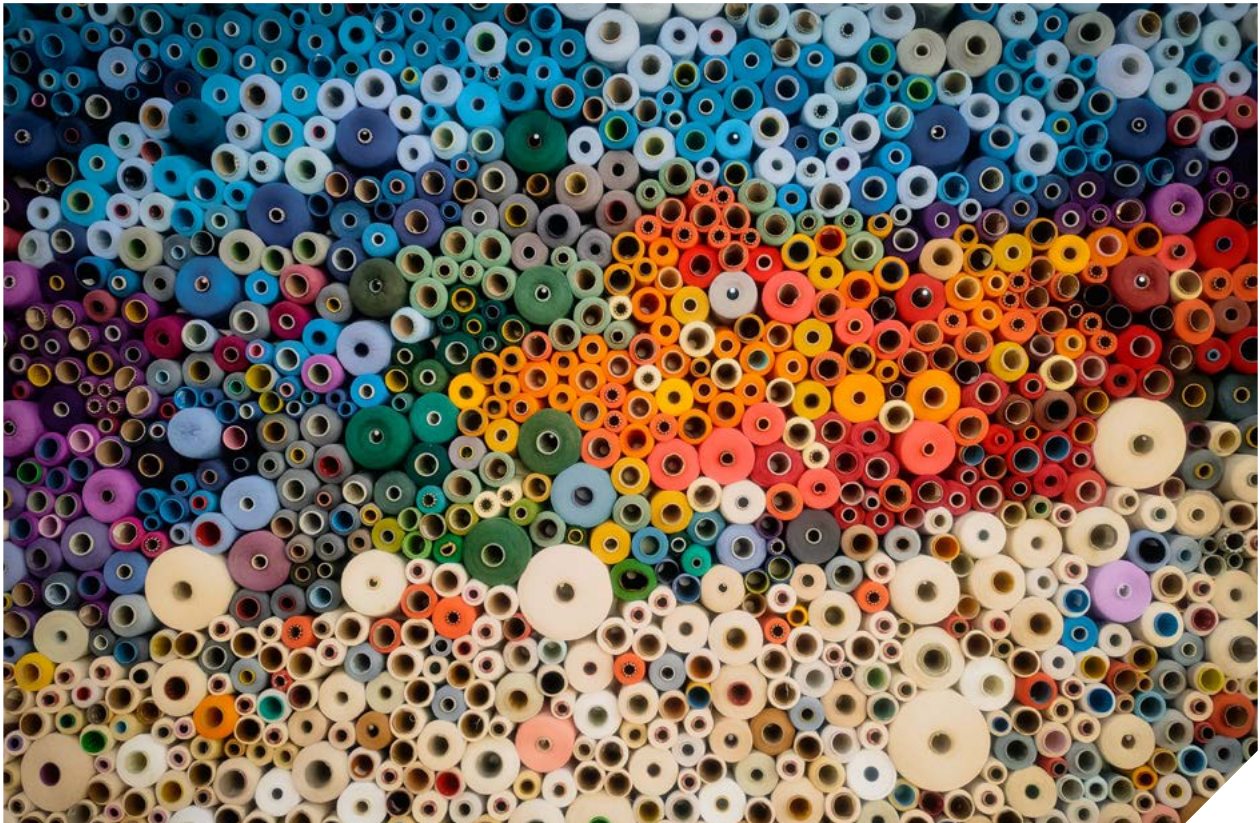
Ecuador has a dollarised economy, which means that the currency of national circulation is only the US dollar, resulting in a limited exchange policy. The annual inflation in 2019 was -0.07%, which goes hand in hand with the contraction of the economy. In 2020, the GDP decreased even further to 1.5% because of the COVID-19 crisis.

At the level of the trade balance, the total exports in 2019 were USD22,329 million, which included oil exports for USD7.7 million (34.5%) and non-oil exports for USD14,629 (65.6%). The total imports were USD21,509, resulting in a surplus of USD820 million. Ecuador's main trading partners in 2019 were the US, China and Colombia.

These figures show a change in trend, given that there has been a trade deficit in recent years. Although oil exports decreased because of lower prices, as did the level of production, other products, such as shrimp, increased their export volume considerably. Added to this was the drop in local demand for imported products, which was linked to the economic recession.

The average international country risk was 766 points in 2018, but it increased in 2019, reaching a value of around 1,400 points and closing the year at around 1,000 points. This indicator largely depends on the international price of oil, external debt performance, internal deficit and compliance with agreements with international organisations.

In May 2017, Lenin Moreno Garcés was elected president of Ecuador. He is the successor of Rafael Correa, who was president for the last 10 years and imposed a model of government called *citizen revolution*, which is part of the regional trend known as *socialism of the 21st century*. During the government of Correa, there was an economic boom attributed to higher oil prices. This provided many resources and facilitated constitutional reform and the introduction of new concepts in national planning focusing on the people and on good living (*sumak kawsay* in the Kichua local language). Thanks to the majority of representatives of Correa's political party in the National Congress, several important reforms were carried out.



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During this period, the state expanded and assumed several new responsibilities, such as the creation of the Council for Citizen Participation, setting up of new ministries, improving public companies and increasing personnel. However, at the end of this government, with the reduction in the international price of oil, revenue decreased, and the government had to resort to external and internal debt to cover its commitments. In 2017, Lenin Moreno became president (with the support of former President Rafael Correa). Initially, he assumed the legacy of his predecessor but surprisingly began to make several changes, fragmenting his political party and opening a dialogue with his opponents. After this break from his predecessor, several reforms were made to control the deficit and reduce spending; Moreno reached an agreement with the International Monetary Fund (IMF) to have access to external financing under better conditions but subject to an adjustment plan. However, political

commitments, together with an oversized state apparatus that demands economic resources to pay its employees and the impossibility of printing its own money, caused external indebtedness to increase.

Reports of corruption and confrontation between political groups also complicated the enactment of clear policy in view of the low popularity of the government. This situation was exacerbated by the start of the COVID-19 pandemic, which deepened some problems as will be discussed in a specific chapter at the end of this paper.

1.2. Social and solidarity economy: roots and drivers

The ancestral worldview of the indigenous population of Ecuador has contributed to the implementation of the SSE in terms of its

forms of organisation. This worldview, which is based on communities and family ties, is characterised by values and principles such as cooperation, reciprocity, solidarity and the concept of common goods, and resulted in the creation of organisational forms that are still prevalent today, especially in the Sierra region where indigenous ethnic groups predominate. This is the reason behind the great number of cooperatives, associations and other forms of community organisations (totalling around 15,600) in this geographical area, and why establishing social and organisational processes here does not take much effort. Values such as solidarity or reciprocity, which are rooted in the local population, have been the basis for organisations' development.

From the Spanish conquest, the process of miscegenation took place, in which the constitution of cities under the laws and regulations of the Spanish crown modified several relationships, especially land ownership. In the Republican era, urbanisation and the growth of cities occurred, as well as the expansion of the agricultural frontier. This led to the development of new areas with a mixed migrant population, including indigenous people, mestizos and Afro-descendants, modifying the relationships of the autochthonous communities: from communities based on strong family ties to a new population structure focused on economic and productive relationships. At the same time, several power groups emerged, initially from the concessions of the Spanish crown of land to the colonisers and, subsequently, from several economic booms linked to the export of products such as cocoa, banana and oil. These conformed to a political class that traditionally has been linked to these power groups. The result was the marginalisation of a large part of the population that did not have access to the means of production and represented labour in exploitative conditions. For this segment of the population, social

organisations provided an alternative path for social and economic development.

At the end of the 19th century, when Ecuador was constituted as a republic, associative movements and cooperativism emerged as a formal ideology, thanks to the arrival of ideas and experiences of cooperation from Western Europe and the birth and expansion of industrial capitalism. These ideas were combined with the local concepts of communities based solidarity and reciprocity and resulted in a new model. The environment that shaped this model revolved around the following factors:

- ▶ The concept of associativity as an alternative to social development emerged because of precarious working conditions.
- ▶ Private and public powers were lacking in supporting workers.
- ▶ For the first two decades of the 20th century, in a liberal economy, there was no state control of union organising initiatives, so savings cooperatives emerged without problems.
- ▶ The first forms of associative and cooperative organisations had an ephemeral life, as there was no regulation and a clear model for their development.
- ▶ The absence of a legal and institutional framework to protect them did not allow for their operation and institutional growth.
- ▶ In the last 25 years of the 19th century, the first savings banks were established in the city of Guayaquil, the country's commercial centre and where its largest port is found. They were set up by union groups to meet human needs related to accidents, diseases and funerals.

Ecuador is a developing country with a high percentage of poverty, particularly in rural areas. A high proportion of the population does not have an employment relationship of

dependency. This has forced people to look for alternative forms of organisation and an alternative economic model - the popular and solidarity economy (PSE). Many of these organisations are based on family and territorial or commercial ties, with a mix of cultural characteristics of the indigenous population and others from miscegenation.

In the midst of globalisation and the digital age, access to information has promoted greater interactivity between people and has provided interesting mechanisms for the development of the PSE. However, this access to globalisation also represents a risk for the PSE because it introduces concepts, such as individualism, that are contrary to its principles.

The SSE is defined in the Constitution of the Republic of Ecuador as a priority sector for the country's public policy and development model. The Organic Law of Popular and Solidarity Economy (OLPSE) formally establishes this concept, classifies the different types of institutions that make up this sector and creates public institutions to promote them.

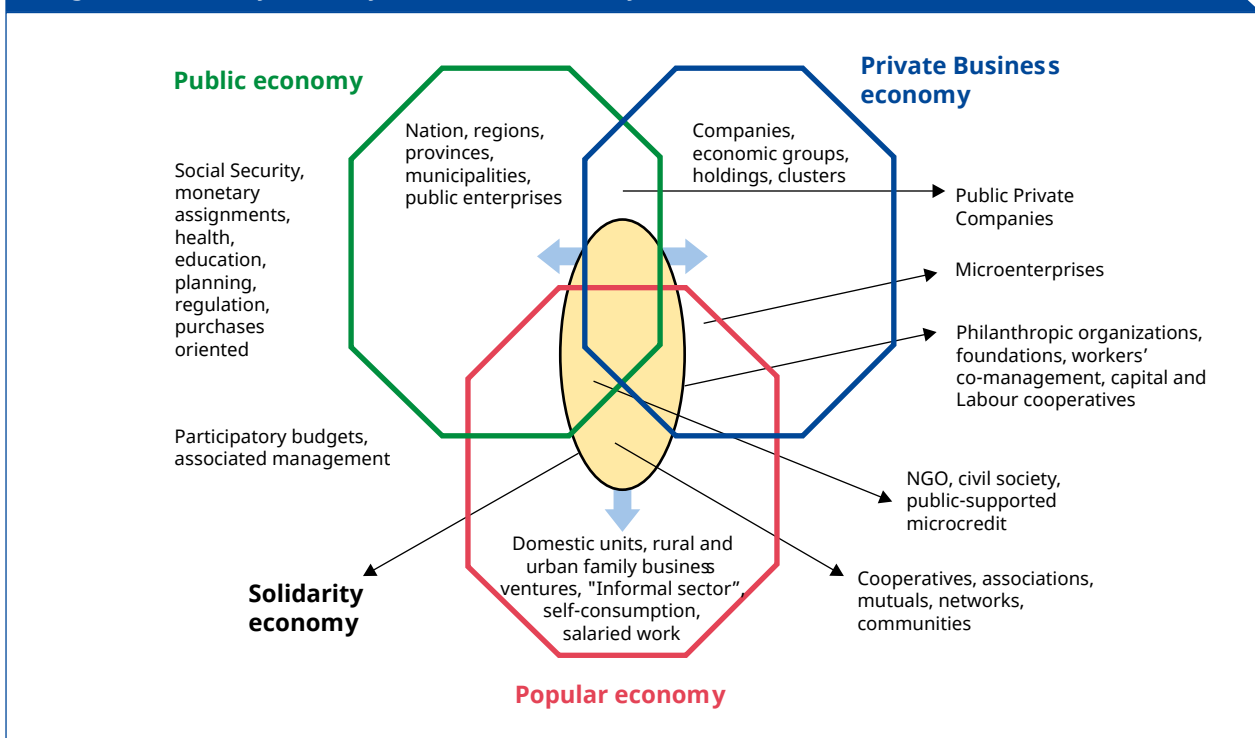
In Ecuador, the term used to explain the SSE is defined in Article 283 of the Constitution

of the Republic. The economic system used by the country is characterised as follows: *'The economic system is Social and Solidary; it recognizes the human being as subject and goal; it tends to a dynamic and balanced relationship between society, state and market, in harmony with nature; and aims to ensure the production and reproduction of the material and intangible conditions that enable good living'.*

Following this, the PSE is described as follows: *'The economic system will be integrated by the forms of public economic organization, private, mixed, popular and solidarity, and the others that the Constitution determines. The Popular and Solidarity Economy shall be regulated in accordance with the law and shall include the cooperative, associative and community sectors'.*

This concept comes from a current of thought based on the definition of the solidarity economy, which helps define and understand the ecosystem of the SSE. It is useful to start from the definition developed by José Luis Coraggio, which can be summarised in the following scheme, used in Ecuador as a conceptual basis.

► Figure 1. Solidarity economy in the mixed economy



Coraggio, José Luis (2013): 'Las tres corrientes de pensamiento y acción dentro del campo de la economía social y solidaria'.

There are three economic sectors in the scheme, namely, public, private and popular, each with different actors. The solidarity economy is defined as part of a mixed economy, which unifies some transversal concepts of social or redistributive behaviour. At the intersection of the popular economy with the solidarity economy, the sector called PSE is located, which would be what the state seeks to promote in Ecuador—to foster development based on a model that seeks to consolidate the popular economy with the attribute of solidarity. This is reflected in detail in the OLPSE of 2011.

In the past, this sector was not called the PSE; however, it already existed. It was based on the associative and cooperative process mentioned above, the same one that was accompanied by legal bodies that were recognising and supporting it. All these organisations have in common the notion of collective property,

according to the Andean conception in which land cannot have an individual owner.

State policy for the recognition and promotion of the PSE dates back to 1937, with the issuance of a set of laws seeking the promotion of social progress. This is how the Law of Cooperatives was promulgated to promote credit and production cooperatives, designating the Ministry of Social Welfare as the entity in charge. In the 1960s there was a period of expansion of cooperatives that led to the promulgation of a new Cooperatives Law in 1966, creating the National Direction of Cooperatives for the registration, control and supervision of these organisations. This law was reformed several times, granting roles to the Ministry of Agriculture for agricultural cooperatives in 1973 and to the Superintendency of Banks for the management of the largest savings and credit cooperatives in 1985. During this period, many

cooperatives and associations of different kinds were created, depending on different public agencies both for their constitution and for their control, supervision and promotion. The basic element of these organisations is that they are societies of people; that is, ownership is collective in equal proportion.

According to José Tonello, the PSE has been developed over the last 40 years as an instrument to fight against poverty, unemployment, ageing of the rural population, labour migration of women, irrational use of natural resources and exploitation of merchants and intermediaries, amongst others. This opinion is shared by Richard Yunga, services manager of the Jardín Azuayo Savings and Credit Cooperative. He believes that the PSE is a response of the resilient population that seeks options for the current economic system to improve economic redistribution and to recognise both employment as a value and people as subjects capable of proposing and creating.

In 2011, with the promulgation of the OLPSE, the old Cooperatives Law was repealed, creating a new legal framework that facilitates the organisation and control of the sector under modern public policy. This law establishes a clear definition of the PSE: *'Popular and Solidarity Economy is understood as the form of economic organization, where its members, individually or collectively, organize and develop production, exchange, commercialization, financing and consumption processes of goods and services, to meet needs and generate income, based on relationships of solidarity, cooperation and reciprocity, privileging work and human being as the subject and purpose of their activity, oriented to good living, in harmony with nature, above appropriation, profit and the accumulation of capital'*.

The OLPSE also aims to achieve the following:

- ▶ Recognise, promote and strengthen the PSE and the popular and solidarity financial sector (PSFS) in its activities and relationships with other sectors of the economy and with the state
- ▶ Promote the practices of the PSE developed in the communes, communities, towns and nationalities and in their productive economic units to reach *sumak kawsay*
- ▶ Establish a common legal framework for the natural and legal persons that make up the PSE and the PSFS
- ▶ Establish the regime of rights, obligations and benefits of the people and organisations subject to this law
- ▶ Establish the public institutions that will exercise leadership, regulation, control, promotion and support

People and organisations covered by this law, in the exercise of their activities, will be guided by the following principles, as appropriate:

- ▶ The search for good living and the common good
- ▶ Priority of labour over capital and of collective interests over individual ones
- ▶ Fair trade and ethical and responsible consumption
- ▶ Gender equity
- ▶ Respect for cultural identity
- ▶ Self-management
- ▶ Social and environmental responsibility, solidarity and accountability
- ▶ Equitable and supportive distribution of surpluses

As a fundamental transversal concept to understand the PSE and characterise the behaviour of the organisations that make up this sector, *solidarity economic acts* are defined as those *'that the organisations referred to in*

this Law carry out with their members, within the exercise of the activities of their corporate purpose". These acts "do not constitute commercial or civil acts but solidarity acts and are will be subject to this Law¹".

Based on these definitions, the following state institutions are created, each with a specific purpose, for the execution of public policy for the promotion and development of PSE

- a. **Superintendence of Popular and Solidarity Economy (SPSE):** This is in charge of the PSE and of the PSFS. It is created as a technical body with national jurisdiction and a legal personality of public law, and it has its own equity, administrative and financial autonomy and coercive jurisdiction.
- b. **Institute of Popular and Solidarity Economy (IPSE):** This is an entity under public law, attached to the Ministry of State, in charge of economic and social inclusion. It has national jurisdiction and is endowed with a legal personality and its own assets and technical, administrative and financial autonomy. It executes public policy and coordinates, organises and applies deconcentrated plans, programmes and projects related to the objectives of the OLPSE.
- c. **National Corporation of Popular and Solidarity Finance (CONAFIPS):** This is created as a body of public law and is endowed with a legal personality, its own assets and administrative, technical and financial autonomy; it has national jurisdiction. It is governed by the OLPSE, which creates its legal status and grants it various powers and responsibilities, detailed in its bylaws, which must be approved by the Superintendency of Popular and Solidarity Economy. Its main mission is to provide financial services, subject to the

policy dictated by the Interinstitutional Committee, to the organisations covered by the OLPSE under second-tier financial and credit service mechanisms, for which it will exercise the functions that will appear in its social statute.

1.3. Main actors and stakeholders in the social and solidarity ecosystem

1.3.1. Actors and stakeholders identified in the Organic Law of Popular and Solidarity Economy

The OLPSE mentions that the PSE is composed of community, associative and cooperative sectors, as well as popular economic units, according to the following definitions:

- a. **Community Sector:** This is a group of organisations linked by territorial relationships, family ties, ethnic relations, culture, gender or caring for nature and are either urban or rural. It consists of communities, people and nationalities that, through joint efforts, work towards the production, commercialisation, distribution and consumption of licit and socially necessary goods or services in a solidary and self-managed manner under the principles of the OLPSE.
- b. **Associative Sector:** This is a set of associations constituted by natural persons with similar or complementary productive economic activities to produce, market and consume legal and socially necessary goods and services; self-supply raw materials, supplies, tools, technology, equipment and other goods; or commercialise their production in a solidary and self-managed manner under the principles included in the OLPSE.

¹ OLPSE, Art. 5.

- c. **Cooperative Sector:** This is a set of societies of people who have joined voluntarily to meet their common economic, social and cultural needs through a jointly owned company and democratic management, with a legal personality of private and social interest. Cooperatives, in their activity and relations, are subject to the principles established by this law, to universal cooperative values and principles and good corporate governance practices. Cooperatives, depending on the main activity they develop, belong to only one of the following groups: production, consumption, housing, savings and credit and services.
- d. **Popular Economic Units:** These are people dedicated to individual and family microenterprises, domestic services, retail trade and artisan workshops. They carry out economic activities of production, commercialisation of goods and provision of services, which are promoted by fostering association and solidarity.

Organisational and associative systems promoted by Ecuadorians abroad with their relatives in the national territory and with returned Ecuadorians, as well as with foreign immigrants, when the purpose is to generate work and employment for them in the national territory, are also included.

This last group includes micro-enterprises and self-employment, which, in the case of Ecuador, represent around 50% of the EAP.

1.3.2. Popular and solidarity economy actors from the popular and solidarity economy financial sector

From a financial point of view, the Constitution of the Republic of Ecuador establishes in Art. 309 that the national financial system is made

up of public, private and popular and solidarity sectors, which intermediate economic resources from the people. Similarly, Art. 311 defines that the PSFS will be made up of savings and credit cooperatives, associative or solidarity entities and village banks. The services provided by the PSFS and micro, small and medium productive units will receive differentiated and preferential treatment from the state, insofar as they promote the development of the PSE.

Access to financing in Ecuador is related to the requirements of the financial system, such as commercial references, credit history, financial statements, tax returns and guarantees, amongst others. The PSE has limited access to such requirements and thus to financial services because associations, cooperatives and other community organisations are initially non-legal organisations, and only those that have reached some degree of significant development are legal institutions with surplus generation and adequate guarantees. With the successful arrival of microfinance methodologies, an approach to the PSE sector has been established with a focus on microenterprises, enabling these organisations to obtain access to financing, although with higher interest rates. Ecuador has had significant progress in the development of microfinance, which adds to the strong institutionalisation of six specialised banks and to the participation of more than 600 savings and credit cooperatives.

The EAP of Ecuador in September 2017 was 8,181,049 people, 55% of which belong to the segment called inadequate employment (population without stable formal employment), which would be equivalent to microentrepreneurs and small producers (sectors included in the PSE). This means around 4,500,000 people in the population segment that is least likely to have access to financing.

Savings and credit cooperatives and mutual savings and credit associations are amongst the most dynamic and numerous groups of organisations within the PSE. These groups underwent a process of consolidation and adaptation to a new regulatory framework, both with the OLPSE and with the Monetary and Financial Organic Code, and complied with several resolutions issued by the Monetary and Financial Regulation Board (MFRB). This led to a decrease in the number of institutions from 947 in July 2013 to 524 in November 2020. However, many cooperatives that disappeared during this period were, in fact, absorbed by other cooperatives or, in some cases, had their portfolios of credit bought, so the consolidated volume of the sector continued growing.

As of November 2020, there were 524 active organisations from the PSFS (519 savings and credit cooperatives, 4 mutuals and one second tier cooperative). The 519 savings and credit cooperatives have combined assets amounting to USD15,085 million, a credit portfolio of USD10,636 million, deposits of USD11.949 million and equity of USD11.949 million, which represent approximately 8 million of associated members. Most savings and credit cooperatives are local financial institutions serving rural or peri-urban areas.

The volume of assets of the PSFS represents approximately a quarter of the total of the national financial system in Ecuador. However, when the composition of the loan

portfolio is analysed, especially loans aimed at microenterprises, the amount of money placed by savings and credit cooperatives and mutualists is 3.2 times higher than that placed by private banks. This shows that savings and credit cooperatives and mutuals have a greater vocation of service to PSE actors.

If we compare the annual growth level of the institutions of the financial system, in the last five years, the growth of the PSFP has fluctuated between 12% and 22%, while that of the private financial sector has fluctuated between 5% and 16%. This has been a concern for private banks. It could be explained by the level of financial exclusion that the country has and the capacity of the PSFP to reach more remote sectors with a different model. One of the reasons for this growth is the level of savings that cooperatives can capture, in which migrants' remittances to their families play an important role.

Regarding the definition of other smaller actors of the PSFS, such as village banks and other associative entities, there are no precise figures because some microfinance institutions use so-called village banking as a methodology to access credit but not for the formation of autonomous organisations. The registration of these entities is not mandatory because of their high number and small size, and there is no specific regulation for compliance with financial standards. Therefore, they do not report information to the Superintendency of Public and Social Economy.

1.3.3. Non-financial actors of the popular and solidarity economy

The OLPSE mentions that the PSE is made up of community, associative and cooperative sectors, as well as popular economic units. In relation to non-financial PSE organisations, the table below shows the distribution by the different types of organisations to get an idea of the existing diversity.

The characteristics of the associations, cooperatives and community organisations were previously defined when talking about the sectors of the PSE and the main actors and stakeholders in the SSE ecosystem.

In December 2020, the number of institutions increased, totalling 12,443 associations, 2,588 cooperatives and 59 community organisations, representing 481,464 people. This indicates a 22% increase in three years.

Regarding the economic activity of non-financial organisations of the PSE, information can be obtained from the National Tax System of Ecuador, which reports the tax declarations of associations and cooperatives of the PSE. A total of USD565 million in assets, USD423 million in sales and USD872 million in annual revenue were recorded, which represent 0.62%,

0.46% and 0.95% of the non-oil GDP value, in the same order.

Estimates made by the Ministry of Economic and Social Inclusion indicate that the PSE generates 64% of the total employment in Ecuador and accounts for 13% of the country's GDP.

Regarding economic units, those people who have a personal microenterprise but do not have a labour relationship could be categorised into the group called inadequate employment (those engaging in activities that help generate income but are not part of a formal job).

1.3.4. Public actors promoting and supervising the popular and solidarity economy

The public actors created by the OLPSE and currently operating include:

- a. **SPSE:** It is in charge of the control and supervision of the PSE and PSFS. It can issue rules of a general nature in matters of its competence without altering legal provisions.
- b. **CONAFIPS:** It is created with the fundamental mission of providing financial services subject to the policy set by the Interinstitutional Committee for the organisations covered by the OLPSE. It provides a second tier financing mechanism through savings and credit

► PSE Composition, December 2017					
Sector	Associations	Cooperatives	Community Organisations	TOTAL	# Associated members
Consumption	109	16		125	2,682
Production	6,454	489	18	6,961	124,691
Services	3,058	86	15	3,159	92,958
Transport		1,852		1,852	82,006
Housing		216		216	
TOTAL	9,621	2,659	33	12,313	336,002

Source of data: Popular and Solidarity Superintendency

cooperatives, as well as complementary strengthening and support services. Its bylaws detail the specific functions and the general services it offers.

- c. **IPSE:** Its mission is the promotion and development of people and organisations included in the OLPSE in the context of the SSE system provided for the Constitution of the republic and described in the National Development Plan. It is subject to the policies dictated by the Interinstitutional Committee.
- d. **Interinstitutional Committee:** It is created as the governing body of the PSE and is composed of the vice president of the country, who presides the committee; the ministry in charge of economic and social inclusion; the ministry in charge of industries and productivity; and the ministry in charge of economy and finance. It is responsible for issuing and coordinating promotion and incentive policies, as well as for the operation and control of the economic activities of the people and organisations governed by the OLPSE, with the purpose of improving and strengthening them.
- e. **Decentralised Autonomous Governments (DAGs):** DAGs are made up of rural parish councils, municipal councils, metropolitan councils, provincial councils and regional councils which have political, administrative and financial autonomy. According to their attributes and the OLPSE, DAGs have certain competencies for the PSE, and they need to include in their planning and annual budgets the implementation of socioeconomic programmes and projects in support of the promotion and strengthening of the people and organisations of the PSE. In addition, DAGs promote the protection and development of retail merchants through the creation, expansion, improvement and administration of product collection centres, distribution centres, commercialisation, fairgrounds and markets.

- f. **MFRB:** It is part of the executive branch of the government, responsible for the formulation of public policies and monetary, credit, exchange, financial, insurance and securities regulation and supervision. The board is composed of the heads of the state ministries responsible for economic policy, production and public finances; the head of state planning; and a delegate of the country's president. It issues solvency and financial prudence rules on the PSFS.

1.3.5. Popular and solidarity economy integration bodies

PSE organisations can constitute organisations of representation and economic integration at the local, regional or national level, such as the following:

- a. **Unions and networks:** constituted by popular economic units, community organisations, PSE associations or cooperatives
- b. **National federations:** constituted by cooperatives, PSE associations, unions and networks
- c. **National confederations:** constituted by national federations

According to the records of the SPSE, the PSFS has 12 unions and networks, half of which are concentrated in the country's capital, Quito.

With respect to representative bodies of the non-financial PSE sector, a total of 20 unions and networks are registered and distributed throughout the country. Amongst these, federations of transport cooperatives stand out for their organisation and bargaining power.

1.3.6. Other actors

The OLPSE recognises foundations and civil corporations (commonly called non-



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government organisations [NGOs]) as entities that support the development of people and organisations within the PSE. However, in practice, although there are NGOs that have contributed significantly to the development of the PSE, they have not been recognised by the Superintendency of Popular and Solidarity Economy as being part of the PSE. Likewise, international cooperation has played an active role in the conception and financing of development projects, as well as in advising on the construction of public policies. The most relevant multilateral organisations in Ecuador at present are the Inter-American Development Bank and the Andean Development Corporation (CAF). In the past, the World Bank also contributed to these processes, but in the last 12 years, it distanced itself from the government of Correa; however, with the new president, there have been attempts to approach, and they will probably return to the country. The European Union has also served as a counterpart for the development of projects and initiatives. At the level of bilateral cooperation, the US

(with whom there had been a distancing in the last period of Correa's government, but now there is a climate of rapprochement), Spain, Switzerland, Belgium, Germany and Holland, amongst other countries, have been important to the development of the PSE.

Chambers of commerce, which merge to form merchant organisations for each region of the country, as well as chambers of industry and productivity, include some of the actors considered by the PSE. However, medium and large companies have the most prominence and control within them.

The law empowers the organisation of workers in workers unions, which have played a leading role in the past; after intensive legal reforms, however, their field of action has been limited. Worth mentioning amongst these are the unions of educators and public employees.

As mentioned above, there are also DAGs, spread over 221 municipalities and 24 provincial governments of Ecuador. They play

a preponderant role in the management of local development and in the articulation of the PSE.

1.4. The social and solidarity economy and policy framework

At the level of public policy, the change in policy focus for the sector between the Correa government and the current Moreno government is worth analysing. Despite the two leaders being from the same political party, there was a conceptual break that was highly evident when analysing the proposals of the National Development Plan.

The National Development Plan 2013–2017 consisted of 12 national objectives disaggregated into policies and strategic lines. The eighth objective is to ‘consolidate the social and solidarity economic system in a sustainable manner’; this was the central way to execute policy for the PSE. With the present government, a new National Development Plan (2017–2021) has been approved; it contains nine national objectives, two of which are related to the PSE. The fourth objective is to ‘consolidate the sustainability of the social and solidarity economic system, and strengthen dollarisation’, and the fifth is to ‘promote productivity and competitiveness for sustainable economic growth in a redistributive and solidary manner’.

Although these policies are stated in a clear manner, in practice, there is still a lack of articulation between the actors and the governmental entities responsible for their execution.

When the SPSE began its work, it carried out a national registration of PSE institutions through a call for registration and adaptation

of bylaws before May 13th, 2013. The SPSE identified 946 savings and credit cooperatives, 1 second-tier cooperative, 2,313 non-financial cooperatives and 2,847 associations. These data, compared to an EAP of just over 8.2 million people, represent important numbers. In terms of the PSE’s contribution to the GDP, its share is estimated at about 25.7².

The OLPSE and its regulations provide a legal framework for the registration, establishment and systematisation of the operating rules of all organisations that make up the PSE; however, it is necessary to establish a distinction for PSFS organisations, given their nature of financial intermediaries. This is why the Monetary and Financial Code was issued to govern and regulate the entire financial sector in Ecuador: private, public and popular and solidarity sectors. It focuses mainly on the regulation of savings and credit cooperatives, making a distinction from the rest of PSE organisations. This code created the MFRB, empowering it to issue regulations for the supervision of the entire financial sector; this way, it was possible to take several resolutions for supporting the process of regulation of the PSFS, based on rules of prudence and financial solvency, in a similar way as in private banks.

Regarding the other non-financial actors of the PSE, the task of issuing regulations and resolutions belongs to the Inter-Institutional Committee of the PSE, which is made up of representatives of the vice presidency and ministries related to the sector. Because of constant changes at the level of the officials of the vice presidency and the ministries in charge of this committee, it has been difficult for them to fulfil their role and be able to give a clear definition of non-financial actors.

² Plan Nacional del Buen Vivir (2017-2021), Ecuador.



2. Financial Mechanisms: The National Corporation of Popular and Solidarity Finances



After the analysis of the PSE ecosystem, this section will review the main financial mechanisms for the PSE in Ecuador, with particular reference to CONAFIPS. This is the specialised mechanism for second-tier financing of the PSFS, with the capacity to develop complementary financial products and services that foster the development of the PSE.

2.1. Overview of the main financial mechanisms

2.1.1. Financing of the national financial system

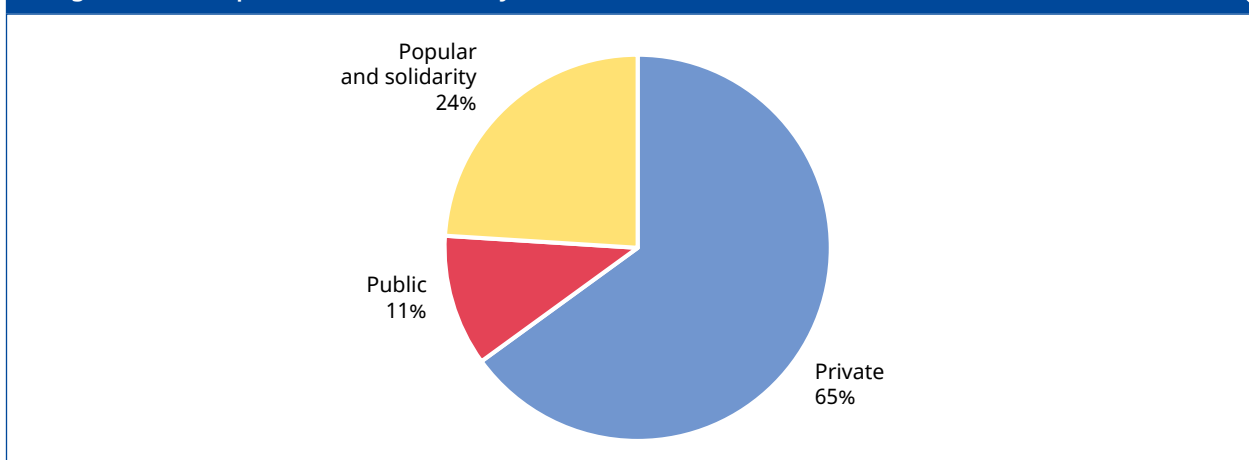
The main financing mechanisms in Ecuador come from the supply of credit by the national financial system, which is composed of public, private and popular and solidarity economy institutions. The composition of the national credit participation of the different members of the financial sector is shown in the following graph.

From the total credit portfolio, the segment that is most oriented to serving the PSE sector

is microcredit, defined as ‘credit to a natural or legal person with an annual sales level less than or equal to USD 100,000, or to a group of borrowers with joint and several guarantee, destined to finance small-scale production or commercialization activities, whose main source of payment is the product of the sales or income generated by those activities’³. The segment of the financial sector that has the highest percentage of participation in microcredit is the PSFS (savings and credit cooperatives and mutuals). Around 30% of its total portfolio is oriented to microcredit compared with only 6% for the private financial sector.

On the other hand, we find productive and commercial credit, which is oriented to legal persons obliged to keep accounts whose sales level exceeds USD100,000. In the PSE, these correspond to cooperatives, associations and community organisations engaged in the production, commercialisation or offer of services. However, the requirements for this type of credit are greater and include the presentation of financial statements, projects and, in many cases, real guarantees, which can make it less accessible.

► Figure 2. Credit portfolio distribution by financial sectors



Source of data: Bank Superintendency of Ecuador, Popular and Solidarity Economy Superintendency of Ecuador

³ Resolution on interest rates, Monetary and Financial Regulation Board, Ecuador

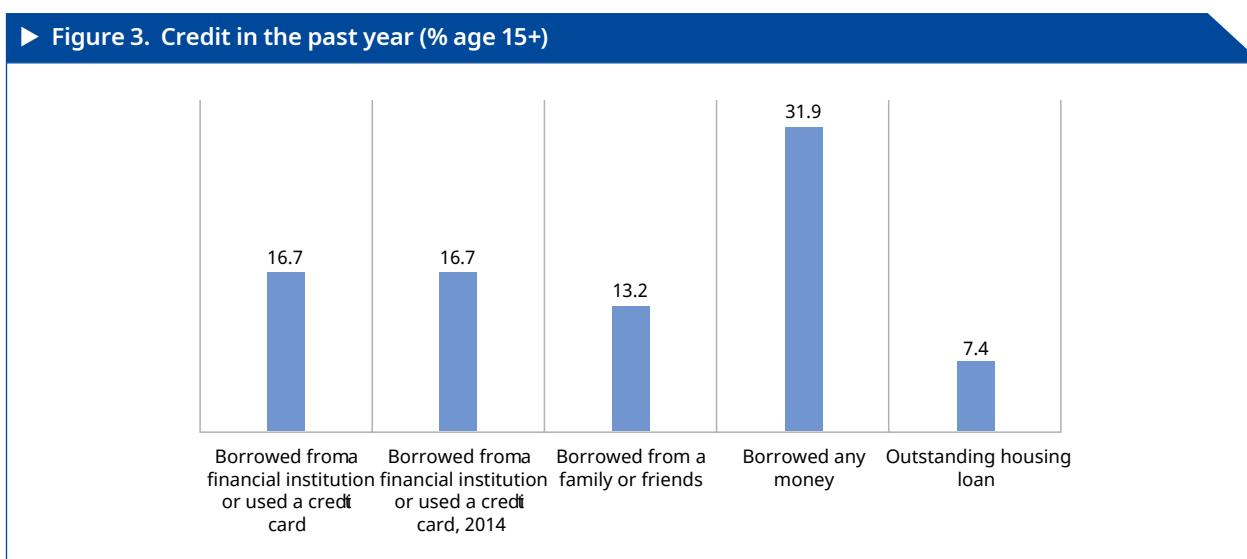
On the part of public banks, there have historically been financing programmes aimed at fostering economic development through the public bank Banecuador, which, on several occasions, has been subject to public policy decisions for refinancing, restructuring or debt forgiveness. Although it has contributed to the development of certain sectors, constant changes and political decisions have diminished its potential effect. There is also the National Financial Corporation, which is oriented, on one hand, to be a second-tier bank for lines of production promotion and, on the other, to finance private companies in areas considered strategic for the country. The main requirement to access this type of credit is the presentation of projects and real guarantees.

As the PSE is significantly affected by financial exclusion, analysing the figures at the national level is important. Data from FINDEX 2017, a study on financial inclusion by the World Bank, as well as comparative local figures, reveal the following:

- ▶ According to FINDEX, it is estimated that 51.2% of the population had access to a formal financial account. This would be a total of 4,188,697 of the EAP, so 3,992,352 people have no access.
- ▶ Similarly, 31.9% had obtained some type of financing in 2017, which would be about 2,609,755 people; thus, 5,571,294 people did not access or request financing.

- ▶ Analysing by population groups, we can see that access to financial accounts is 42.6% for women, 33.4% for the poor and 47.8% for the rural sector. The main variable for greater exclusion is poverty.
- ▶ Current financial products and services serve a large portion of the population but tend to concentrate on certain types of customers (within the PSE in particular on micro-enterprises with extended accumulation) and geographical areas (the Sierra and the largest cities), leading to an eventual risk of over-indebtedness.
- ▶ The potential results of the implementation of a national policy would be the inclusion of 3.8 million people with the opening of the market and an adequate regulatory environment, as well as 3.5 million adults through the application of a national financial inclusion strategy that involves specific methodologies to support the PSE.
- ▶ According to data from the Equifax Credit Bureau, on average, financial institutions provided loans to excluded people (without a credit history), representing 4% of their total clients who accessed credit between 2014 to 2017. This represents approximately 8,700 transactions per month and 105,000 operations per year. This signals progress but is still far from the gap to be covered.

Analysing the financing alternatives in Ecuador in a consolidated way, the following data are obtained based on the FINDEX study of the World Bank for 2017.



Source of data: Global Findex 2017, World Bank.

It can be seen here that 31.9% of the population over 15 years of age had accessed a loan the year prior to the date of the study. Of this 31.9%, 16.7% corresponded to access to financial institutions, 13.2% to loans from friends and family and 2% to other sources of financing.

Given this scenario, the need for innovations to motivate PSE financing becomes a priority.

2.1.2. Demand and supply issues

As established in previous chapters, the potential demand of the PSE is composed, on the one hand, by 15,000 organisations representing 447,977 members and, on the other hand, by about 4,700,000 microentrepreneurs and small producers. It can be assumed that they need financing for the development of their economic activities.

As noted, at the level of number of institutions, there is a wide range of financing options from 524 savings and credit cooperatives,

4 mutuals, 24 private banks and 2 public banks, representing a total credit portfolio of USD45 billion. This amount represents around 40% of the GDP of Ecuador.

Similarly, according to FINDEX data, access to financing is around 31.9%, and access to savings accounts in financial institutions is about 51.2% of the population over 15 years. It could be said that the opportunity to access financing would be similar to the percentage of people who manage savings accounts, as they have at least one financial reference that could allow them access to financing. This means that there is a considerable gap to be covered.

One of the reasons for this may be the need to have more second floor financing resources in order to provide greater liquidity to the system; this is despite the fact that globally, the liquidity indexes are above what is required by the regulatory body. Still, it is a relevant factor for the PSFS in order to achieve longer-term financing or to generate economies of scale.



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2.1.3. Other types of mechanisms

Other possibilities for access to financing for PSE organisations could be participation in the capital market. Although there have been some reforms to the Securities Market Law to open possibilities for participation in the securities market, the PSE sector has not positioned itself as an investment alternative for private capital. PSE actors are people's societies that are not interested in partnering with private capital to be invested because their governance model and objectives are different. Decisions are made by the majority of all their members and not by the majority of capital shares; therefore, while in the case of private capital the individual benefit prevails, in PSE organisations it is the collective benefit that prevails. The options should thus be oriented to the issuance of securities as debt but with a component of social benefit in addition to the financial one.

In the past, being one of the main buyers of social security funds, some savings and credit cooperatives successfully managed a loan portfolio securitisation process. This situation has changed today because these funds have been used to buy debt issued by the government and to provide liquidity to a new bank created to grant credit to social security affiliates.

In fact, there are efforts to provide incentives to actors who participate in the issuance of electronic invoices so that they may be sold with factoring mechanisms in the stock market. Similarly, the new securities law makes it easier for savings and credit cooperatives and mutuals to issue securities or participate in the securitisation of credit portfolios.

At the state policy level, conditional transfer programmes have been created through the granting of bonds to people considered

extremely poor or otherwise vulnerable. These include the human development bond : based on this mechanism, a finance product called *credit for human development* was derived, and it constituted an advance of the bond for the creation or capitalisation of a venture. This consisted of a loan whose main source of repayment (or guarantee) was the monthly bond from the conditional transfer program that people received.

Another type of finance benefit for the PSE is related to tax concessions established in the OLPSE: *'the acts of solidarity economy made with its members by the organizations referred to in this Law, as part of the exercise of the activities proper to its corporate purpose, they do not constitute tax-generating events; on the other hand, the acts and other operations carried out with third parties are subject to the common tax regime (...). The profits that could come from operations with third parties and that are not reinvested in the organization, will charge Income Tax, both for the case of the organization, and for the members when they receive them'*⁴.

Other alternatives that have provided some type of financing to the PSE come from international financial institutions with a social objective which seek to promote the SSE; however, at the moment, they do not represent real alternatives in terms of volume. This mechanism has faced difficulties related to taxation issues, such as foreign exchange tax, and certain restrictions if the organisations come from countries considered tax havens. Still, funds such as Triple Jump, Oikocredit, Symbiotics, Alterfin and Blue Orchard are important alternatives for microfinance institutions and producer associations. It is common for these organisations to request investment impact reports with quantifiable

economic and social indicators measuring social performance management and environmental impact. Priority lines aimed at products in the fields of fair trade and organic products are valued at the international level, placing a premium on certifications indicating small producers as the origin of the product, the use of totally organic inputs, and, ultimately, environmental certifications. Green finance has an increased availability of funds as well.

Similar to the above but linked to larger projects is the participation of funds from multilateral organisations, such as the Inter-American Development Bank (IADB) – Multilateral Investment Fund (MIF), Andean Development Corporation and International Finance Corporation (IFC)-World Bank, whose amounts may be higher, have lower interest rates and involve longer terms. Many of these have had public financial institutions as counterparts, but in recent years, several large private financial institutions have been able to access them. Lately, even alternatives, such as the issuance of green bonds, have been accepted to generate funds that are directed to activities that have positive environmental certifications related to producers' associations.

An interesting alternative emerged with the establishment of CONAFIPS as a financial institution specialising in the management of second-tier funds for the PSE. It has certain autonomy and power to develop specialised financial products for the sector and raise national and international funds for the development of the PSE. In a later section, its operation will be detailed as an innovative mechanism involved in the management of second-tier funds for the PSE.

⁴ OLPSE, Art. 139.

2.1.4. Savings schemes

Savings is the fundamental factor for the development of the PSE, as in the case of popular and solidarity financial institutions (savings and credit cooperatives and mutuals), which are the main sources of financing. In the case of the PSFS, for example, the ratio of public deposits/credit portfolio is 99.97%; that is, the loan portfolio is practically equal to the total of deposits. In the case of private banks, this index is 104.93%, which means that almost 5% of the resources they put into credit come from sources other than savings.

At the country level, the importance of savings in Ecuador is even more relevant, as it is a country that uses the US dollar as its national currency. It does not have control over its own currency, and the domestic money supply depends on internal and external financial flows. Currently, the level of external debt is around 38% of the GDP, a percentage that has been increasing in recent years. Depending on the flow of external dollars that enter the country, it directly impacts the liquidity of the financial system and the economy as a whole.

2.2. National Corporation of Popular and Solidarity Finances operation and products

2.2.1. History

As previously stated, CONAFIPS was formally created as an institution with the promulgation of the OLPSE. It has important precedents for its creation.

The antecedent for its formation is the creation of the National Microfinance System Program (NMSP) through Executive Decree No. 303 in 2007; it focuses on the second-tier financing mechanism

for the promotion of microenterprises, given its impact on the generation of employment, distribution of wealth, strengthening of the solidarity economy and social development. In February 2008, through Executive Decree No. 85, the NMSP was renamed the National Popular Finance, Entrepreneurship and Solidarity Economy Program.

With the enactment of the OLPSE, on May 10th, 2011, CONAFIPS was created. It began its operations on December 28th, 2012 with the approval of its social statute by the SPES.

2.2.2. Functions and objectives

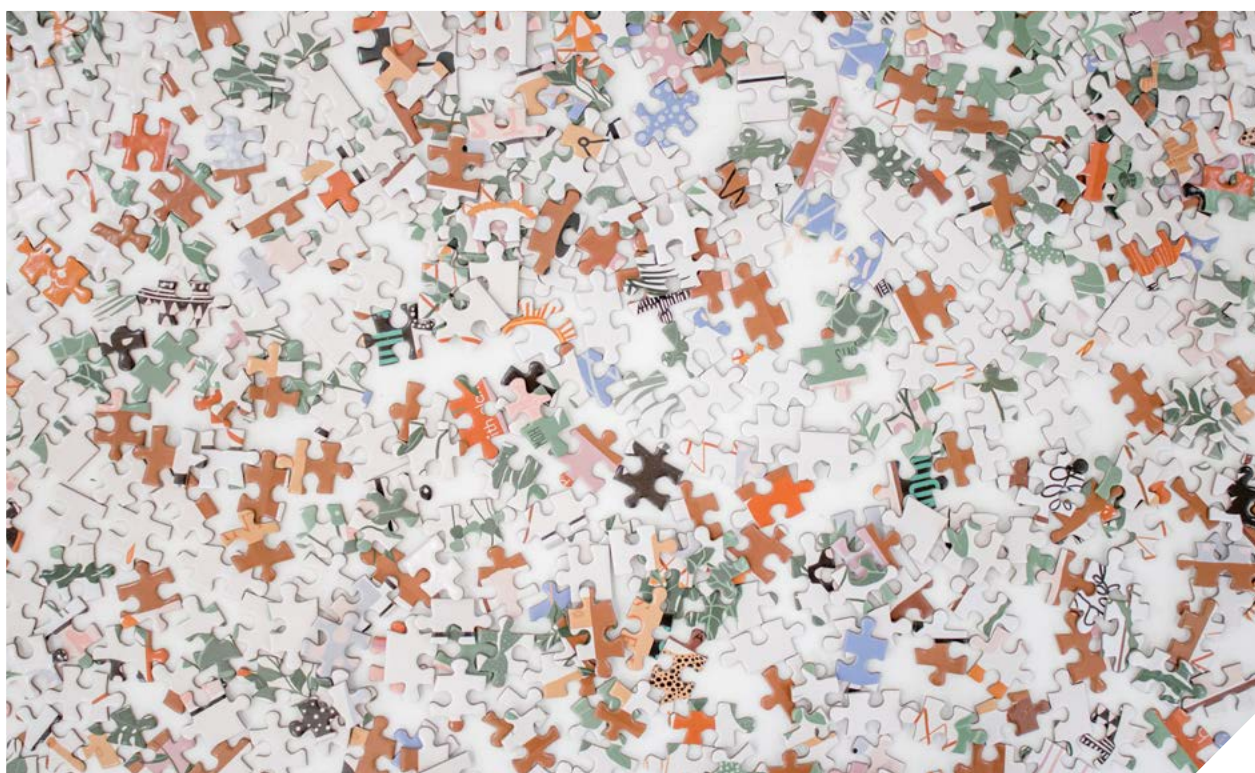
CONAFIPS has the following functions according to its social statute:

- ▶ To provide second-tier financial and credit services to PSFS organisations in the country
- ▶ To strengthen PSFS organisations in the country in terms of the development of their activities, technical assistance, training and technology transfer
- ▶ To develop financial products, local financial markets and others in order to diversify and increase the financial offer in conditions of efficiency and effectiveness
- ▶ To propose and encourage the creation of mechanisms that support Popular and Solidarity Financial System (PSFS) organisations, such as investment insurance, credit insurance, mutual funds, co-investment and the promotion of new financial and non-financial products
- ▶ To develop statistics, research, analysis and studies that contribute to the design of financial products and services, as well as the design of public policy in favour of the PSFS
- ▶ To disseminate the results of studies and research conducted by CONAFIPS or by third parties

- ▶ To sign agreements with national and international, public, private or mixed institutions for the fulfilment of its objectives
- ▶ To carry out actions aimed at obtaining technical and financial resources for supporting the activities of CONAFIPS
- ▶ To act as a fiduciary entity, an administrator of fiduciary orders and an administrator of third-party resources, in general
- ▶ To attract investments in the financial system
- ▶ To make investments in SFPS organisations
- ▶ Any other functions deemed necessary for the fulfilment of its objectives
- ▶ To contract internal and external loans
- ▶ To issue bonds and securities of CONAFIPS
- ▶ To invest its resources in accordance with the policies set by the board of directors under the criteria of security, liquidity and sustainability
- ▶ To channel and manage resources from public or private entities, national or foreign, applying financial management mechanisms, such as constitution of trusts, fiduciary commissions and fund administration agreements, for the benefit of SFPS organisations prior to the signing of the agreements of respective management and within the framework of their competencies

The operations authorised by its social statute, based on what is stipulated in the OLPSE, are as follows:

- ▶ To develop and operate funding mechanisms and financial and transactional services
- ▶ To grant second-tier financial and credit services
- ▶ To invest in productive ventures driven by people and organisations protected by law
- ▶ To subtract the portfolio originating in operations with SFPS organisations
- ▶ To provide credit guarantees in favour of PSE entrepreneurs, charged to the fund that will be created for this purpose



2.2.3. Current products and services

According to its legal and statutory framework, CONAFIPS has developed some financial and non-financial products for the promotion of the PSE and its PSFS, which are concentrated in the following areas:

- a. **Evaluation of organisations of the PSFS:** CONAFIPS has developed an evaluation model for SFPS organisations called Qualification and Inclusive Financial Analysis-CAFI. This model seeks to democratise these organisations' access to CONAFIPS financial products and services and evaluate their administrative, financial and social performance. Depending on the results obtained, a 100% quota is granted if the required standards are met; otherwise, the organisations must go through a strengthening process to make changes that allow them to improve their indicators and access future financing.
- b. **Second-tier loans:** CONAFIPS provides second-tier loans to SFPS organisations (savings and credit cooperatives, mutuals, savings banks and community banks), so the final destinations of these loans are PSE entrepreneurs. Amongst the lines of credit with specific purposes, the following can be mentioned: credits for increased liquidity, social housing, support for migrants, economic reactivation, micro-enterprises of expanded accumulation, inclusion of the vulnerable population, credit linked to social projects of the government, organisations of the PSE, strengthening of SFPS organisations and reactivation because of natural disasters. This is the main product of CONAFIPS, given the demand of the 524 savings and credit cooperatives. With an adequate methodology, it manages to implement second-tier loans successfully, as the rate of return is close to 100%; this is mainly

because the interest of the cooperatives is to renew credits for which they must pay their obligations on time. The fund has been increasing based on its own capitalisation, and so has its search for external financing lines, in order to meet this demand.

- c. **Strengthening:** CONAFIPS offers assistance and support services to SFPS organisations in processes that result in better administrative, financial and social management. The strengthening process includes training, technical assistance in administrative management and transfer of financial software for management. The objective of this mechanism is to strengthen institutions that fail to meet the minimum requirements for obtaining a loan. The gaps that need to be improved are identified, and a strengthening programme is implemented so that, in the medium term, organisations can meet the requirements and access financing.
- d. **Guarantee services:** CONAFIPS has developed a guarantee service for SFPS organisations to facilitate the delivery of credit to PSE entrepreneurs who do not have sufficient collateral. With this system, CONAFIPS becomes a guarantor for the organisation, thus reaching more final beneficiaries. This system is applied to guarantee the financial products and services offered by organisations of popular and solidarity financial systems (OPSFS), which, in Ecuador, are savings and credit cooperatives and mutuals. The investment that this system can guarantee must be framed in one of the following:
- Working capital
 - Acquisition of fixed assets
 - Execution of productive entrepreneurship programmes or projects
 - Resource mobilisation between OPSFS
 - Execution of inclusive contracts for the PSE

- Any others established by the CONAFIPS based on its institutional objectives
- e. **Computer system:** A computer system for the PSE is a tool that CONAFIPS provides to SFPS organisations free of charge as part of the strengthening process. It consists of a software programme designed as a computer solution for financial and transactional management, which facilitates SFPS organisations' operational management.
- f. **Trust administration:** This is related to savings and credit cooperatives in the liquidation process. CONAFIPS deals with the administration of assets, liabilities and patrimony, credit recovery and payment of suppliers.
- USD41.1 million for 6,498 women entrepreneurs
- USD3.3 million for 509 older adults
- ▶ The guarantee fund has made it possible to mobilise resources as an investment between savings and credit cooperatives for USD8.7 million.
- ▶ The average interest rates at which popular and solidarity financial institutions allocate resources to their partners and clients have been decreasing over time, thanks to the fact that CONAFIPS promotes its resources to have a margin lower than the average of the national financial sector. Thus, for example, the average rate for credits for microenterprises is 21.24%, while the maximum rate of the system is 29%; the final customer is placed 8 percentage points less than the maximum allowed by the country standard.
- ▶ Regarding the impact of the first-tier credit placement of the savings and credit cooperatives and mutuals that receive financing from CONAFIPS, it can be summarised by the following indicators:
 - USD93.1 million in 21,242 credit operations for youth ventures
 - USD185.6 million in 40,877 credit operations for women entrepreneurs
 - USD14.4 million for 3,528 operations in older adults
 - USD113.6 million for 32,167 credit operations for agriculture
 - USD108.4 million for 26,706 trade operations
 - USD206 million credit in rural areas compared with USD286 million in urban areas
 - 42% of the credit granted to women and 58% to men

2.3. Relevant experiences

After nine years from its formal constitution, CONAFIPS presented in summary the following achievements in 2019⁵:

- ▶ USD550 million was placed in financial institutions of the PSE.
- ▶ USD201 million was placed in 2019 in 452 operations with savings and credit cooperatives and mutuals, which allowed them to serve 1,933 people and organisations of the PSE with credit.
- ▶ It expects to reach more than USD256 million in placements through credit lines with multilateral organisations by 2020.
- ▶ With the guarantee fund in 2019, a total of USD39.1 million has been guaranteed, corresponding to USD54.4 million, in a total of 7,133 credit operations. This is distributed in the following way:
 - USD15.9 million for 2,928 young entrepreneurs

⁵ Source of data: CONAFIPS 2019 Annual Report.

- ▶ A total of 492 popular and solidarity financial institutions have been evaluated, with 101 new institutions. Of these, 152 are in the process of strengthening so that they can meet the financial and social parameters required to access credit.
- ▶ Of the organisations served by CONAFIPS, 84% are satisfied with the services received.
- ▶ The total loan portfolio amounts to USD335 million.
- ▶ The total interest generated by the credits granted amounts to USD14.8 million, resulting in an annual profit of USD6.2 million.
- ▶ The total assets are USD373.7 million, with liabilities of USD25 million and an equity of USD5.3 million.
- ▶ The past due portfolio represents 0.26% of the total portfolio.
- ▶ Provisions for bad debts represent 586% of the past due portfolio.

Although the CONAFIPS portfolio represents 2.6% of the total portfolio of the PSFS, it has contributed to expanding the access of vulnerable sectors to financing and to strengthening small and medium-sized cooperatives, enhancing their development.

One of the innovative mechanisms worth highlighting is the Guarantee Fund for the Popular and Social Economy, which has shown great dynamism in providing opportunities for PSE actors in the following operations:

- a. To serve as partial guarantees for organisations from the social and solidarity sector (associations, cooperatives, popular organisations and micro-entrepreneurs) for them to access credit. The Guarantee Fund intervenes when such organisations do not have sufficient guarantees to access credit in the credit union or mutual, providing an



additional guarantee which enables them to have access to more debt.

- b. To guarantee social and solidarity sector organisations access to contracts as government suppliers, granting them mandatory guarantees. Generally, the government requires a guarantee of faithful fulfilment of the contract and another for good use of the advance. These are requirements of the law; often, PSE organisations cannot comply with them, or the process is too cumbersome and they risk losing the contract.
- c. To guarantee the deposits or investments that large savings and credit cooperatives and mutuals (with assets greater than

USD20 million) make in small savings and credit cooperatives (with assets less than USD5 million). This guarantee is useful because the supervisory body (Popular and Solidarity Superintendency) requires a high amount of risk provisions to be made when investing in small cooperatives (considered to have a higher risk profile). This represents an additional cost; the guarantee then helps avoid this and gives greater security, facilitating aid between cooperatives. It also assists savings and credit cooperatives and mutuals that invest in the PSE sector instead of having to leave their deposits in large private banks, which do not have the primary objective of providing credit to the PSE.



▶ 3. The Social and Solidarity Economy and COVID-19: Impacts and Outlook



Ecuador has gone through several stages of the COVID-19 crisis. The first cases were identified at the beginning of 2020; there were several waves that included a saturation of hospital capacity in the middle of the year and a new wave at the beginning of 2021. The numbers as of January 26th, 2021 are 42,146 cases confirmed with PCR tests (1.4% of the total population), 204,071 recovered patients and 10,007 confirmed deaths (4.1% of those infected), although with probable cases, this would increase up to 14,688 deaths.

The measures adopted at the beginning included confinement, transport mobility restrictions, distancing, use of masks and learning about the behaviour of the virus to improve its treatment. Hospitals have clear treatment protocols and maintain an adequate level of capacity to deal with new cases.

Starting in September 2020, a gradual reactivation of economic activities began, with a protocol of measures authorised by the government to prevent an increase in cases. Local governments incorporated additional measures depending on the increase in cases in each city.

Several companies maintained teleworking for administrative positions. Financial institutions focused on microentrepreneurs resumed activities, with visits to clients for recovery and placement. Microenterprises also resumed activities, as they needed to generate income to survive.

In mid-January 2021, the first batch of vaccines arrived to initiate the vaccination process for front-line workers (doctors, nurses and health personnel), as well as for vulnerable populations, such as the elderly and people with health risks.

3.1. Impact of the COVID-19 crisis on social and solidarity economy organisations

3.1.1. Global impact at the level of the Ecuadorian economy

The main impacts on the economy at the macroeconomic level are as follows:

- ▶ The COVID crisis resulted in the most severe recession in the last 70 years. A contraction of between 6.5% (Economic Commission for Latin America and the Caribbean) and 10.9% (IMF) is expected.
- ▶ Preliminary figures show that the state revenue budget has been impacted by a decrease in tax collection and a decrease in oil and other revenue, which represent around USD6.4 billion (30.90% of the initial budget); the level of expenses has decreased by around USD3.5 billion (14.54% of the initial budget), which gives an estimated initial deficit of USD2.9 billion. Although the government has made efforts to reduce expenses (wage bill, capital expenditure, debt renegotiation, expenses of goods and services) because of items such as health care and compensation bonuses for vulnerable people, a greater reduction is impossible.
- ▶ The government has renegotiated USD17.4 billion of foreign debt, with the largest bondholders accounting for about 92% of the total debt corresponding to sovereign bonds.
- ▶ The general state budget deficit would go from 3.1% to 8.7% of the GDP.
- ▶ The trade balance in recent months has been positive (as of June, it was USD1.2 billion), above all because luxury goods have stopped being imported, and several export products have not been totally affected.

- ▶ With the new agreement before the IMF, a financing of USD6.5 billion has been established to provide coverage for social assistance, fiscal sustainability and debt. Tax reforms and reforms for economic recovery are expected, as well as a commitment to leave other approved reforms before the end of the present government in May 2021.
- ▶ With the debt renegotiation in addition to the agreement with the IMF, the country risk has dropped notably, reaching 952, the highest drop in recent years; however, this indicator is volatile, as 2021 is an election year.
- ▶ The need for international financing has increased with the deficit, with the need to turn to the IADB and the Andean Development Corporation, secure loans from China and use oil pre-sales.
- ▶ There is no exchange risk because of being dollarised or inflationary (−0.6% inflation in 2021). Neither is a danger of change in the dollarisation model foreseeable, as with the resources obtained and the gradual reactivation of the economy, there is a return to better conditions without putting the economic model at risk. There is no evidence of a massive outflow of money abroad.

3.1.2. Impact of the COVID-19 crisis on the social and solidarity economy sector

As of June 2020, at the most critical point of the crisis, the unemployment rate was 13.3%, 10 points above that of the previous year, and the informal employment rate was 67.4% of the population, 11 points above that of the previous year. Adequate employment decreased by 22 percentage points (from 38.8% to 16.7%). As of September 2020, there were signs of recovery: 6.6% for unemployment, 60.4% for informal employment and 32.1% for adequate employment. Informal employment includes

self-employed workers, micro-entrepreneurs and PSE actors in the process of development.

According to the IMF, poverty increased by 10 percentage points in 2020, which is equivalent to about 1.8 million people (or 450,000 families). The poverty rate increased from 27.2% to 37.6% of the population, and the extreme poverty rate rose from 10.7% to 19.2%, especially given the increase in unemployment.

In April 2020, the composition of SSE organisations showed that 30% correspond to cleaning and transportation services, activities that have been strongly affected by the crisis. On the other hand, there are opportunities for activities related to the provision and production of food in view of the conditions developed during confinement and considering that 42% of organisations focus on the following types of activities: food services (9%), consumption (1%) and agriculture (32%). However, to minimise the impact of the current situation, organisations need to adapt to the new environment by searching for new market niches and driving digital transformation.

Amongst the main effects on exporting SSE organisations are economic losses because of the cancellation of sales contracts and difficulties in internal transportation, causing delays in shipments and failure of products to reach customers in the optimal conditions. This also caused an increase in production costs because of the acquisition of biosafety equipment, although the effects of the pandemic depended on the sector. Flower production was one of the most affected by the loss of harvests and cancellation of contracts. In sectors such as panela and bananas, there were quality claims. In cocoa and coffee, there was no major impact. In the sector of the production of toquilla straw hats, demand fell internationally. This led to a 15.72% decrease in exports from the SSE.

At the level of savings and credit cooperatives and mutuals, the deposits of the financial system have been re-established; there is liquidity and solvency in institutions, so no greater risk is expected. There is a liquidity fund and deposit insurance that support the financial security model.

The government has begun the process of channelling resources through the public bank with the resources obtained for reactivation. However, these resources do not solve the problems of demand contraction and are insufficient to meet the total demand. The credit will serve only those businesses that are able to reactivate quickly, but there are many businesses that have gone bankrupt and incurred debt.

A review of the credit segments and a new interest rate calculation model that could make rate caps more flexible have been stipulated.

3.1.3. Impact of the COVID-19 crisis on social and solidarity economy financial institutions

For the financial sector, including popular and solidarity financial institutions, the following measures have been established so far:

- ▶ At the beginning of the pandemic in April 2020, financial institutions were given the possibility to defer two credit instalments, which will be collected at the end of the credit.
- ▶ Once the two-month deferral ended, on July 2nd, 2020, regulations that allow the restructuring of the affected loan portfolio by the institutions were issued, which are the same ones that allow them to agree on new payment conditions with those customers affected by the pandemic, as of the declaration of a state of emergency.
- ▶ Because of previous regulations, the past due portfolio did not increase, but as of October and November 2020, the effects of restructured loans that cannot meet payments in the expected terms can be seen as an impact of the COVID-19 crisis.
- ▶ A modification was made to term regulations to consider past due portfolio, which entails a change in the provisions required to take into account the potential risk of non-payment of the loan portfolio. This is done with the objective that institutions can gradually adjust the structure of their overdue portfolio as a result of COVID-19 without having to make high provisions that affect their financial statements in the short term; the hope is that in the medium term, everything will return to relative normality.
- ▶ Liquidity decreased in March and April 2020 with the withdrawal of deposits; however, as of May 2020, there was a recovery and a return to normality. As there is no sustained demand for credit, several institutions maintain an excess of liquidity.
- ▶ The effect on financial statements is not yet visible because the interest on loans has continued to accrue and is recorded as income; it is not recorded as past due and is not transferred to the portfolio that does not accrue interest. Likewise, by the end of 2020, a specific treatment was established for the number of provisions required for an eventual non-payment of credit; the calculation of the past due portfolio was modified during the COVID-19 crisis because it is expected to be a portfolio overdue credit. When the economy recovers, it will be possible to return to normal conditions for the generation of provisions to cover credits that cannot be collected.
- ▶ Financial institutions that have developed scenarios of portfolio impairment by affected economic sectors calculate an impairment similar to an economic decline and levels of employment impairment (higher than 10%), for which they have established levels

of provisions that allow them to absorb this possible loss. This figure may increase depending on the delay in the recovery of the economy, as well as on the degree of portfolio concentration in the most affected economic destinations.

The main effects at the moment on the sector as a result of the crisis are as follows:

- ▶ Gradual reactivation of credit lines to continue intermediation
- ▶ Recovery of deposits that were withdrawn, not at the previous level (because many people need their savings for emergency), but they returned to a great extent, and their trend was stable.
- ▶ Problems with the effective coordination of work with employees initially, but there is adaptation to the new normal at the moment, with teleworking, videoconferencing and virtual education being implemented.
- ▶ COVID-19 infections persist amongst staff, requiring their rest and isolation, with a consequent impact on workflow.
- ▶ Customer distancing because of not being able to move freely to make on-site visits
- ▶ New expenses: system providers (recalculation of amortisation tables, rescheduling of credits), consultancy for budgeting issues, liquidity management and scenarios, adoption of security protocols (provision of more spaces for customer distancing, protection supplies and COVID-19 testing for staff) and digitisation of services
- ▶ Greater requirements for provisions, although the regulations have granted longer terms because of the change in terms of the past due portfolio classification. However, several institutions have preferred to increase provisions for prevention, as they consider that a percentage of the portfolio cannot be recovered.

- ▶ Acceleration of digital transformation in the largest financial institutions

3.2. Role of the social and solidarity economy in post-COVID-19 recovery efforts

Integrated in Ecuador by a large part of the EAP in rural areas, the SSE is based on associative and community organisation processes linked to the production, transformation and commercialisation of food. For this reason, although the SSE has been affected, its degree of recovery may be faster than that in other sectors as markets become more dynamic.

On the other hand, tourism, transportation, restaurants, education, construction and non-essential manufacturing activities will not recover in the short term. Micro-enterprises directly or indirectly linked to these activities also face difficulties.

In terms of economic recovery, in an ILO study, at least eight economic sectors with the potential to create employment and entrepreneurship were identified in the main cities of Quito and Guayaquil as a way to reactivate the economy during the pandemic. These are sectors in which the SSE is strongly present, and they are related to the activities of electronic commerce, software development, internet of things, basic education, green and healthy transportation, health care and agriculture (coffee and cocoa), according to the report published on October 28, 2020. 'The study has identified the eight economic sectors with the highest job creation (together they account for 87.2% of full national employment); has evaluated the risk of job loss due to the health crisis in these sectors and has identified the three subsectors with the greatest potential for post-covid-19 growth', said Elena

Montobbio, deputy director of the ILO Andean Office. It is also noted that despite an imminent global economic recession, some economic sectors have been strengthened. The health crisis brought drastic changes in consumer trends and accelerated the digitisation of multiple sectors, which had a high impact on employment and entrepreneurship prospects. There are segments that have benefited very quickly because of pandemic mitigation measures, such as health products (masks and antibacterial gel), food shopping at home or online entertainment.

In the medium term, activities that would benefit because they have been able to position themselves or break digital barriers, amongst other factors, were identified. This group includes e-commerce, online education and tools for teleworking. In the long term, it is estimated that consumption habits will focus on preferences in goods and services related to the family, health, security and housing. For these reasons, telemedicine, services that ensure security (property, health) and healthy eating are projected as potential sectors. The study shows that some of these sectors are new to the Ecuadorian economy, and the skills needed to start or work in them are scarce. In these cases, the recommendation is that priority should be given to those in which the development of skills for employment or entrepreneurship is rapid or can be leveraged on previous training or experience. Vice Minister of Labour and Employment Sharian Moreno commented that the attention focused on these sectors will allow adding value to the productive matrix of Ecuador, as in these lines of work, speciality prevails and not the low cost of production. An intervention in these areas that have a strong relation with the SSE would invigorate the traditional model of the Ecuadorian productive matrix, give rise to new economic activities and offer alternatives to support formal employment.

Some SSE organisations have implemented projects to promote the sector; several savings and credit cooperatives have worked toward the creation of local reactivation activities, providing microentrepreneurs with education, inputs to start a new business and access to digital platforms to carry out e-commerce or promote the creation of SSE organisations for marketing and delivery tasks, amongst others. In the same way, they have provided training so that affected clients can change their activities or adapt to current ones; the search to create circles of product exchanges at the local level has been successful.

At the level of micro-enterprises, they had to modify their activities in order to adapt to the new demand for products and services because of the pandemic. For example, many businesses have incorporated food products, antibacterial alcohol, masks, fruits and vegetables, amongst others, into their offers.

Similarly, adaptation to new forms of product delivery, such as the use of simple and effective mechanisms (e.g. WhatsApp and Facebook; home delivery using one's own transport or through arrangements with family members, neighbours or friends), has generated new work set-ups. Non-bank correspondents have had a rebound because there is a fear of going to banking agencies, so this service has been strengthened.

At the credit union level, the gradual reactivation of credit and the recovery of deposits, together with access to some second-tier lines of financing, help support credit unions with financing for the reactivation of rural and marginal urban areas. The important consideration is that SSE microentrepreneurs and organisations, which are small in scale, can innovate, diversify or even change their activities according to the new conditions.



▶ 4. Conclusions and Recommendations



Since the identification of the popular and solidarity economic sector as a specific component of the Ecuadorian economy and of the PSFS as a specific part of the national financial system through the Constitution and the OLPSE, it has been possible to provide greater relevance to the sector, as well as to identify targeted policies and programmes.

National and international financial crises, which have generated distrust in banks, as well as generalized lack of access to finance for the poorer segments of the populations, have given rise to popular and solidarity financial institutions as options with an alternative approach.

Although in practice, these policies and programmes have not generated the expected impact on the PSE in the beginning, the institutional framework achieved by the SPSE, CONAFIPS and IPSE, as well as the coordination of actions with ministries and sectional governments, has allowed a greater role and formal strengthening, configuring an ecosystem.

The sector that has the most relevance is the SFPS, as it is now regulated by the SPSE with specific rules and compliance parameters of prudence and financial solvency. The participation of CONAFIPS in contributing second-tier funds and strengthening programmes is also notable. This is how the growth of the SFPS has exceeded that of private banking in recent years; several organisations in this sector have achieved remarkable levels of efficiency and specialisation. There is still a process of consolidation in the sector, which is why mergers and takeovers are expected, although they will allow greater economies of scale and could affect the local specialisation of small structures. Alternative capitalisation schemes, as well as the proposal of guarantee

models, also contribute to the development of this system.

Given its wide capacity for the development of financial products and specialised services for the SFPS, many of them with prospects for leveraging important national and international resources, CONAFIPS must constantly innovate and explore the creation of complex mechanisms; the purpose is to continue attracting funds and new second floor services and to encourage PSE development.

Considering the recommendations regarding the role of financial mechanisms provided in the conference THE SSE MOMENTUM⁶, we can conclude the following:

- a. The internal sources of capital in cooperatives have provided the basis for their growth and future development. Amongst these are the capitalisation of their surpluses, the possibility of making patrimonial contributions by the member as a percentage of the credit and the financing of the productive initiatives of their members that also produce local development and greater savings capacity.
- b. Regarding guarantees, the CONAFIPS scheme has made it possible to increase access to credit, collaboration between cooperatives, the deposit of financial resources in smaller cooperatives and the participation of SSE actors in public procurement processes with the state.
- c. The participation of a variety of SSE actors in the ecosystem has made it possible to structure national networks and unions that represent them, as well as contacts at the international level, in order to find markets, such as fair trade, and participate in international networks.

⁶ See <http://ssecollectivebrain.net/ssemomentum/>

d. The development of CONAFIPS has made international actors interested in channelling funds through this institution, managing to open spaces for dialogue with multiple actors for access to projects and financial funds.

4.1. Gaps in access to finance and opportunities for future development

As mentioned above, the financing gap in Ecuador represents approximately 49% of the population over 15 years of age who has not had access to savings accounts in the financial system; this is related to the estimate that 55% of the EAP corresponds to the PSE sector. The institutional diversity of credit offers present in Ecuador, with 524 savings and credit cooperatives, 4 mutuals, 24 private banks and 2 public banks, represents a great opportunity.

With dynamic access to higher levels of second-tier financing, such as CONAFIPS funds, and with adequate institutional strengthening programmes, the access gap may be closing. However, it is necessary to focus efforts on a model of articulation of PSE actors in order to achieve greater dynamism in this sector with alternative models of development based on criteria other than the traditional neoliberal model. Models that promote associativity, cooperativism and community organisations can create virtuous circles of development that lead to overcoming poverty with different criteria, such as good living. This has been cited many times, but it is difficult to find practical examples that are real and sustainable or to expand the impact of several PSE organisations that have been able to demonstrate that this is possible.

Therefore, the next step should be the systematisation, development and promotion

of associative, cooperative and community models for their promotion and replication. This will be possible by configuring an ecosystem with alternative proposals for the problems and limitations they have, considering successful international models and providing tools that visualise their social dimensions and benefits.

The COVID-19 crisis has delayed financial inclusion, given the increase in poverty and the economic recession. However, it is hoped that once the pandemic comes to a close, either with vaccination or with global immunity being achieved, recovery can be accelerated.

4.2. Policy recommendations

The recommendations given below are based on desk reviews and interviews with PSE stakeholders.

An initial recommendation is oriented to the location of the PSE as a fundamental part of the economic model and not just a palliative force to mitigate social ills. This is because in Ecuador, several responsibilities are delegated to the Ministry of Social Inclusion, but it should be the Ministry of Economics that is in charge, given the importance of the sector at an economic level. This is what Patricio Muriel, former secretary of the Inter-institutional Committee of the PSE, said when he mentioned that the PSE should be a fundamental part of the country's productive system; this way, it would contribute to the provision of quality goods and services, with technology and value added, and be taken out of the social sector in which it is considered an economy of the poor for the poor.

For this, managing better levels of data and statistics is necessary to understand the needs of the PSE and to adapt forms of regulation and supervision to its reality (e.g. risk management,

capitalisation systems, promotion of financial and non financial products, second floor financing).

These recommendations become more relevant in view of the effects of COVID-19, resulting in an increase in poverty and unemployment and a gradual recovery. With a new government in the future, it is necessary to deepen the policies contemplated in the OLPSE for the promotion of the SSE so that they are efficiently put into practice as a viable alternative for a sustainable development model.

In general, policy recommendations could be classified into three levels: macro, meso and micro. The macro level refers to the stabilisation of conditions in the environment and the provision of opportunities or stimuli for organisations to develop. The meso level is where both public and private actors at the national, regional and local levels intervene to jointly implement policies with a specific objective. The micro level refers to technological requirements and capacity building in institutions.

4.2.1. Policy recommendations at the macro level

There must be a national strategy to promote the PSE, which includes associative, cooperative, community models and the formal recognition of entrepreneurs, for the inclusion of vulnerable groups. This must include and generate synergies with the following policy recommendations:

- ▶ Changes in the agricultural production matrix, identifying the production and transformation of products that have competitive advantages over those of other countries and that constitute an engine for rural development

- ▶ Anti-poverty programmes, inclusion of vulnerable groups, access of the PSE to public procurement programmes with agile mechanisms and the participation of CONAFIPS
- ▶ Definition of the role of the public financial system in serving strategic sectors
- ▶ Access to and registration of production means, which serve as a guarantee to the PSE
- ▶ Legal reforms, including specific regulations at the financial, tax and labour levels, to provide real incentives to the PSE
- ▶ Improvements in coordination, allocation of roles and efficiency of the public sector in the execution of the policy

This is expressed in the opinion of Catalina Pazos, general intendant of the SPSE. She mentions that policies should be established to provide concrete incentives for the PSE to participate in the public procurement system, establishing synergies between PSE actors and providing tax or labour incentives.

In a similar way, Richard Yunga from Jardín Azuayo Cooperative expresses that CONAFIPS could enable the good use of guarantee systems in advance to improve access to public procurement programmes by the PSE.

José Tonello from FEPP considers that greater incentives should be provided for credit destined to production that generates employment; the interest rate could be differentiated from the credit. Actually, the interest rate policy promotes the proliferation of consumer credit (because its interest rate is lower than the microcredit).

4.2.2. Policy recommendations at the meso level

At this level, the following recommendations can be made:

- ▶ **RAISING AWARENESS:** A greater understanding of the PSE by public actors is required, especially those who create legislation, those who define policies and programmes, those who execute these policies and programmes and those who perform activities of registration, control, procedure, judicial processes and administration of local governments. In the same way, spaces for the coordination and creation of synergies amongst public actors need to be established.
- ▶ **NETWORKING AND POLICY CAPABILITIES:** A greater articulation and authentic representation must be generated by PSE actors to create round tables for dialogue and coordination of actions, both with public and private actors and within the PSE itself. These processes will generate alternative models. Hugo Jácome, former superintendent of the SPSE, for example, proposes the creation of a social cooperative network to move from a collaborative economy to a cooperative one.
- ▶ **COORDINATION:** Governments should recognise and include the actors that indirectly promote the PSE sector in order to strengthen efforts. Amongst these are international cooperation agencies, multilateral and bilateral organisations, NGOs, civil society, academic entities, international financiers and securities markets.
- ▶ **DIGITISATION AND INNOVATION:** Although the PSE sector has its particularities, it must be integrated with new technological and innovation trends, so linking it with suppliers that promote the development of the sector

and its incorporation into new trends are vital. Hugo Jácome proposes, for example, the incorporation of electronic channels, links with universities and innovation centres and a strategy to move to the digital era in a cooperative way amongst PSE actors in order to boost their development.

- ▶ **INCREASE ADVOCACY CAPABILITIES:** There is a need to increase the participation and representativeness of the PSE sector with technical and proactive support in order to achieve favourable environments for its development. There is also a need to create synergies for enhancing its development.

4.2.3. Policy recommendations at the micro level

At this level, the following actions are required:

- ▶ Establish specific training processes for the development of university careers and the training of specialised professional profiles in the PSE. It is vital to promote this new model rooted in different principles and values rather than fostering traditional business models. Richard Yunga proposes, for example, cooperative and associative training in schools and universities and reaching agreements with actors, such as CONAFIPS or the IPSE, to create a higher education entity specialising in PSE that could promote this knowledge.
- ▶ Provide specialised technical assistance based on the promotion of successful PSE models and promote their specialisation and efficient development
- ▶ Generate and analyse information that supports the importance of the PES sector because of its impact on the economy and the possibility of replicating it as a way to solve the problems of poverty, exclusion and marginalisation, and as an alternative

economic model that is sustainable over time.

As we can see, the PSE is a complex actor because of its diversity and particularities, and it includes the majority of the country's population. This is

why it constitutes an alternative to any economic model of development that the government may choose. As such, it needs to have a clear support policy based on an adequate analysis and understanding of the sector, so that it can be given the importance it deserves.

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