

**Haute École**  
**« ICHEC – ECAM – ISFSC »**



Enseignement supérieur de type long de niveau universitaire

# **How has COVID-19 impacted remittances received in Ecuador, focusing on the most vulnerable families (those in poverty and extreme poverty)?**

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Pour l'obtention du diplôme de **Master en gestion de l'entreprise**

Année académique 2023-2024

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## **Acknowledgments**

With immense gratitude, I begin this tribute by expressing my deepest thanks to God for being the source of my strength and guidance in the completion of this master's project. I also wish to extend my sincere appreciation to Mr. ROMAN, professor of Economics at ICHEC and ICHEC's academic promoter, as well as to Mr. HEES, my internship supervisor, for their essential support, expert guidance, and the provision of key resources that were crucial for the progress of my research.

My warmest thanks also go to my parents, my older brother and my partner, whose presence and unconditional support have been the pillar of my academic journey. Their love and constant encouragement have been the source of my inspiration and perseverance. Additionally, I am deeply grateful to all those who participated in my survey; their collaboration has been fundamental for data collection and the development of insightful conclusions. Their contribution has been vital in achieving this significant academic milestone. My most sincere thanks to everyone!

## Engagement anti-plagiat

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# Part I: Theoretical Framework and Context

## Chapter 1: General Introduction and Objectives

### 1.1 Problem Description

This research analyses the impact of the global health crisis caused by the COVID-19 pandemic, focusing in particular on its influence on the world economy, and especially on remittance-dependent economies such as Ecuador. In Ecuador, remittances constitute an essential support for numerous families, especially those in vulnerable situations, highlighting the need to analyse how the pandemic has affected these financial flows and, consequently, the welfare of these families, particularly those in conditions of poverty and extreme poverty.

According to this line of analysis, chapter 2 outlines the significant contribution of remittances to Ecuador's Gross Domestic Product (GDP), with an emphasis on their role in the country's economic and social stability.

An examination is made of the historical interaction between remittances and the Ecuadorian economy, considering their influence on consumption and investment patterns (Gcoba, 2023).

Then, chapter 3 discusses how the pandemic has exacerbated the vulnerabilities of certain population groups in Ecuador, exacerbating inequalities and disproportionately affecting the most disadvantaged sectors. This chapter highlights the increase in poverty resulting from the pandemic and the vital role of remittances in mitigating some of these adverse impacts (World Bank, 2023, p.131).

Next, chapter 4 explores how changes in remittance flows during the pandemic have affected the ability of vulnerable Ecuadorian households to meet their basic needs and maintain an adequate level of economic well-being (Andrade, 2022). An in-depth look at the interaction between remittances and poverty in the context of the health crisis is provided, bringing a critical perspective on how these monetary flows have shifted and their effect on the social and economic structure of the country (Parrado et al., 2020).

In particular, this thesis focuses on analysing the impact of the COVID-19 pandemic on the socio-economic well-being of vulnerable households in Ecuador. It explores in depth how the global health crisis has modified the capture of remittances, which are crucial for the livelihoods of families in conditions of poverty and extreme poverty. Given the critical importance of these remittances for the economic and social stability of these families, it is essential to understand the current situation of this phenomenon



and the measures adopted by both Ecuador and other nations to alleviate the current difficulties.

The structure of the thesis is organised as follows: it begins with a theoretical framework in the second chapter covering remittances, poverty, and the impact of COVID-19 in Latin America and specifically in Ecuador. The third chapter then explores the impact of the pandemic on the flow of remittances to Ecuador, analysing trends before, during and after the onset of the health crisis. The fourth chapter is devoted to analysing the impact of remittances on the socio-economic well-being of Ecuadorian families affected by the pandemic. The methodology employed is detailed in chapter five, revealing the qualitative and quantitative techniques used in the research. Following the interpretation of the data collected in the sixth chapter, the last chapter summarises the conclusions and recommendations aimed at guiding governmental actions based on the findings. Finally, the thesis closes with a bibliography and annexes that support the analysis presented.

## 1.2 Justification

### 1.2.1 Theoretical, Methodological (Viability), and Practical Justification

From a theoretical point of view, this research provides enrichment to the limited existing literature on the economics of remittances and their impact on vulnerable Ecuadorian households, particularly those living in poverty and extreme poverty, offering a fresh and contextualised view in the midst of a global health crisis such as the COVID-19 pandemic and its interaction with remittance flows in the Ecuadorian economy.

Methodologically, the thesis is based on the feasibility of obtaining secondary data from various international and national sources, complemented with surveys of affected families, which allows for an exploratory and descriptive approach to the potential impacts on the Ecuadorian economy in a context as disruptive as that generated by COVID-19.

At a practical level, the evidence from this thesis could provide policy makers with a deeper understanding of remittance trends in times of crisis, helping to design strategies that increase the economic resilience of households in vulnerable situations, guiding government actions that aim to alleviate adverse effects and promote inclusive and sustainable development.

### 1.2.2 Formulation of the Research Problem

The research problem centres on the impact of the COVID-19 pandemic on remittances received in Ecuador and the study of the resulting impact on the socio-economic well-being of the most vulnerable Ecuadorian families (in poverty and extreme poverty).

## 1.3 Objectives

### 1.3.1 General objective

Evaluate how the COVID-19 pandemic has influenced remittances received by vulnerable Ecuadorian households and determine the effect of these changes on their socio-economic well-being.

### 1.3.2 Specific objectives

1. To quantify the variation in the flow of remittances received by Ecuador throughout and after the COVID-19 pandemic event.
2. Assessment of the impact of remittances on poverty reduction and the improvement of the socioeconomic well-being of Ecuadorian households in circumstances of vulnerability.
3. Examine how reliance on remittances affects labour market participation in Ecuador, focusing on regions where remittances are important.
4. Application of a mixed methodology incorporating quantitative analysis of secondary data and qualitative techniques such as surveys to obtain detailed information from the Ecuadorian families concerned.

### 1.3.3 Research hypotheses

This thesis investigates the hypothesis that the influence of remittances in reducing poverty and strengthening socio-economic welfare in Ecuador is considerable, although their effect differs according to the degree of vulnerability of beneficiary households.

## Chapter 2: Theoretical Framework

The main purpose of a theoretical study of the economic impact of the spread of the coronavirus in the Americas, especially in the Latin American region, is to examine the interconnection between health and economic growth. This analysis is justified given that the COVID-19 virus significantly affects the physical well-being of the population, restricting their ability to carry out daily activities by impacting social interactions and behaviours in various settings. In addition, measures of social distancing and self-isolation can trigger mental health problems such as anxiety and depression, profoundly affecting people's emotional well-being. In extreme situations, the illness can lead to loss of life (Rodriguez, 2020).

The decline in working capacity emphasises the need to recognise health as an essential pillar of a nation's economic structure. Health is a public good of crucial importance, as it is a determinant of collective well-being and, together with education, is fundamental to productivity, economic growth, and human progress. Thus, investing in health not only promotes social well-being, but also contributes to the reduction of poverty and inequality (García-Rodríguez et al., 2017). Moreover, it is essential to understand that good health transcends the mere absence of disease or illness, encompassing comprehensive physical, mental and social well-being (WHO, n.d.).

It is therefore vital to analyse the impact of any deterioration in the health of the population, especially when such deterioration affects the productivity and performance of workers. As this thesis is framed by the health emergency caused by COVID-19, it begins with a detailed examination of the pandemic and explores the main aspects affected. This research not only examines the immediate economic implications due to COVID-19, such as economic contraction and job losses, but also how these consequences have affected remittances, a crucial source of income for many families in Latin America (Arreaza et al., 2021).

In this context, Ecuador presents itself as a relevant case for the study of the impact of remittances, standing out as an essential pillar for the financial stability of the most disadvantaged households. During the period from 2016 to 2019, remittances experienced an average annual growth of 7.5%, rising from USD 2,602 million to USD 3,234.6 million, reflecting the improvement of economic conditions in the host countries of Ecuadorian migrants, particularly the United States and Spain, and the firm commitment of these workers to economically sustain their families in the country of origin (Ortiz, 2024). Remittances are therefore increasingly important to Ecuador's economic dynamism.

With the emergence of the coronavirus pandemic, the vulnerability of this monetary flow has become evident, highlighting the dependence of local economies on remittances and the disproportionate impact on communities living in poverty and

extreme poverty (ECLAC, 2020). This initial analysis lays the foundations for a deeper understanding of the socio-economic dynamics exacerbated by COVID-19 in the region, laying the groundwork for future research on mitigation and recovery strategies.

## 2.1 COVID-19 Pandemic: Consequences

The emergence and global spread of the coronavirus, originating in Wuhan, China, sparked a worldwide epidemic that profoundly affected Latin America from the early 2020s. As the virus spread internationally, Latin America became a major focus of the pandemic, facing unprecedented challenges that manifested themselves in an exponential growth in the number of deaths (UNSDG, 2020). In May 2020, the WHO declared the region as the epicentre of the pandemic, highlighting the severity of its impact despite government efforts (OECD, 2020).

Pandemics are not a new phenomenon, but uncertainty about the lethality and transmission rate of COVID-19 prompted countries to implement urgent public health measures (Acosta, 2020). Proper pandemic management is recognised as a collective benefit that requires comprehensive collaboration and coordination among nations and global entities, especially as globalisation and increasing urban population density facilitate rapid international transmission of the virus (Perrings et al., 2014).

In addition, misinformation and fake news about vaccines and preventive measures contributed to the spread of the virus, especially in Latin America. The spread of conspiracy theories and ineffective communication by authorities intensified confusion about the actions needed to control the pandemic (PAHO, 2021).

Historically, humanity has faced several pandemics, such as influenza in 1918, 1957 and 1968, suggesting that the emergence of new pandemics is a predictable and recurrent event (Meltzer et al., 1999). These highly communicable diseases are a significant threat to public health and can have a considerable economic impact, underlining the importance of anticipation and vaccine development to prevent future outbreaks (Kilbourne, 2004).

The current COVID-19 pandemic has demonstrated that preparedness and capacity to manage public health emergencies are crucial. Sound health infrastructure and well-structured public health policies enable nations to effectively manage such crises. However, the fight against the pandemic has been fraught with challenges, including the rapid spread of the virus, the overburdening of health systems, and the economic impact of containment measures such as confinement and social distancing.

Early uncertainties about the severity and transmission of COVID-19 prompted countries to implement strict public health measures to control its rapid spread. These

measures, which included quarantines and forced farm closures, although necessary, created significant economic challenges. Governments were forced to strike a balance between containing the virus and maintaining economic activity, a dilemma that particularly affected densely populated urban areas (Hernández et al., 2022; OECD, 2020).

The restrictions imposed to combat the pandemic disproportionately affected the most vulnerable sectors of the population, including informal workers and marginalised neighbourhood communities. Lack of access to adequate medical services and the prevalence of informal employment, which prevents many from taking advantage of containment measures without risking their daily livelihoods, exacerbated the effects of the virus in these communities (OECD, 2020).

A number of studies have explored the impact of pandemics from both supply and demand perspectives. On the demand side, there is a negative impact on consumer and investor confidence, which alters social behaviour and consumption patterns. On the supply side, there is a reduction in the availability of labour, triggered by directives encouraging the working population to stay at home. These consequences have both short- and long-term effects, slowing immediate economic growth and affecting the future sustainability of economic growth, which could increase poverty in the long term, as E. Bloom et al. (2005) point out. According to these authors, there is also likely to be a significant fall in long-term investment, a reduction in industrial production and trade, and an increase in unemployment.

In addition, socio-economic inequalities have exacerbated the effects of the virus in Latin America, where the most vulnerable populations have encountered additional difficulties in protecting themselves from the virus and accessing adequate medical care. This disparity has contributed to the spread of the virus in disadvantaged communities (OECD, 2020).

A study by EY highlights the negative impact of epidemics on economies, emphasising the costs associated with containment plans and care for those affected. The economic imbalances in countries are mainly due to the new demands placed on healthcare systems, the potential closure of businesses and the reduction in national or regional productivity (Guardia, 2020).

The collateral effects of isolation and social distancing are difficult to measure, but they contribute to an even more marked decline in economic activity, including a reduction in foreign investment affected by the international perception of the management of the epidemic (Beutels et al., 2009).

Even in rural and remote areas, the lack of access to adequate health services and quality health information has a considerable impact on indigenous communities. The

lack of an intercultural approach that takes into account indigenous languages and traditions hinders access to healthcare, which is crucial for issues such as the sexual and reproductive health of indigenous women (UNSDG, 2020).

In the context of the crisis caused by the coronavirus pandemic, the World Bank notes that it has triggered an unprecedented global economic crisis, exacerbating inequality and affecting emerging economies in particular. The economic response has mitigated some short-term human costs but has also created new risks such as rising debt (World Bank Group, 2023).

PAHO and ECLAC also emphasise the urgency of greater integration between health and the economy, stressing that the pandemic has exacerbated inequality, poverty, and informal employment. They propose strategies focused on sustainability and equity, such as increasing public investment in health and fostering closer regional and global collaboration on health (PAHO, 2021).

In addition, an analysis by the Institute of Economic Affairs indicates that, in Sweden, voluntary actions such as social distancing were effective in reducing COVID-19 mortality, questioning the effectiveness of compulsory confinement, and pointing to the high economic and social costs associated with it (Herby et al., 2023).

On the other hand, an article in Emerald Insight examines the negative impact of the pandemic on economic growth, highlighting an increase in production costs, a reduction in labour supply and a decline in consumption that have led to an overall fall in demand for goods and services, affecting output and GDP growth (Ajmal et al., 2021).

A paper by the Centre for Economic Policy Research (CEPR) highlights how social distancing policies, essential from a public health perspective, can have indirect negative economic consequences. The study details how supply chain disruptions and reduced demand in certain sectors adversely impact even those sectors that are not directly targeted by these policies (Laeven, 2020).

In addition, an MDPI study employs a model of persistent input-output inoperability to illustrate how the recovery of sectors affected by long periods of quarantine relies on their resilience. This analysis shows that initially unaffected sectors may experience increased inoperability as the crisis progresses, highlighting the economic impact in unconfined regions and how sectoral interconnections can spread economic effects (Yu et al., 2020).

Research at the St. Louis Federal Reserve has also focused on global supply chain disruptions and inflation during the pandemic. One specific study analysed how global shutdowns and disruptions at crucial ports have increased pressure on these chains, demonstrating how a setback at one stage of the production process can have cascading effects throughout the chain, affecting multiple sectors and regions (Santacreu & LaBelle, 2022).

Further research by the same organisation examines the negative effects of social distancing on business, underlining how reduced demand in high-contact industries can significantly reduce gross production. This effect is not only limited to the industries directly affected but can also spread across the economy and impact on industries that traditionally require less contact. This is evidence of the interconnectedness of different economic sectors and how changes in one can affect the whole economic structure (Leibovici et al., 2020).

On the same theme, an article published in *Humanities and Social Sciences Communications* examines companies' strategies for adapting to the COVID-19 crisis, highlighting the importance of effective change management in determining their ability to withstand the consequences of the pandemic. In addition, it highlights the essential role of government change management policies in dealing with the 'social drama' triggered by the pandemic, emphasising that organisations and government agencies must implement strategic and flexible measures to meet the challenges imposed by the health crisis (Popkova et al., 2022).

Lastly, a Berkeley News article emphasises the particular vulnerability of low-income workers in low-income households who do not have the opportunity to work remotely. This group is particularly sensitive to the negative economic impacts generated by social distancing measures. The article stresses the urgent need to implement policies that protect the incomes of these people, emphasising the need for a safety net for the sectors most affected by the crisis (Rothstein, 2020).

Finally, measures of isolation and social distancing have had a negative impact on labour markets, making it essential to take an in-depth look at the different theories underlying the analysis of economic impact in the context of a pandemic. Furthermore, a review of the literature on the impact of remittances in Ecuador reveals a lack of studies examining how this impact varies according to the economic vulnerability of recipient households. This thesis therefore hypothesises that, while remittances improve socio-economic well-being in general, their effect is more pronounced in extremely poor households than in poor households, filling an important gap in the existing literature.

## 2.2 Theories of the economic impact caused by a pandemic: Economic resilience theory & Black swan theory

The concept of resilience, originally developed by Holling in 1973 in the field of ecology, has been adapted to the social and economic sciences in recent decades. This term, derived from the Latin 'resiliere', suggests the ability to 'jump back' or 'bounce back', which is essential to understand how a system recovers after a shock. In the



economic context, resilience can manifest itself in two ways: ‘engineering resilience’, which focuses on the ability of a system, such as a regional economy, to return to its original state quickly after a disturbance; and ‘eco-resilience’, which considers how disturbances can bring a system to a new state, persistently altering its behaviour (Tóth, 2015).

Ecuador's response to the COVID-19 crisis is a remarkable example of adaptation and resilience.

Together, the World Bank and the IMF developed an assistance support programme that provided fast-disbursing budget support, strengthened the country's macroeconomic stability, supported SMEs, and improved the social safety net. This interinstitutional measure has demonstrated Ecuador's ability to quickly adapt and respond to external emergencies (Negret, 2023).

Moreover, the black swan theory developed by Nassim Nicholas Taleb refers to surprising events that have a major impact and are not considered likely until they occur. These events, known as Black Swans, are unpredictable within an ordinary prediction framework, but can have devastating effects on an interconnected economy. This theory applies particularly to pandemics, which can be seen as Black Swans because of their ability to significantly disrupt the economy at the global level (Krupa & Jones, 2013).

The importance of economic resilience is underlined by the ability of a system to prevent, cope with and recover from shocks, as defined by the World Trade Organization in its World Trade Report 2021. This process includes various measures and strategies to minimise the economic costs associated with such shocks and to accelerate recovery and adaptation to prevent future risks (WTO, 2021, pp. 55-56).

Based on an understanding of these impacts, it becomes crucial for organisations and nations to develop strategies that foster economic resilience, enabling effective adaptation and recovery from the unexpected and large-scale effects that these shocks can cause.

## 2.3 Theoretical Foundations

### a. Remittances

The academic literature defines remittances as “*transfers of money or goods by migrants to friends and relatives in their home community*” (MIGRATION DATA PORTAL, 2022). These flows of money are vital for millions in developing nations, where they act as an essential lifeline. The growing income gap between industrialised and developing countries, combined with demographic pressures and environmental



changes, are leading more and more people to seek economic opportunities beyond their own borders. This phenomenon is likely to increase the volume of remittances in the coming decades and further strengthen their important role in supporting the economies of recipient countries (Ratha, 2023).

The International Monetary Fund, using central bank data, categorises remittances within the Balance of Payments and International Investment Position Manual as the combination of “*compensation of employees*” and “*personal transfers*” (IMF, 2010, pp. 274-275). In addition to international financial transfers, remittances also include internal flows within a country and so-called social remittance, which encompass the exchange of ideas, behaviours and identities (Levitt & Lamba-Nieves, 2010).

In times of crisis, migrants' remittances play a crucial role in supporting their families financially. It is common after a natural disaster for migrant workers to increase the remittances they send to their families to assist them in buying food or paying for housing. Even in crisis situations in countries of origin, remittances often remain stable. The initial phase of the COVID-19 pandemic is a significant example: remittances declined by only 1.1 % in 2020, while global income fell by 3 %. Migrant workers, including highly skilled professionals such as doctors and nurses, as well as workers in key sectors, played an important role in the economy during the pandemic. Despite restrictions and the closure of money transfer companies, these workers continued to send remittances home via digital platforms. Remittances have grown considerably, increasing by 20% between 2021 and 2022. In particular, most remittances to Latin America and the Caribbean come from the United States, underlining the economic and social interdependence between these regions (Ratha, 2023).

In addition, remittances to Ecuador have reached a record level, representing 3.87% of gross domestic product (GDP) in 2022, making Ecuador one of the countries in South America where remittances have the greatest economic impact. The reasons for this increase are better job opportunities and higher wages in the United States, combined with a decrease in foreign direct investment in Ecuador (Gcoba, 2023).

Besides, research papers such as those by Kristina Matuzevičiūtė and Mindaugas Butkus (2016) suggest that whilst remittances generally have a positive impact on long-term economic growth, the impact varies depending on the level of the economic development of the recipient country. This highlights the need for policies that optimise the use of remittances to maximise their impact on socio-economic development, including strategies that reduce the cost of remittances and increase the productivity of these funds (Ratha, 2022).

In summary, Ecuador has established itself as a major recipient of remittances worldwide, underlining the importance of remittances not only as an economic pillar but also as a social stabiliser, especially in times of crisis.

### **a.1 Determinants of remittance flows**

Remittances are a crucial part of the world economy, and particularly in developing countries such as those in Latin America. A variety of economic, social, political, and cultural factors play a crucial role in the decision to send remittances (Malpass, 2022). There is evidence that the link between migration and development has become more visible with globalisation, making remittances a key indicator in policy and academic debates (Carling, 2008).

Research such as that carried out by Elbadawi and Rocha in 1992 has identified two main approaches to explaining the motivations behind remittances. The first approach, endogenous migration, considers remittances as an integral part of the migration decision, taking into account factors such as the length of stay abroad and family dynamics. In this approach, altruism is emphasised as the primary motivation, implying that migrants send money primarily out of a desire to support their loved ones. Meanwhile, the portfolio optimisation approach argues that remittances are sent based on self-interest and profit maximisation, bearing in mind investment diversification and financial risk management (Islas and Moreno, 2011).

According to Ratha (2003), the economic situation of the migrant's country of origin and residence is a determining factor in remittances. Migrants tend to send more money when the economic situation in their country of origin is declining, thus providing support for their families. In addition, studies such as that by Adams in 2007 have explored how the occupational composition of migrants affects remittance flows, noting that countries with a higher proportion of highly skilled migrants tend to receive fewer remittances per capita. This is explained by differences in savings capacity, financial obligations in the host country and migrants' personal priorities (Adams, 2009).

Studies also show that remittances are not just an act of altruism, but also a strategic investment. Aggarwal et al (2011), in their study “*Do remittances promote financial development?*”, offer a valuable perspective on how remittances contribute to financial development in recipient countries. It highlights how the income of migrants and their decision to send remittances are linked to broader economic and financial development objectives.

Lastly, a study by Yang (2011) entitled “*Migrant Remittances*” examines how self-interest motivates remittances. It highlights that migrants, eager to improve the economic conditions of their families, use remittances for activities such as purchasing goods, setting up businesses, saving and investing, benefiting both the direct recipients and the local economy.

## a.2 Types of remittances

Remittances can be broadly classified into two main categories: personal and collective.

- **Personal remittances:** According to CELA & CAF (2005), personal remittances are economic resources, both monetary and non-monetary, sent by migrants from abroad to their relatives in their country of origin. These resources are mainly used to meet basic needs such as food, health, education, and housing, including the construction or renovation of homes. In addition, a portion of these remittances is invested in the development of small businesses or enterprises, underscoring their significant role not only in sustaining the immediate well-being of recipient families, but also their potential to foster entrepreneurship and local economic development.
- **Collective remittances:** This type of remittances encompasses financial resources collected and donated by migrant groups or associations. These funds are used for a variety of purposes that benefit the communities of origin, including the financing of social, religious, and sporting events, as well as small-scale infrastructure projects. Collective remittances can also be directed to investments in productive and commercial activities, contributing to the economic development and strengthening of communities (CELA & CAF, 2005).

This distinction underlines the importance of remittances not only as individual economic support to families, but also as a collective investment mechanism that can have a significant impact on the well-being and progress of entire communities, fostering social cohesion and community development.

In the broader context of migration and development, theories that explain the motivations for migration and remittances are valuable. In the context of the new economics of labour migration, Oded Stark's 1991 theory suggests that migration may be a preconceived strategy of families not only to increase income but also to manage and diversify economic risks. From this perspective, migrants' return home after a stay abroad is part of a family's strategic plan to optimise economic resources and increase overall welfare (Stark, 1991, cited in Nieto, 2011, p. 3).

On the other hand, the neoclassical theory of migration, presented by Douglas Massey and cited by Salas (2009, pp. 24-33), offers a different interpretative framework. This theory sees migration as a rational economic phenomenon motivated by the search for better wages and a higher quality of life and responding to wage and opportunity differentials between origin and destination. At the macroeconomic level, migration helps to equalise wage differentials between regions, promotes a more even distribution of labour and economic equality between traditional agricultural areas and developed industrial sectors.

Such theories contribute to capture the complexity of the migration phenomenon and suggest that migration is a way of improving the quality of life at the individual and family level by seizing employment opportunities across national borders. Although both theories take different approaches, they agree that migration is a key strategy for achieving a better economic and social future.

### **a.3 Structuralist approach of remittances**

According to the structuralist approach, the migration phenomenon and the resulting remittances can have a negative impact on the economic and social development in the communities of origin. A pioneering study conducted by Mines in 1981 (p.155) in Las Ánimas, Zacatecas, revealed, according to Canales and Montiel, that most of the remittances received are used for daily consumption rather than for productive investments. This consumption does not contribute significantly to long-term economic development and can lead to unintended consequences such as rising land prices, concentration of ownership, labour shortages and a decline in local production. These factors can exacerbate social disparities and create a cycle of dependency and inequality in host communities.

### **a.4 Functionalist approach of remittances**

In contrast, the functional approach, introduced by researchers such as Richard Jones, has a more positive perspective on migration and remittances. According to this paradigm, remittances can be an important instrument for combating social inequalities and promoting economic development in regions of origin. According to Canales & Montiel (2004), remittances can foster development through three interrelated channels:

- 1- **Productive investment:** Remittances are a vital source of funding for productive projects, especially in rural areas. Such capital can stimulate economic development and prosperity in these areas (Canales & Montiel, 2004).
- 2- **Multiplicative effects:** Consumption financed by remittances also has a positive impact by raising demand for local goods and services, encouraging economic activity. A study conducted by Adelman and Taylor (1990) found that the multiplier effect of remittances in regional economies increased local Gross Domestic Product by as much as 2.9 times for every dollar inflow.
- 3- **Reducing social inequality:** Remittances can also serve as an efficient mechanism to mitigate social disparities. By transferring resources directly to those who need them most, it avoids the obstacles that might be imposed by corrupt local actors or inefficient bureaucratic systems, ensuring that funds reach their intended destinations (Durand et al., 1996).

In short, this approach highlights migration and remittances as catalysts for positive change and development, challenging more negative perceptions and highlighting their potential to improve living conditions in communities of origin.

### **a.5 Destination and use of remittances**

In general terms, remittances are mainly spent on household sustenance, being used for the purchase of essential goods that directly contribute to the livelihood of the beneficiaries. In addition to basic necessities such as food, clothing and footwear, remittance funds also go to other crucial sectors such as transport, health care, education, and building or purchasing land, with the aim of raising the quality of life of recipients (Corona, 2014).

Nevertheless, from a macroeconomic perspective, remittances are considered to function more as regular household income than as a fund dedicated to savings or productive investments (Canales, 2008). In spite of this, studies such as that of Fajnzylber and López (2007) have shown that remittances can foster the accumulation of physical and human capital in recipient households, thus contributing to more robust economic growth and a decrease in the volatility of gross domestic product. This is evidence of the significant role of remittances in stabilising and strengthening the economies of recipient regions.

However, it has been criticised that, although remittances are important for the national economy and the welfare of the population, they have failed to catalyse sustainable development (Sanchez, 2004). It is argued that more effective mechanisms need to be implemented to optimise the benefits derived from remittances and turn these funds into drivers of long-term, self-sustaining growth (González et al., 2009).

In the case of Ecuador, despite an increase in the levels of remittances that contribute to improved living standards, recipient families have not implemented effective strategies to use this income in ways that promote sustainable development through investment (González et al., 2009). The same authors in the same study provided a valuable analysis of the use of remittances in the country, based on field research that included face-to-face interviews with families and individual recipients of remittances. It revealed the spending priorities of Ecuadorian families and contributed to a better understanding of the opportunities and constraints that remittances represent for economic and social development.

What follows is a summary table of the predominant use of remittances in Ecuador, based on the results of the study by Gonzalez et al (2009, p.91):

Table 1 : Use and destination of remittances in Ecuador

Consumption:

Use	Percentage
Food	29%
Health	13%
Payment for basic services	11%
Education	8%
Rent for housing	6%
Clothing	3%
Transport and travel	2%
Entertainment	2%
Other	1%

Investment:

Use	Percentage
Bank savings	8%
Investment in housing	7%
Own business	5%
Stocks and bonds	0.5%

Source: Gonzalez et al (2009, p.91). Own elaboration.

## b. Poverty

Poverty is a multifaceted phenomenon that manifests itself through various dimensions, encompassing economic, social, and cultural aspects. Among the main causes of poverty are unemployment, which limits access to economic resources; social exclusion, which prevents the full integration of individuals and communities in economic and social processes; and the high vulnerability of certain population groups to natural or human disasters, diseases and other adverse events that restrict their ability to be productive and fully develop their potential (Guevara, 2023).

Moreover, according to economist Sen (2000, p. 37), poverty should be understood not only as a lack of income, but also as a lack of fundamental capabilities. This lack prevents people from attaining or being what they value for legitimate reasons, and it manifests itself in forms such as early mortality, significant malnutrition and high levels of illiteracy, among others.

In addition, Stezano (2020, pp. 13-14) points out that the conceptualisation of poverty has changed over time. Originally centred on the idea of subsistence, the view of poverty has been broadened to include access to basic services such as health and education, and finally, the concept of relative deprivation has introduced a perspective that takes into account the variability of social and material conditions to define poverty in a dynamic and relative context.

### **b.1 Types of poverty: absolute poverty and relative poverty**

According to Stezano (2020), the concept of **absolute poverty** is based on the premise that there are basic human needs whose fulfilment does not depend on the wealth of others. The inability to fulfil these basic needs is considered a condition of poverty, regardless of the context. The concept of **relative poverty**, on the other hand, is based on the idea that poverty needs and perceptions of poverty are a result of social comparison, in which the state of poverty is correlated with the general or average level of wealth in society.

### **b.2 Causal factors of poverty**

Maldonado (2022) notes that “*factors such as discrimination, social exclusion, lack of civil organisation, corruption, lack of business commitment and climate change are identified as aggravating factors of poverty*”. These factors particularly affect the most vulnerable, exacerbating problems such as malnutrition and food insecurity.

Moreover, even before the pandemic, Ecuador faced high levels of poverty and extreme poverty. According to the 2019 National Study of Employment, Unemployment and Underemployment (ENEMDU), “*the poverty rate at the national level was 25.0% and the extreme poverty rate was 8.9%. The poverty rate in rural areas was much higher, reaching 41.8 % for poverty and 18.7 % for extreme poverty*”.

However, this situation worsened with the COVID-19, which worsened the pre-existing difficulties. The 2021 ENEMDU “*reflected an increase in poverty at the national level to 27.7% and extreme poverty to 10.5%. In urban areas, poverty reached 20.8% and extreme poverty 5.9%. In rural areas, poverty rose to 42.4 % and extreme poverty to 20.3 %*”. This increase underlines the urgent need to implement comprehensive strategies to address not only the immediate effects of poverty but also its underlying causes, with a focus on social cohesion and strengthening the family structure to overcome inequalities.

### **b.3 Impact of poverty on health and education**

The impact of poverty goes beyond the economic sphere and profoundly affects the health and education of millions of people around the world. According to Lopez of the



World Bank, while certain economic stimulus policies may temporarily increase poverty, they generally have beneficial effects in the long term, underlining the importance of economic growth in the sustainable reduction of poverty (IDB, 2004).

The World Bank pointed out that *“around 700 million people in the world live in extreme poverty, on less than \$2.15 a day. The recent global crises, particularly exacerbated between 2020 and 2022, have wiped out decades of progress in reducing poverty, severely affecting low-income countries and distancing them from recovery. This situation jeopardises the achievement of the Sustainable Development Goals, in particular the goal of eradicating extreme poverty by 2030, with projections indicating that around 600 million people will remain in extreme poverty. Extreme poverty has a disproportionate impact on children and is concentrated in hard-to-reach regions, such as conflict-affected areas and rural areas. Inequality, which rose sharply in 2020 due to the pandemic, exacerbates the situation of the poorest, who also face setbacks in health and education. To tackle poverty and inequality in an effective way, it is essential to promote general well-being by guaranteeing access to health services, education, and infrastructures. Policy interventions should focus not only on fostering economic growth, but also on protecting the most vulnerable groups, promoting employment generation and empowering women, girls, and youth. The above actions are fundamental to fostering a positive and lasting transformation in society, moving towards a future in which economic growth is inclusive and plays a crucial role in eliminating poverty”* (World Bank, 2023).

### c. COVID-19

The World Health Organization (WHO) was alerted in late 2019 to an unknown type of pneumonia in Wuhan, China, caused by the SARS-CoV-2 virus. In view of the rapid global spread, WHO declared the situation a Public Health Emergency of International Concern (PHEIC) on 30 January 2020, and subsequently, on 11 March 2020, raised the alert by declaring the disease a pandemic (WHO, 2020). In Ecuador, the Ministry of Public Health responded by declaring a state of Health Emergency on the same day as the WHO declaration of the pandemic, seeking to contain the spread of the virus nationally (Ministerio De Salud Pública, 2020).

However, the initial global and local response was hampered by a lack of accurate information and insufficient mitigation strategies such as cancelling both international and domestic travel, adopting teleworking, maintaining social distancing, wearing masks and constant hand hygiene, which exacerbated the crisis, according to Zhang (2021). The public health emergency revealed serious deficiencies in preparedness and early response capacity, particularly in Ecuador, where the situation escalated rapidly and showed a lack of adequate social protection and emergency management systems.



Also in Latin America, Bakker and Goncalves (2021) of the IMF found that despite a younger population and a later onset of the virus than in the US and Europe, mortality rates in the region were similar to those in the most affected areas.

Alejandro Werner (2020) from the IMF analysed how the region became the epicentre of the pandemic, confronting an unprecedented recession with a projected GDP contraction of 9.4% in 2020. Werner pointed to the need for fiscal policy adjustments and economic sustainability strategies to mitigate the effects of the pandemic.

In Ecuador, this trend was evident. The country's response to the pandemic showed significant shortcomings in early and adequate response capacity. Caicedo and Abad (2020) report that, between March and May 2020, the province of Guayas experienced an alarming increase in the number of deaths, demonstrating shortcomings in public management during the crisis.

Moreover, for its part, UNICEF Ecuador (2022) revealed how the pandemic has disproportionately impacted households in Ecuador, especially those in lower socio-economic strata and those with children and adolescents. The crisis exacerbated pre-existing problems such as food insecurity and limited access to education and health services.

UNICEF (2020) estimates that by the end of 2020, around 3.1 million children and adolescents in Ecuador will be facing multidimensional poverty that severely affects areas such as education, health and nutrition. This situation emphasises the urgency of integrated policy measures that take into account the socio-economic dimensions of the pandemic and seek sustainable and equitable solutions.

Even before the pandemic, Ecuador was grappling with economic and social challenges exacerbated by depreciating oil prices and a high level of public indebtedness. The health crisis exacerbated these difficulties, revealing significant structural vulnerabilities and a dependence on the oil sector. Caicedo and Abad (2020) examine how these conditions have thrown the country into an even deeper crisis, while Negret (2023) recounts the transition of the economy from a public to a private model of governance that was interrupted by the pandemic.

Consequently, the COVID-19 pandemic has had a detrimental impact on the Ecuadorian economy, with the Central Bank of Ecuador and the IMF projecting a GDP decline of up to 10.9 per cent in 2020. It led to a significant increase in poverty and unemployment and systematically affected the most disadvantaged groups, as cited by the OECD (2020, p. 4).

Therefore, public policies in Ecuador and analogous geographies need to consider the health sustainability, which can be achieved through strategies like flattening the curve of contagion. Moreover, this policy has a direct impact on the public health system while posing conditions for a more vigorous economic recovery. Alvarado & Arévalo

(2020) state that other authors stress the importance of taking endogenous and exogenous factors into account when designing such policies, including the use of political power and its impact on social behaviour.

In conclusion, in this difficult context, decision-making should aim to maximise economic and social resilience, ensuring that measures not only combat the immediate symptoms of the crisis but also strengthen the foundations for equitable and sustainable development in the long term.

## 2.4 Mitigation strategies in Ecuador

The declaration of a state of health emergency by the National Health Authority of Ecuador on 11 March 2020 marked the beginning of a series of exceptional measures in response to the COVID-19 health crisis. This decision, initially planned for 60 days, has been extended through successive ministerial agreements, reflecting the protracted nature of the emergency. The measures implemented sought to safeguard the population's right to health, guaranteeing the operability of health facilities and reinforcing epidemiological surveillance systems (Mena & Casalí, 2021).

As of 24 May 2021, Ecuador launched an ambitious vaccination plan that succeeded in immunising more than 9 million individuals in less than 100 days. This unprecedented effort in the history of the country positioned Ecuador as a global reference in pandemic management and was a crucial step towards socio-economic reactivation (Ministerio de Salud Pública y Viceministerio de Gobernanza y Vigilancia de la Salud, 2022).

Government implemented specific strategies to protect priority groups such as people with disabilities and the elderly.

These included ensuring access to information and adapted health services, enabling the use of telemedicine services, and the promotion of the active participation of these groups in prevention strategies. Steps were also taken to protect income and educational continuity through telework and pedagogical adaptation (Secretaría Técnica Ecuador Crece Sin Desnutrición Infantil, n.d.).

Despite these efforts, the health sector in Ecuador has faced significant challenges exacerbated by additional demands on financial, human and material resources. Government funding has not been sufficient to cover the increased needs of the sector, raising concerns about the sustainability of the health response in the medium and long term. In addition, the health emergency has exposed and potentially exacerbated pre-existing structural problems in the health system, such as barriers to access, inequality and fragmentation (Mena & Casalí, 2021).

In summary, Ecuador's response to the COVID-19 health emergency, which was characterised by the implementation of public health measures and an ambitious vaccination plan, reflects a commitment to protecting the health of the population and socio-economic reactivation. However, the ongoing challenges related to resource allocation and the structural weaknesses of the health system highlight the importance of developing sustainable and equitable strategies to overcome the long-term impact of the pandemic on Ecuadorian society.

## 2.5 Conclusions of chapter 2

This second chapter has revealed several important findings on the interdependence between public health and the economy. The pandemic has shown that labour capacity, which is directly impacted by population health, is a crucial determinant of productivity and economic performance, fundamental elements of human well-being and pillars of the economic system.

In Latin America, the economic repercussions of the pandemic have included a notable economic contraction, an escalation in job losses and significant disruptions in remittance flows, which are vital to the livelihoods of many families. In countries such as Ecuador, the pandemic has highlighted the vulnerability of local economies that rely heavily on remittances.

The diversity in the effectiveness of government responses in the region offers an opportunity for critical analyses that may be fundamental to improving mitigation and recovery strategies for future global health crises. Theoretical models such as economic resilience and black swan theory are valuable tools for understanding and planning for disruptive and unexpected economic events.

Furthermore, the pandemic has disrupted the essential economic flow of remittances, especially in Ecuador where they have a crucial role to play. COVID-19 has also aggravated inequality disparities and increased poverty levels, thus requiring deep reflection on the interventions needed to protect the most vulnerable populations and address the structural problems that perpetuate poverty and inequality.

With these insights on the interrelationship between health and the economy in the Latin American context and the importance of remittances in Ecuador, the next chapter will concentrate on the specific impact of the pandemic on Ecuadorian remittance flows. An in-depth analysis in Chapter 3 on the evolution of remittances before and after the emergence of the pandemic in 2020 will provide an in-depth understanding of the dynamics of this crucial element in the economy. By examining the differences in remittance flows before and after the pandemic and the factors that influenced these changes, the study offers a holistic view of how global crises can affect not only the

macroeconomy but also personal finances and the well-being of local communities in Ecuador.

Consequently, in the same line, in Chapter 3, it will be highlighted that individuals sending remittances have benefited from public income support measures, including income replacement and aid for struggling businesses, unlike many in Latin America and Ecuador. Thus, immigrants, particularly in Europe, have avoided severe income cuts and have been able to continue, or even increase, sending funds to economically vulnerable countries impacted by COVID-19.

The research problem that will be covered in Chapter 3 is the impact of the COVID-19 pandemic on remittances received in Ecuador and the impact on the socio-economic well-being of the most vulnerable Ecuadorian families (those living in poverty and extreme poverty).

Finally, the crisis highlights the importance of integrated strategies that will not only help manage the health emergency, but also contribute to a sustainable economic recovery. With these considerations in mind, the next chapter looks in more detail at the specific impact of the pandemic on remittance flows in Ecuador. Further analyses of remittance dynamics before and after the pandemic in 2020 will provide a better understanding of how global crises can affect the macroeconomy as well as the personal finances and well-being of local populations.

## Chapter 3: Evolution of Remittances in Ecuador

In sum, the following chapter offers a thorough analysis of the effects of the COVID-19 pandemic on the remittance flows to Ecuador. Special attention is paid to the shocks that have been detected since the beginning of the health crisis in 2020, and those that characterized the period before the pandemic. The remittance flows, an integral part of the Ecuadorian economy and, therefore, of vulnerable families' well-being, have been shifted significantly and deserve in-depth consideration.

Analysis focuses on the magnitude and direction of changes in remittance flows, identifying determinants such as international mobility restrictions, the economic situation in sending countries, and changes in the employment and incomes of Ecuadorian migrants. It also examines the impact of these fluctuations on the economic well-being of recipient households, assessing how disruptions in financial flows have affected their ability to cover basic needs and manage economic uncertainty during the pandemic.

This chapter also analyses the economic policies and strategies implemented at both the national and international levels to mitigate the adverse effects of the pandemic on remittances. It discusses strategic recommendations to increase the economic resilience and adaptive capacity of remittance-dependent households, thus preparing the Ecuadorian economy to face future global crises.

### 3.1 Analysis of remittance flows in different periods

#### a. Before the pandemic

The role of remittances in the Ecuadorian economy is significant, as they constitute a crucial source of income for many households and play a vital role in national economic development. Every year, the Central Bank of Ecuador provides data that illustrate the magnitude of these remittances, providing a quantitative basis for the analysis of their impact and the formulation of economic policies.

From 2005 to 2019, remittances have shown trends that reflect the interaction between the Ecuadorian economy and global markets. This time series reveals patterns that are crucial for understanding Ecuador's dependence on these financial flows.

## REMESAS DE TRABAJADORES RECIBIDAS (Millones USD y tasa de variación, 2005 – 2019)



Graph 1 : The evolution of remittances received in Ecuador: Period 2005-2019

Source: BCE. (2019). *Evolución del flujo de remesas NACIONAL 2019*. Retrieved from <https://contenido.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/Remesas/eren2019anual.pdf>

Graph 1 provides a visual representation of the volume of remittances received annually, expressed in millions of US dollars. A notable increase between 2005 and 2007 indicates economic growth in Ecuadorian migrants' countries of residence or an increase in the number of migrants, which potentially increases their ability to send money home. While remittance flows were rising, the 2008-2009 global financial crisis intervened and severely disrupted the upward trend. This points to the fact that remittances are a high-risk source of income, particularly susceptible to sharp swings in external economic conditions.

Post-crisis analysis shows a pattern of stabilisation and cyclical adjustments, indicating adaptation to global economic and migration changes. After the global financial crisis, Ecuador's remittance flows did not show an upward trend but appeared to stabilise over time with periods of cyclical adjustments. The dashed line reporting annual percentage changes in remittances is useful as a visual aid, with the post-2007 drops reflecting reduced inflows due to the crisis, and the short-lived upward movements representing markets and migration cycles adjusting to new patterns.

Not only is the amount of money that Ecuadorians living abroad send home a sign of the country's economic backbone, but this money often makes the difference in the well-being of countless Ecuadorian families in the country. Policies that bolster the stability and predictability of the flow of remittances would not only be beneficial for families of migrants but would help Ecuador to mobilise more development finance at home. The correlation between the volume of remittances and their annual percentage change underscores the need for a thorough understanding of these dynamics in order to

formulate effective policies that maximise their positive impact on the Ecuadorian economy.

The stabilisation towards the end of the period studied indicates an adaptation to a changing global context, characterised by uncertainties and transformations in the global economic and migration environment (ECB, 2019).

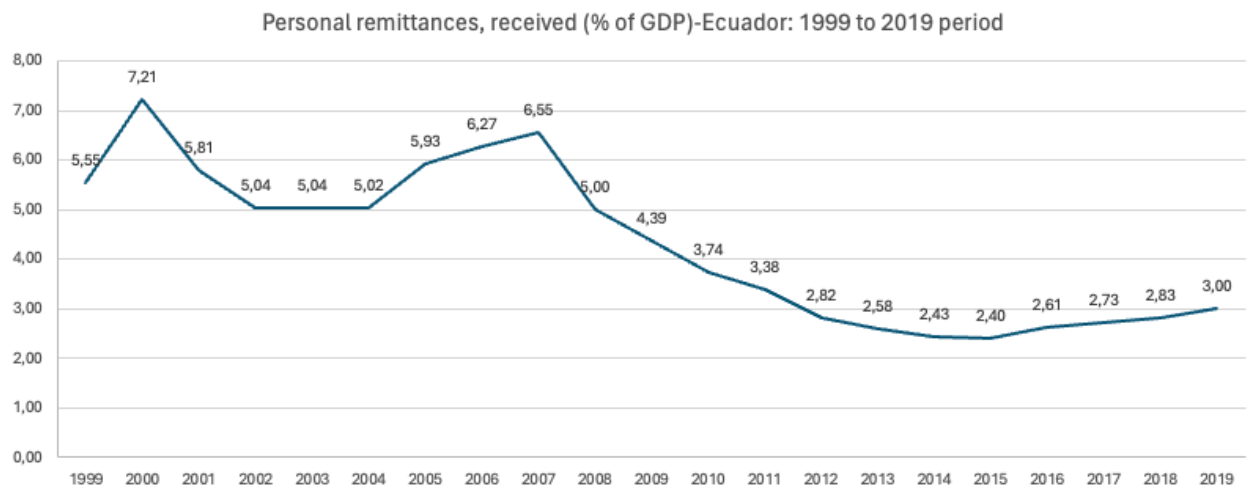
The study by Diane Charlton and Justin Kagin in 'International Migration, Remittances and the Impacts of the Great Recession in Rural Mexico' provides a valuable framework for understanding the impact of economic crises on remittance flows. Using a detailed model of the local economy, the authors analyse how the global recession of 2008-2009 impacted rural Mexican communities, highlighting the close relationship between international migration, remittances and adverse economic contexts.

This analysis is relevant for Ecuador, a country that, like Mexico, is significantly dependent on remittances. In 2009, global remittances declined by 7%, a drop of approximately USD 30 billion, reflecting the impact of the Great Recession. Despite the initial drop, data show a recovery in 2010, with figures slightly above pre-crisis levels, evidencing the volatility and resilience of these financial flows (Kagin & Charlton, 2014).

In Ecuador, the 2008-2009 global crisis had a direct effect on the reduction of remittances, a trend that persisted until a gradual recovery was observed from 2012 onwards. This phenomenon is partly explained by the improvement in the economy of key countries such as the United States and Spain, the main destinations of Ecuadorian migrants. In 2019, before the COVID-19 pandemic, the Central Bank of Ecuador reported remittance inflows of USD 3,234.65 million, an increase of 6.73% compared to 2018, which represented 3.01% of Ecuador's GDP (BCE, 2019).

The increase in remittances that year reflects a dynamic economy in sending countries, allowing Ecuadorian migrants to send more capital to their families. This phenomenon underscores how remittances are not only vital to the Ecuadorian economy in terms of direct income, but also as indicators of economic and social stability for many families.

The ratio of remittances to Ecuador's Gross Domestic Product (GDP) provides a crucial measure of their economic importance. Analysis of the volume of remittances as a percentage of GDP allows for an appreciation of the relative weight of these financial inflows in the national economy, emphasising their role as an economic pillar in times of crisis and recovery.



Graph 2 : Personal remittances, received (% of GDP)-Ecuador: 1999 to 2019 period.

Source: World Bank Open Data (2024).  
Own elaboration.

Graph 2, for workers' remittances and employee compensation of GDP in Ecuador, offers a further insight into who and what benefits, and by way of what mechanisms. For instance, 2000 and 2007 were years of particularly huge remittance inflows, at 7.21% and 6.55% of GDP, respectively; each of these years were consequences of severe economic crises and soaring levels of emigration. Thus, it is clear that remittances record high volatility, and that they are extremely sensitive to both the global economy and to domestic political events. Subsequently, the figure has fallen quite significantly post-2007, an indication that the Ecuadorian economy has been relying less on remittances. This can plausibly be explained by a diversification of the Ecuadorian economy away from a dependence on this source of income.

The volatility observed in the early years of the period studied may reflect economic instabilities or changes in migration and remittance policies, both in Ecuador and in the main destination countries. Lower volatility in more recent years may indicate a stabilisation of the Ecuadorian economy, adapting to prevailing economic conditions.

The fact that remittances have constituted more than 7% of GDP at their peaks underscores their importance to the economy and to many Ecuadorian families, highlighting the need for policies that mitigate the volatility of these flows and strengthen national economic resilience (World Bank Open Data, 2024).

According to the analysis of the Central Bank of Ecuador in its 2010 article, *“The Ecuadorian Economy after 10 years of dollarisation”*, remittances have been a vital source of external financing for the balance of payments, showing remarkable resilience since 1999. Specifically, in 2006 and 2007, remittances represented 7% and 6.8% of GDP, respectively, reaching a peak of USD 3,088 million in 2007. However, the international financial crisis had an adverse impact on remittances due to the global



economic slowdown and rising unemployment in the main destination countries of Ecuadorian migrants, such as the United States, Spain and Italy, resulting in total remittances amounting to USD 2,495 million at the end of 2009 (BCE, 2010, p.29).

However, the global financial crisis of 2008-2009 had a considerable impact, decreasing remittances received and highlighting the direct connection between the global economy and financial flows to Ecuador.

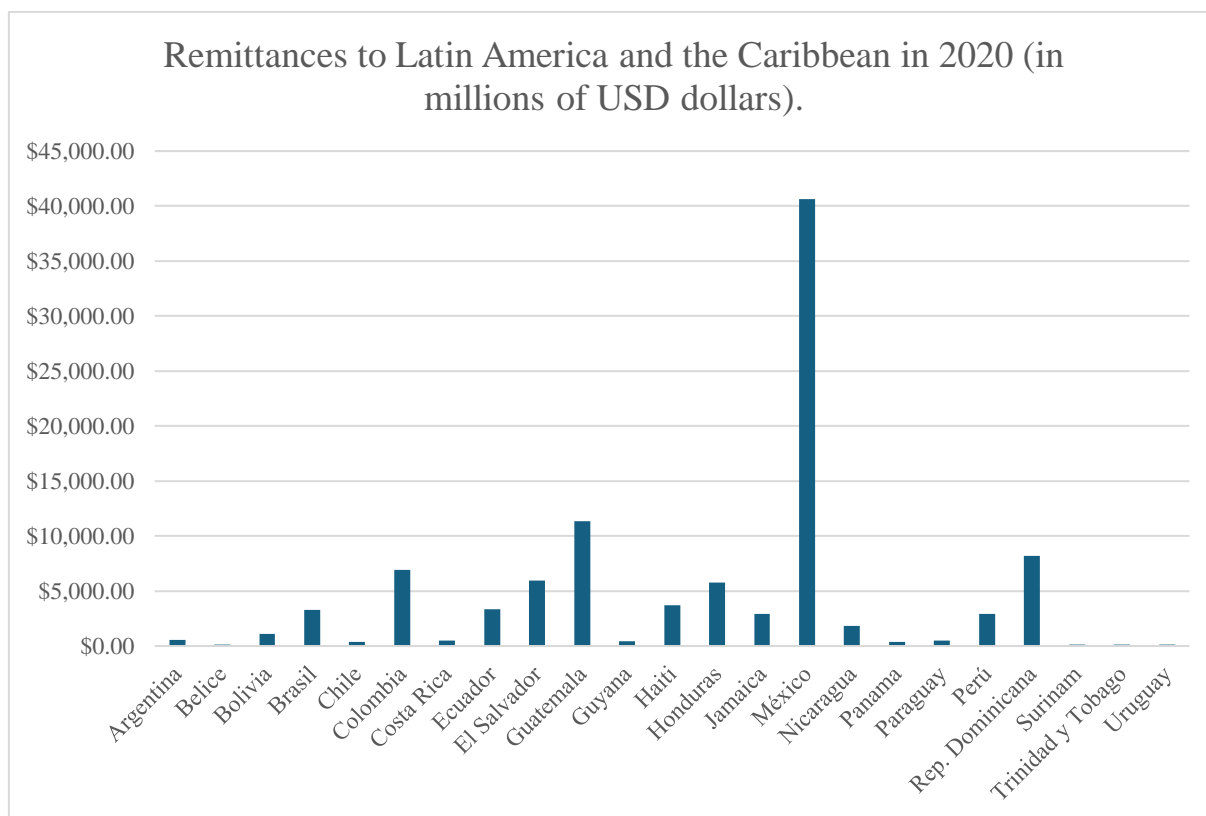
## b. During the pandemic

The COVID-19 pandemic introduced significant changes in global economies, directly impacting remittance flows to Ecuador and other Latin American countries. Extended confinements, closure of economic activities and increased unemployment in Ecuadorian migrants' countries of residence affected their ability to send money home.

Across the year 2020, the magnitude of jobs and wage losses migrants experienced brought about drops in the amount's migrants were able to send in aid to their families, driving down remittance flows. The pandemic's effects on remittances' supply may be summarised through a broad overview of 2020's remittance inflows compared to previous years. For instance, in most South American countries, the average decline in remittances received was of 1%, according to data from the Centre for Latin American Monetary Studies (CEMLA), with Suriname and Argentina constituting the exceptions, having experienced increases in their remittance intake. Bolivia, Chile, and Paraguay are also among the countries where remittances declined (CEMLA, 2021, p. 12).

The situation in Mexico contrasts with South America: in 2020, the country received a total of \$40.605 billion in remittances and set a record with an increase of 11.4 % over previous years. This growth consolidates Mexico as the main recipient of remittances in Latin America and the Caribbean. In Central America, remittances during 2020 totalled \$25.875 billion, representing an increase of 5.7% when compared to 2019 (CEMLA, 2021, p.5-10).

Graph 3 allows for a more detailed look at 2020 remittance inflows to each country regionally, to easily compare remittance flows and observe how uneven the pandemic's economic consequences were among various countries.



*Graph 3 : Remittances to Latin America and the Caribbean in 2020 (in millions of USD dollars).*

Source: CEMLA (2021).

Own elaboration.

During the first months of the pandemic, there was a downward trend in remittances to Ecuador, worsened by the loss of employment and the decline in migrants' incomes. However, the behaviour of remittances during periods of crisis is not always predictable. In some cases, migrants might increase remittances in response to growing economic needs in their countries of origin, or because of economic recovery in host countries and adaptation to new labour conditions.

According to recent research, a significant reduction in global remittance flows was projected, compared to the impact of the 2008 financial crisis. Remittances are expected to decline by about US\$100 billion in 2020, a 20 % decrease from 2019. This forecast emphasises the magnitude of the challenge facing remittance-receiving countries such as Ecuador (Sayeh & Chami, 2020, p. 17).

The World Bank forecasts that remittances to Latin America and the Caribbean will be around US\$96 billion in 2020, down 0.2 % from the previous year. In addition, the IMF forecasts a 9.4 % drop in GDP in the region by the end of 2020, reflecting the profound economic impact of the pandemic (World Bank Group, 2020; IMF, 2020).

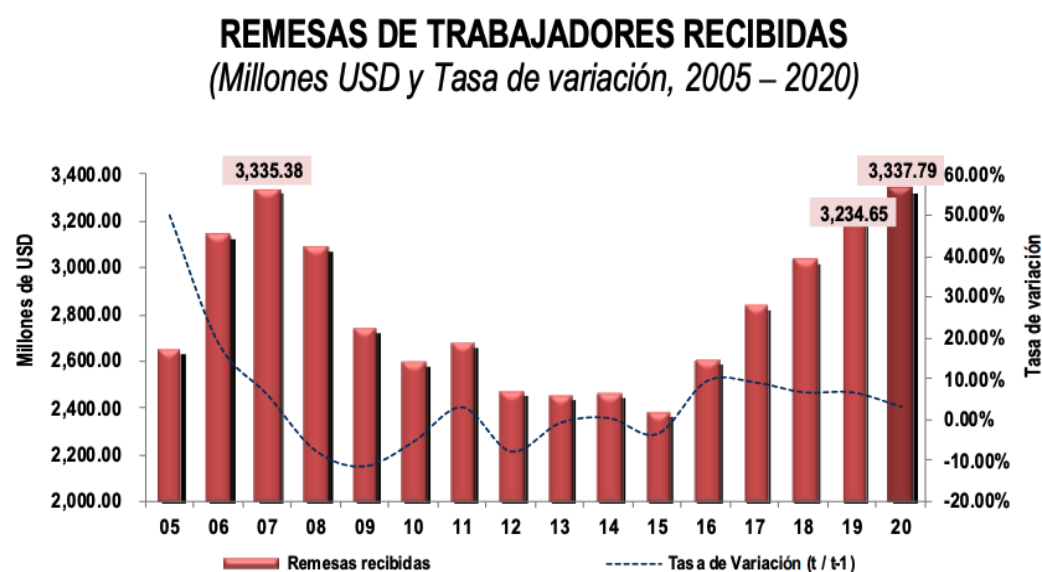
The effects of the COVID-19 crisis on the world economy are diverse and global. Latin America is projected to be the most affected region according to the World Bank; the

downturn in growth will be 7.2 % for the continent, representing shrinkages in all areas. This is expected to close the progress of several years back into long-term development goals and send millions of people back to extreme poverty (World Bank Group, 2020).

Income transfers are one of the most important issues, as they form a significant part of the livelihoods of many people in Ecuador and are essential to the day-to-day economic activities of the country as a whole. Given the importance of these funds to those who rely on remittances, it is essential to monitor and address the needs of families who rely on remittances for their livelihoods and economic well-being.

Even though institutions such as the World Bank and IMF have developed forecasts based on extensive work and data they have at hand, the unprecedented nature of the pandemic and its impact on multiple economic and social dimensions could lead to unexpected outcomes.

For example, from Graph 4, observations on remittances to Ecuador diverge from what simply expected so far during the COVID-19 pandemic. This fact guides our attention to the high complexity of the phenomena we are dealing with, and the unexpected unpredictability of the current global economy, especially in times of crisis.



Graph 4 : Remittance Flow evolution in Ecuador: 2005-2020 period.

Source: BCE. (2020). *Evolución del flujo de remesas NACIONAL 2020*.

Retrieved from

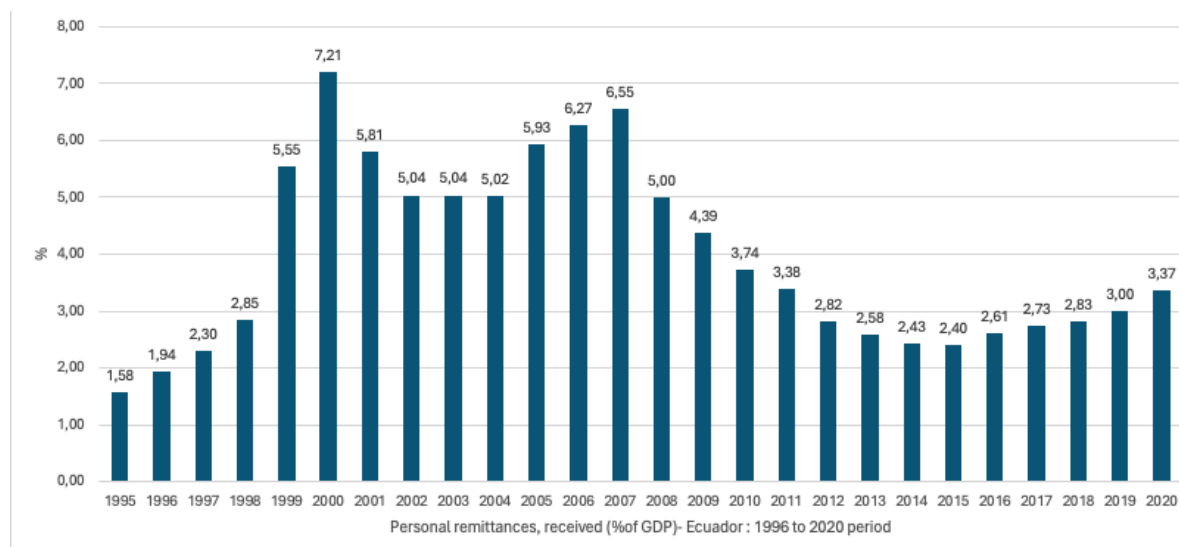
<https://contenido.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/Remesas/eren2020anual.pdf>

The significant increase in remittances to Ecuador in 2020, reaching unprecedented levels, illustrates the complex interaction between international economic policy and cross-border financial movements during the global health crisis caused by COVID-19.

According to the Central Bank of Ecuador, remittances from family members will amount to USD 3,337.79 million in 2020, exceeding the figures of previous years and representing 3.45% of the country's GDP. This rise can be accounted for by the US government's economic assistance policies which were put in place to ease the pandemic's adverse effects on people. Since many Ecuadorian immigrants reside within America, it is possible that these stimuli packages gave them more money to remit back home.

This also underlines the importance of host countries' economic policies in the dynamics of remittances. Furthermore, the fact that remittance flows from Spain, Italy and other countries were not significantly affected underlines the resilience of these financial flows, even in times of economic hardship. Migrants may have prioritised remittances in the face of economic and health uncertainty, recognising the critical importance of these funds for the well-being of their families in Ecuador (BCE, 2020).

The evolution of remittances in relation to GDP in Ecuador, according to data provided by the World Bank and the Central Bank of Ecuador, reveals significant patterns that reflect the interaction between global economic events, domestic crises and migration flows. The analysis in Graph 5 illustrates how remittances have played a crucial role at several key moments in Ecuador's recent economic history.



Graph 5: Personal remittances, received (% of GDP)- Ecuador: 1996 to 2020 period.

Source: World Bank Open Data (2024).

Own elaboration.

Particularly in 2000, marked by a deep economic crisis in Ecuador, known as the ‘bank holiday’, and an intense period of outward migration, remittances peaked at 7.21% of

GDP. This peak can be interpreted as a direct response to the economic crisis, where remittances became a vital support for many families and for the macroeconomic stability of the country during a period of remarkable instability and transformation.

In the following years, the percentage of remittances in relation to GDP fluctuated considerably, reaching its lowest level in 2015 at just 2.40 %. These fluctuations reflect not only changes in the global economy and local conditions, but also changes in the migratory behaviour of the Ecuadorian population.

The year 2020, a year dominated by the COVID-19 pandemic, saw a remarkable trend: despite an initial decline during the first half of the year, the year ended with a significant increase in remittances, which reached USD 3.337 billion, up from USD 3.234 billion the previous year. This represented an increase of \$103 million and raised remittances to 3.37% of GDP. This rise, in a global context of health and economic crisis, underscores the resilience and critical importance of remittances as a source of income and economic stability for Ecuador (BCE, 2020).

### c. Remittance flows after the coronavirus pandemic

In the aftermath of the pandemic, the World Bank presented new evidence of the remarkable resilience of remittance flows during the global health crisis. Despite economic hardship and global uncertainty, remittances have proven to be a stable source of income for many families in low- and middle-income countries. While a great decline changed into expected the discount in remittance flows in 2020 changed into less reported than predicted, and projections suggest sluggish boom for 2021 and 2022, suggesting an increase of 2.6% in 2021 to USD 553 billion, and every other 2.2% in 2022, totalling USD 565 billion. These numbers reflect the resilience and crucial economic importance of migrants globally (World Bank Group, 2021).

Nevertheless, the perspectives for remittances remain uncertain, especially in the context of disparities in vaccination rates and persistently high contagion rates in many developing economies. These conditions could have an impact on global economic recovery and, consequently, on remittance flows. Countries that have made greater progress on immunisation could see a faster economic recovery, which could benefit remittance flows to migrants' countries of origin (World Bank Group, 2021).

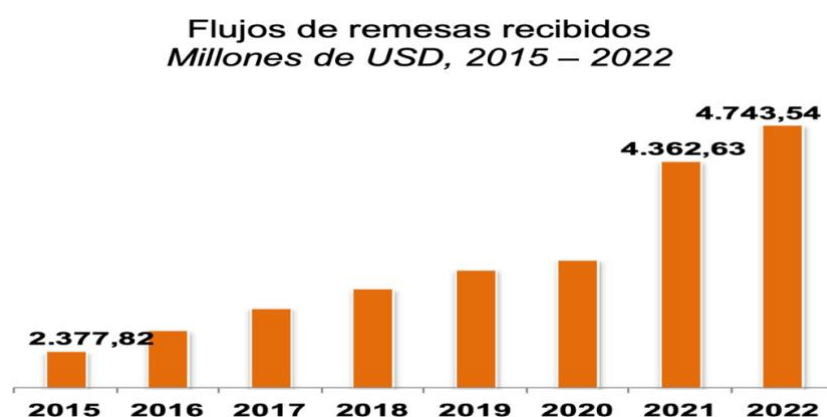
In addition, a report by Maldonado and Harris for the Migration Department of the Inter-American Development Bank (IDB) shows a sharp increase in flows to Latin America and the Caribbean in 2021. The region recorded a 26% annual growth in remittances, the highest in two decades, highlighting the resilience and efforts of Latin American and Caribbean migrants at a time of significant global uncertainty. Regional differences in this growth can be attributed to several factors, including economic

conditions in destination countries, migration policies and support networks among migrant communities (Maldonado, Harris, 2022, p. 6).

This increase in remittances in a context of global crisis not only reflects the resilience and commitment of the Latin American and Caribbean diaspora, but also underscores the vital importance of these transfers for the economic stability and well-being of families in the region. Remittances have provided essential economic support that has enabled recipient families to better cope with the effects of the health and economic crisis. Moreover, the increase in the ratio of remittances to GDP in these countries emphasises their crucial role in the economy. This phenomenon offers opportunities for recipient countries to strengthen their economic and social development strategies, considering the importance of remittances in their economies (Maldonado, Harris, 2022, p.6).

Finally, the Maldonado and Harris report stresses the need to recognise and support the role of migrants in economic development and resilience in the face of global crises, highlighting the importance of inclusive and effective policies that maximise the benefits of remittances while protecting and promoting the well-being of migrant communities and their families in countries of origin.

After the start of the pandemic, Ecuador's central bank recorded a significant increase in remittance flows in 2021 and 2022, as shown in Graph 6. In particular, Ecuador recorded a significant increase in remittances in 2021, which reached \$4,362.63 million, 31% more than the \$3,375.55 million sent in 2020. With this record largely attributed to the fiscal and economic assistance packages implemented by the US government as a response to the COVID-19 crisis, as well as the economic recovery in countries with large Ecuadorian communities, such as Spain and Italy (BCE, 2021).

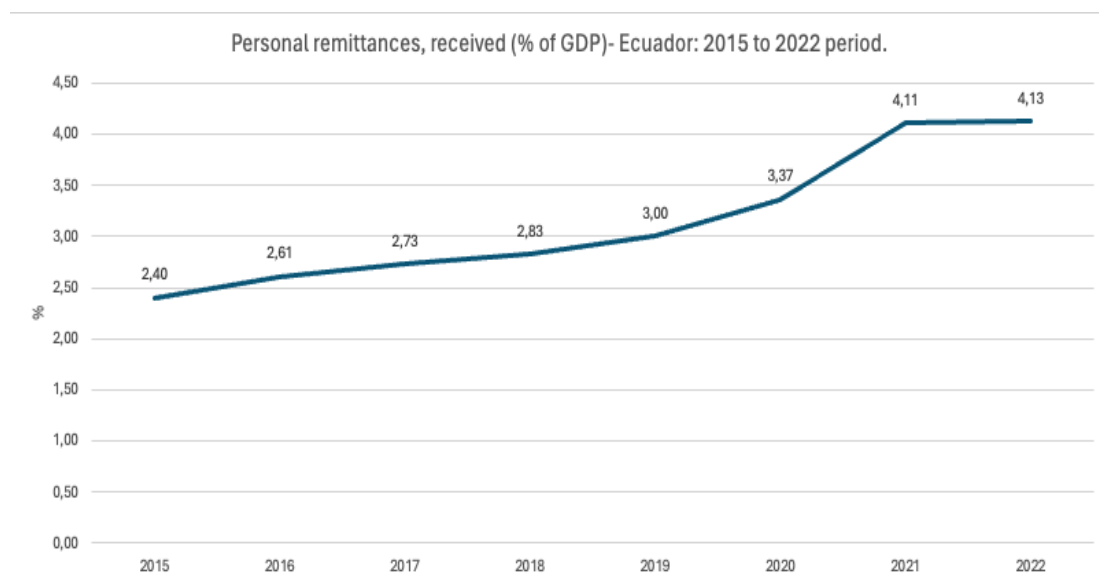


Graph 6: Remittance flows received (USD millions), 2015-2022.

Source: Banco Central del Ecuador. (2022). *Evolución Nacional Remesas. Año 2022*. Retrieved from

<https://contenido.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/Remesas/eren2022anual.pdf>

The contribution of remittances to Ecuador's GDP, which reached 4.11% in 2021, according to graph 7, reflecting not only the increase in the remittances sent but also a possible increase in Ecuadorian emigration (World Bank Open Data, 2024). Furthermore, Meléndez (2022) underlines the vital importance of remittances as an economic engine and second main source of foreign exchange earnings, highlighting their persistent and crucial role in the Ecuadorian economy since 2000.



Graph 7: Personal remittances, received (% of GDP)-Ecuador: 2015 to 2022 period.

Source: World Bank Open Data (2024).  
Own elaboration.

According to data on remittances in 2021, geographical distribution shows that United States led as the major player worldwide by contributing 63.5%. Spain took 20.8%, Italy stood at 4.4% whereas remaining countries shared 11.3%. This is largely due to large populations living far away from home country and strong trade ties between them. Remittances, by boosting consumption and promoting investment, act as a crucial financing mechanism for the most vulnerable strata and increase the income level of recipient families, providing them with more robust means to face economic and social crises. In addition, they function as a counter-cyclical tool, helping households to manage external shocks such as the recent COVID-19 pandemic.

In 2022, Ecuador registered an all-time record in remittances, reaching US\$4,743.54 million, an increase of 8.73% over the previous year. This sustained growth is due in part to the economic recovery in the countries where Ecuadorian migrants reside, especially in the United States. Although Spain and Italy showed economic improvements, remittance flows from these countries saw a decline, highlighting the volatility and dependence on economic conditions in host countries (BCE, 2022).



The contribution of remittances to Ecuador's GDP was 4.13% in 2022, evidencing an increase in Ecuadorian emigration during the pandemic (World Bank Open Data, 2024). Furthermore, the analysis of Idárraga (2023) enriches this discussion by pointing to the geographic diversification of remittance sources, highlighting contributions not only from the United States, Spain and Italy, but also from countries in Latin America and Europe. For example, Mexico, Chile, Peru, Canada and Colombia contributed 5.42% of total remittances in 2022, while European countries such as the United Kingdom, Switzerland, Germany, France and Belgium accounted for 2.92% (Idárraga, 2023).

The way things are always changing reflects how connected different regions are and how important Ecuadorian communities abroad are. These communities play a big role in supporting the economy back home by sending money, especially during tough times. Remittances not only give crucial economic help to many Ecuadorian families, but they also make up a significant part of the country's economic stability and growth.

The fact that remittances have stayed strong even in tough times like the financial crisis in 2008-2009 and the COVID-19 pandemic shows just how important they are as a way to support the economy. This pattern of ups and downs, which goes hand in hand with people moving to different countries and the global economy, highlights the need for policies that can make the most of remittances to help Ecuador's economic and social development. That's why it's really important for the government and different sectors to think about how remittances can be used to make the country's economy stronger and more stable.

### 3.1.1 Relationship between remittances, consumption, and investment.

#### **Remittances and Consumption**

Central Bank of Ecuador (BCE) has highlighted the importance of household consumption in shaping the Gross Domestic Product (GDP) and underlines how remittances strengthen the national economy. According to the World Bank, *“final household consumption expenditure represents the market value of all goods and services purchased by households, including durables (such as cars, washing machines and personal computers). This expenditure excludes the purchase of dwellings but includes imputed rent for owner-occupied dwellings. It also includes payments and fees to governments to obtain permits and licences. In this definition, household consumption expenditure also includes expenditures by non-profit institutions that serve households, even when these are reported separately by country”* (World Bank Open Data, n.d.).

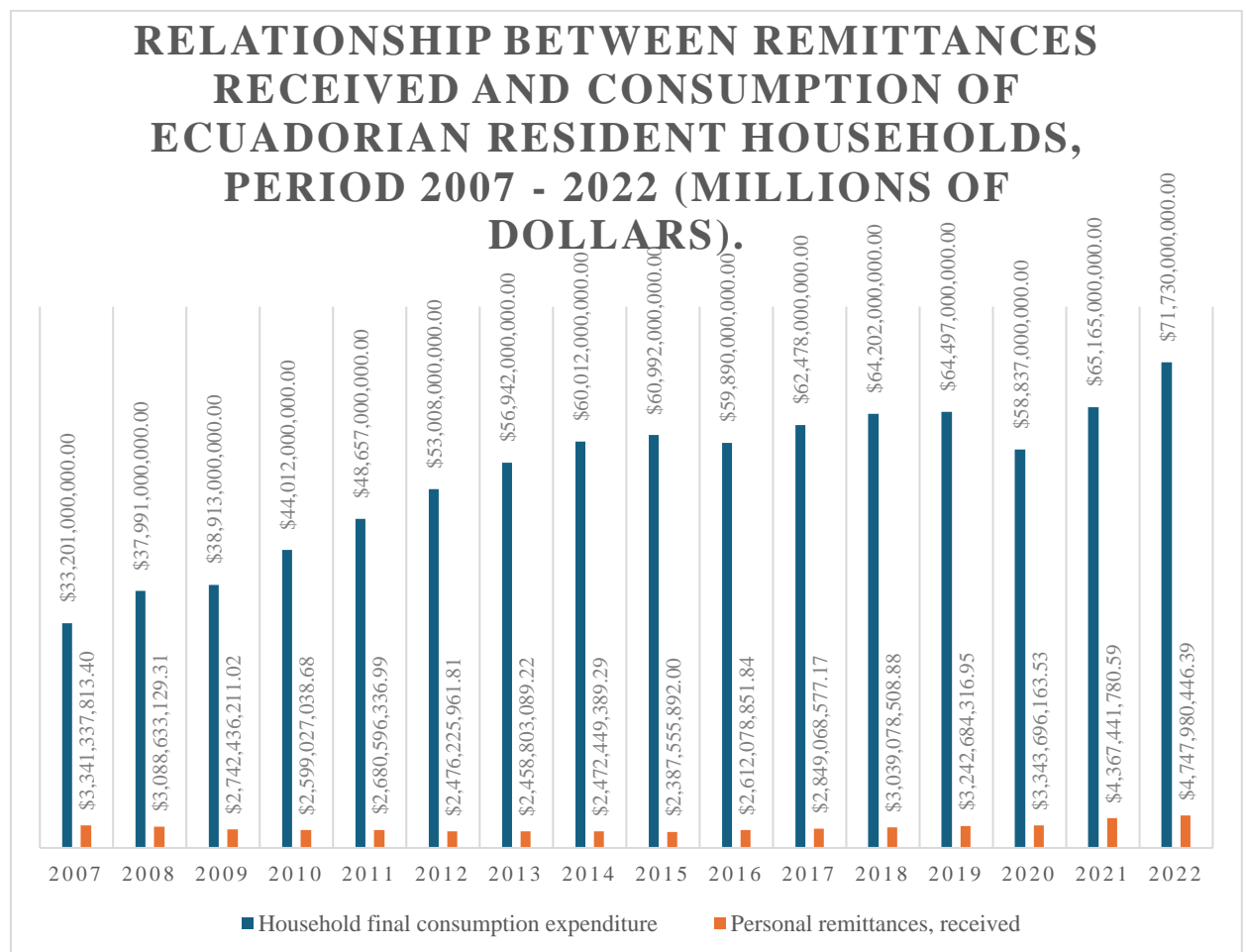
Remittances directly improve the well-being of Ecuadorian families by enabling higher spending on health, education and nutrition, and have a redistributive effect by reducing



inequality and poverty. They also boost entrepreneurship by providing capital to start businesses, generating employment and stimulating the local economy.

The proportion of remittances compared to household spending has varied significantly over time, reflecting changes in the global and local economies. Let's take a look at some examples to understand this better. Back in 2007, remittances made up about 10.06% of household spending, which shows that people were relying heavily on these money transfers. However, things shifted in 2015 when the proportion dropped to 3.91%. It then bounced back a bit in 2021, reaching 6.70%. These fluctuations demonstrate how the economy changes and how remittances directly impact people's day-to-day lives. You can find more detailed information in Annex 1.

This positive relationship between remittances and household spending means that when remittances increase, so does household consumption. And this has important implications for both people's well-being and the overall economic activity of the country. This connection can be seen in graph 8, where it is analysed the relationship between remittances and consumption.



Graph 8: Relationship between remittances received and consumption of Ecuadorian resident households, period 2007-2022 (millions of dollars).

*Source: World Bank Open Data (2024).  
Own elaboration.*

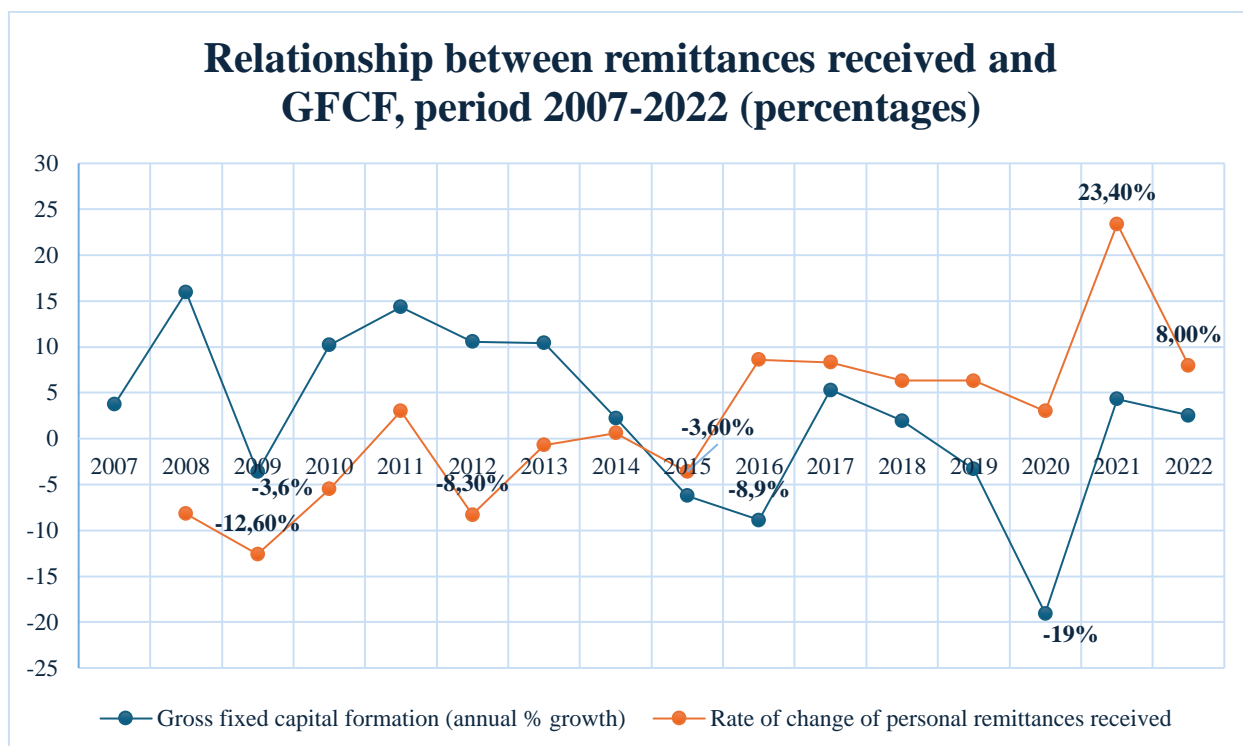
## **Remittances and Investment**

Gross Fixed Capital Formation (GFCF) represents investment in capital goods such as machinery, buildings and equipment, and is a key indicator of economic growth and productivity. These investments increase productive capacity and foster innovation and efficiency within economic sectors (Galán, 2022).

The Central Bank of Ecuador recognizes GFCF as a key driver of economic growth. It helps increase the country's long-term productive capacity (BCE, 2014). But even though remittances are super important for developing economies, they often don't get used effectively to support sustainable development. Remittances are predominantly used for subsistence needs, which limits their impact on long-term economic growth.

During the period under review, remittances accounted for approximately 20% of total investment in Ecuador. There is an overall positive correlation between the increase in remittances and investment, although with notable exceptions, such as in 2014, when an increase in remittances coincided with a decrease in investment. This is illustrated in Figure 9 and is partly explained by the reverse dynamics observed during the global health crisis of 2020, which led to economic paralysis and a significant drop in investment due to declining incomes and employment.

In addition, several negative rates of change were identified in the years 2009, 2016 and 2020, with the most significant decline in 2020 reaching -19% (see calculations in Annex 2). This decline is linked to the global health crisis, during which periods of economic paralysis were experienced due to the containment measures imposed by the General Government of Ecuador. In addition, the fall in investment is explained by the decline in the income of the Ecuadorian population, attributable to both the scarcity of employment and the reduction in the amount of remittances received in the country, most of which were destined for family consumption.



Graph 9: Relationship between remittances received and GFCF, period 2007-2022 (%).

Source: World Bank Open Data (2024).

Own elaboration.

### 3.2 Factors of variation in remittances

Early in the pandemic, several factors shaped the dynamics of remittances to Ecuador, most notably the loss of employment among Ecuadorian migrants due to the global economic crisis. Restrictions on confinement and limited money transfer options further complicated the situation, in a context of economic uncertainty that altered the needs and priorities of recipient households.

The impact of these measures was reflected in a significant increase in the unemployment rate, especially in the United States, where most Ecuadorian migrants reside and from where most remittances are sent to Ecuador. In April 2020, the United States registered a record unemployment rate of 14.7%, severely limiting migrants' ability to economically support their families (Flores et al., 2021, p.240).

This direct correlation between unemployment and remittances is evidence that migrants, facing a reduction in their income, were less able to send money home. This situation was particularly critical for the Ecuadorian diaspora in the United States, given the importance of remittances for the country's economy and the livelihoods of many families. In Ecuador, the labour crisis exacerbated families' dependence on remittances while simultaneously reducing the capacity of migrants abroad to send them. This vicious cycle of financial precariousness affected both migrants and their families,

exacerbating economic vulnerabilities and increasing dependence on remittances for life support during the pandemic.

During the early months of the COVID-19 pandemic, the adoption of social distancing strategies and restrictions on global mobility caused a significant contraction in the effective demand for goods, directly impacting supply chains and productive processes as identified by Almaraz (2020, p.15).

As a result, it triggered a considerable decrease in the availability of inputs and in workers' incomes, particularly affecting Ecuadorian migrants in sectors vulnerable to global market fluctuations.

The Economic Commission for Latin America and the Caribbean (ECLAC, 2020) emphasises how these production shocks affected incomes and consumption patterns. This reduction in income-generating capacity significantly limited the ability of Ecuadorian migrants to send remittances to their families, which in turn had an impact on the Ecuadorian economy that depends in part on these financial flows. The crisis also exacerbated the labour and financial instability of migrant workers, intensifying their precariousness and reducing their ability to financially support their families in Ecuador.

In particular, the suspension of international tourism had a profound impact, not only causing a humanitarian catastrophe but also paralysing key economic sectors. According to a United Nations report, international tourist arrivals were projected to decline by 58-78% during 2020, severely impacting economies and in particular the Latin American region where tourism is an essential economic pillar (United Nations, 2020, p.2).

In relation to Ecuador, this country was one of the most impacted by the stagnation of tourism, showing a 75% decrease in tourist arrivals during 2020. Likewise, the income generated by the tourism sector in Ecuador suffered a reduction of 1.81 billion US dollars, according to figures provided by the Central Bank. A determining factor in this sharp decline in tourism in developing nations is the slow progress in vaccination programmes, which discourages the arrival of international visitors. Added to this situation are the mobility restrictions established by various countries to mitigate the spread of the virus, as well as the emergence of new variants of the virus, which add uncertainty regarding the normalisation of international travel, according to Gcoba (2021).

In this context, many Ecuadorian migrants, whose families at home depend on their remittances, found themselves in a precarious position, needing to retain more of their income for immediate subsistence abroad rather than sending it home. The prolonged tourism crisis, exacerbated by slow vaccination campaigns and persistent mobility restrictions, prolonged this dynamic, defying projections of economic recovery and affecting the stability of remittances as a vital source of income for many Ecuadorian families.

## **Impact of economic support policies on remittances**

The European Union has invested heavily in helping individuals and businesses affected by the economic downturn caused by COVID-19. On 27 May 2020, the European Commission presented a €750 billion economic recovery plan and a revised budget for the period 2021-2027. The plan, known as the Next Generation EU, aims to transform Europe into a greener, digital, social and sustainable region (European Parliament, 2020).

The plan also provides €390 billion in grants and low-interest loans to be channelled through the €672.5 billion Recovery and Resilience Facility. These funds will be used for climate neutrality, digital transformation, and support for social measures and employment (European Parliament, 2020).

To ensure that these funds are properly allocated, the European Parliament and the Council will monitor their allocation, ensuring that the rule of law principles are respected. In addition, new sources of revenue, such as a financial transaction tax and corporate contributions, have been agreed for debt financing (European Parliament, 2020).

Furthermore, public guarantee schemes and direct aid were necessary to support Spanish companies during the COVID-19 crisis, especially SMEs and severely affected sectors (Blanco & Mayordomo, 2023).

In addition, the European Commission approved Spain's plan to create a €1bn fund to invest in debt and equity instruments for companies affected by the pandemic. This aid scheme was approved under the Interim Framework Programme (European Commission, 2021).

According to Commission Vice-President Margrethe Vestager, the €1 billion recapitalisation scheme is designed to make it easier for Spanish companies to access the financing they need in these difficult times and is in line with EU rules on state aid (European Commission, 2021).

In Belgium, the federal and regional governments also quickly adopted support measures to improve companies' cash flows and avoid bankruptcies. These measures included easier access to temporary unemployment benefits, one-off subsidies and various tax incentives and deductions. In total, these measures totalled €11.6 billion in 2020 and 2021, or 1.2 % of GDP in these two years (Piette & Tielens, 2022).

In addition, the banking sector plays a central role in supporting businesses by providing liquidity through existing or new credit lines. Over time, banks lent to companies that had not previously sought financing and offered concessions on existing

contracts, such as lower interest rates or postponement of payment terms. This flexibility mainly benefited pandemic-affected companies that were profitable before the crisis (Piette & Tielens, 2022).

The implementation of COVID-19 relief solutions in Germany, Spain and Italy has certainly been effective in mitigating economic hardship, but it has also highlighted the challenges that public administration still faces in implementing crisis programmes (Filipchuk, 2023).

Consequently, individuals sending remittances have benefited from public income support measures, including income replacement and aid for struggling businesses, unlike many in Latin America and Ecuador. Thus, immigrants, particularly in Europe, have avoided severe income cuts and have been able to continue, or even increase, sending funds to economically vulnerable countries impacted by COVID-19.

### 3.3 Remittance mitigation and protection strategies

During the whole COVID-19, both international agencies and local authorities came up with a bunch of strategies to lessen the adverse impact of the pandemic, especially on the money people send back home. In Ecuador, the United Nations System (UNS) played a major role in coordinating support, focusing on several critical areas:

1. **Safeguarding health systems:** Ensuring the continuity and effectiveness of health services.
2. **Social protection:** Implementing social safety nets and facilitating access to essential services for all segments of the population.
3. **Economic response and recovery:** Protecting jobs, supporting SMEs and workers in the informal sector; and
4. **Strengthening macroeconomic response and multilateral cooperation:** Fostering social cohesion and community resilience (ONU, 2020).

Simultaneously, experts such as Okai (2020) highlighted the need to consider remittances as essential financial services. He proposed improving the regulatory framework and promoting digital literacy to facilitate safe and efficient transfers, which are essential to maintain the economic stability of recipient households.

Similarly, the World Bank has provided continuous support to developing countries, helping them to cope with and overcome the crisis. In Latin America and the Caribbean, despite GDP growth of 3.7% in 2022, future growth projections are moderate. It has emphasised the prolonged effects of the pandemic on education and health systems, providing financing to strengthen essential services and foster economic recovery in affected countries such as Ecuador. In one specific project with a budget of \$53 million,

more than 2 million Ecuadorians have benefited, significantly improving access to clean water, healthcare and managing disaster risks (World Bank Annual Report 2023, 2023).

Finally, the impact of remittances in the fight against poverty has been highlighted in several reports, underlining their critical role in sustaining consumption and investment in times of crisis. Remittances not only help to balance initial inequality between households, but also foster gender equality and entrepreneurship by allowing more families to invest in their own businesses and well-being (World Bank, 2023, p.131).

In summary, as Ecuador adapts to post-pandemic Ecuador, the “*Plan Fénix*”, introduced in October 2021, has sought to incorporate lessons learned during the crisis to improve public health management and economic protection of the most vulnerable, focusing on efficient implementation of vaccination programmes and optimisation of resources (Banco Mundial, 2023, p.10).

### 3.4 Conclusions of chapter 3

Despite the economic and social challenges triggered globally by the COVID-19 pandemic, remittances to Ecuador showed a notable resilience.

The analyses developed in this chapter highlight various factors that have shaped remittance flows during the health crisis, including job losses among Ecuadorian emigrants, lockdown measures, global economic uncertainty, and economic stimulus programs in the countries where these migrants reside. These interrelated variables have defined the behaviour of remittances during this unprecedented period.

Remittances have not only been crucial for maintaining household consumption and investment in Ecuador but have also proven to be a catalyst for economic growth and sustainable development. Although there was an initial decrease in remittance flows due to the economic crisis stemming from the pandemic, the year 2020 concluded with a significant increase, reaching record figures in 2021 and 2022. This indicates a strong recovery and growth, driven by the economic improvement in the countries of origin and by supportive fiscal policies, particularly in the United States.

It is vital for Ecuador to recognize the volatility and potential of remittances within its economic policy planning and development strategies. Productive investment of remittances should be promoted, financial inclusion of recipient families should be improved, and safeguards should be established so that migrants can optimize the benefits of these financial flows, thus contributing to the country's economic resilience in the face of future adversities.

Chapter 3 has demonstrated the resilience and vital importance of remittances for Ecuador's economy, particularly during the COVID-19 pandemic. This financial flow has not only been a support during the global economic crisis but has also had a considerable impact on the sustenance of Ecuadorian families.

In Chapter 4, the focus will shift to how these remittances have specifically affected the well-being of the most vulnerable Ecuadorian families, analysing the effects on individuals in conditions of poverty and extreme poverty and the changes in their social and economic welfare indicators.



## Chapter 4: Impact of remittances on Socioeconomic Welfare

In this chapter, the impact of remittances on the socio-economic well-being of vulnerable Ecuadorian households is explored in the context of COVID-19, an unprecedented event that has disrupted the global economy, affecting incomes and well-being on a massive scale. Given the already established importance of remittances in the Ecuadorian economy, this analysis focuses on the effects of remittances on those affected by poverty and extreme poverty during the global health crisis.

First, it assesses the way in which remittances provided substantial economic support during the pandemic shocks and assisted households to maintain consumption and stability. Second, it examines the direct and indirect impact of remittances on the daily lives of beneficiaries and analyses economic resilience and vulnerability.

Changes in socio-economic indicators for recipient families are then examined, using quantitative and qualitative analysis to illustrate changes in living standards, access to basic services, education, health and job stability. Emphasis is placed on how remittances have enabled these families to face and overcome challenges during and after the pandemic.

In the conclusions of the chapter, the main findings are synthesised, highlighting remittances as a pillar of economic and social stability, and a buffer against external economic shocks. Through this analysis, it calls for policy contributions to reinforce this vital support in global crises and improve the resilience of the most disadvantaged Ecuadorian families (in poverty and extreme poverty).

### 4.1 Impact on people living in poverty and extreme poverty

Remittances are recognised for their ability to reduce poverty and promote investment in human capital in developing countries. In the Ecuadorian context, where a large part of the population lives below the poverty line, international remittances are a significant source of income.

Therefore, it is important to stress that open economies such as Ecuador's are particularly vulnerable to international economic shocks due to their integration into global value chains. If businesses have to close in the face of such shocks, as was the case at the beginning of the coronavirus outbreak, this can lead to a decline in future investment and a reduction in employment opportunities. This scenario aggravates inequalities and disproportionately affects households below the poverty line, i.e. people

experiencing poverty and extreme poverty have a high risk of living in poverty for longer periods of time (Bloom et al., 2005).

### **Pre-COVID-19 poverty situation**

In 2019, extreme poverty affected 70 million people in Latin America, representing 11.3% of the population. This marked an increase from 2015, when the rate was 8.7% (ECLAC, 2021, p.49). In comparison, Ecuador showed moderate poverty rates, with approximately 20% of its population in poverty and about 5% in extreme poverty, while countries such as Bolivia, Colombia, Mexico and Honduras registered extreme poverty rates above 10% (ECLAC, 2021, p.51).

The persistence of poverty in Latin America is due both to external factors and to inadequate or insufficient economic and social policies implemented by governments (Filgueira et al., 2004, p.13). In addition, gender inequality aggravates the situation, with women facing significantly worse labour and economic conditions than men before the pandemic (Secretaría General Iberoamericana, 2020).

### **Poverty situation during COVID-19**

The pandemic has worsened existing conditions and caused extreme global poverty rates to rise for the first time in more than 20 years. It has been estimated that between 88 and 115 million people have been pushed into extreme poverty by the pandemic and factors such as conflict and climate change (World Bank Group, 2020).

COVID-19 crisis has led to higher mortality rates in Latin America compared to Europe and the US. The region had one of the highest COVID-19 mortality rates in the world in 2020, which mainly affected people under the age of 50 (Berniell, 2020).

According to ECLAC, extreme poverty will reach 12.5 % in 2020 and total poverty will reach 33.7 % of the population of Latin America. This represents a significant increase from the previous year, when 209 million people lived in poverty and 78 million in extreme poverty (ECLAC, 2021).

In addition, Latin America and the Caribbean has the second highest number of pandemic-related deaths in the world, with 667,308 deaths, representing 26.8 % of the global total (ECLAC Review No. 132, 2020, p.20).

Remittances, vital to many countries in Latin America and the Caribbean, have faced serious problems due to the crisis in countries of origin, affecting the employment and economic conditions of migrants and their families, which may have long-term implications for the recovery of these remittance levels before the pandemic (ECLAC, 2020, p.17).

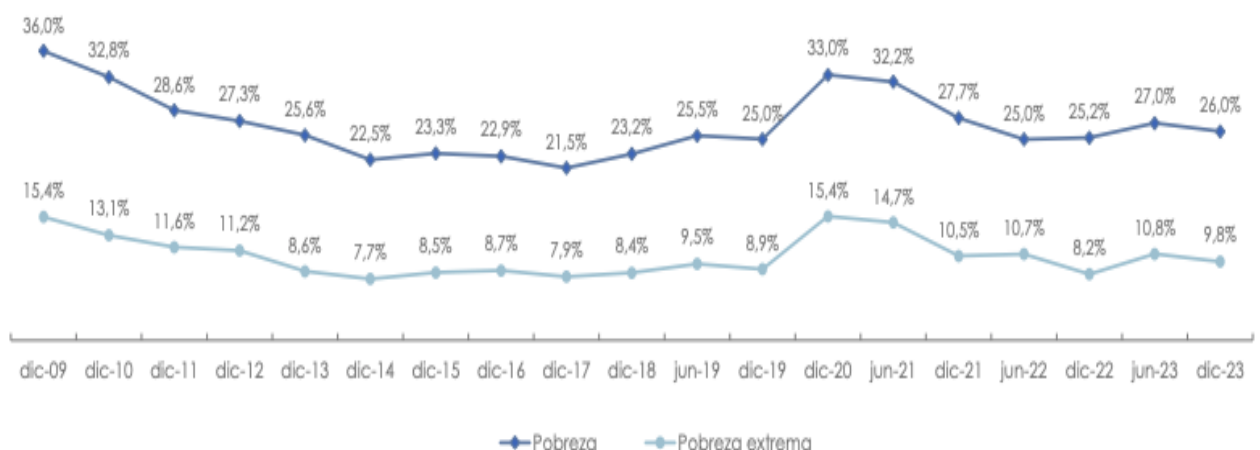
## Poverty and extreme poverty: The case of Ecuador

In Ecuador, prior to the COVID-19 pandemic, the country faced a serious poverty problem, with 39.6% of the population living in poverty in 2019. During the pandemic, this rose to 46.5 % in 2021, reflecting the negative impact of the economic crisis and shortcomings in the implementation of effective public policies. The rate in 2022, even though it fell slightly to 45.8 %, it was still higher than prior to the pandemic (Mora, 2023).

The Cajas study “*Covid-19, the tragedy of the poor*” emphasises that the crisis has exacerbated existing inequalities. By 2020, 32.4% of the Ecuadorian population had reached poverty and 14.9% extreme poverty, with a significant increase in the number of homeless people, indicating the profound socioeconomic impact of the pandemic (Cajas-Guijarro, 2021, p. 67).

At the regional level, ECLAC predicts that Ecuador, along with Mexico and Honduras, will be among the Latin American countries with the greatest increase in extreme poverty in 2020 (BBC News Mundo, 2021).

On the other hand, data from the National Institute of Statistics and Census (INEC) show that by the end of 2022, Ecuador has returned to pre-pandemic levels, with a poverty rate of 25.2 % and an extreme poverty rate of 8.2 %. This progress is attributed to the expansion of social assistance programmes and active government policies that have increased the number of families receiving cash transfers. However, it is necessary to continue to stimulate the revitalisation of production to guarantee the long-term improvement of economic and social conditions in the country (Vinueza, 2023).



Graph 10: Poverty and Extreme Poverty (National).

Source: ENEMDU. (2023, December). *Encuesta Nacional de Empleo, Desempleo y Subempleo (ENEMDU) Indicadores de Pobreza y Desigualdad Diciembre 2023*.

Retrieved from [https://www.ecuadorencifras.gob.ec/documentos/web-inec/POBREZA/2023/Diciembre/202312\\_PobrezayDesigualdad.pdf](https://www.ecuadorencifras.gob.ec/documentos/web-inec/POBREZA/2023/Diciembre/202312_PobrezayDesigualdad.pdf)

As can be seen in graph 10, the poverty rate and the extreme poverty rate in Ecuador were subject to strong fluctuations during the period analysed. A peak was recorded in 2009, followed by a downward trend until around 2014. However, a significant increase in these rates was observed in 2020, largely due to the COVID-19 pandemic. Thanks to government interventions, which, as mentioned above, included social assistance programmes targeting the most vulnerable segments of the population, a partial recovery began in 2021 (ENEMDU, 2023).

It is important to note that, in addition to the pandemic, other problems have also affected socio-economic conditions in Ecuador. Gang violence and drug trafficking have been major factors that have contributed to poverty levels remaining high in recent years. Extreme conditions in Ecuador made more and more Ecuadorians search for better living environments in migration. For example, in 2023 alone, 75% more Ecuadorians crossed the dangerous Darien pass, and the only reason for such actions was the need to flee from the violence and poverty in the home country (RESCUE, 2024).

### **Remittances flows and the situation of poverty and extreme poverty in Ecuador**

The impact of remittances on poverty and extreme poverty conditions in Ecuador presents a complex picture, significantly influenced by the COVID-19 pandemic. According to the study by Acosta et al. (2006), the relationship between remittances and poverty reduction is neither direct nor guaranteed, since the majority of recipients belong to middle-income sectors and only a minority to lower strata, i.e. the majority of remittance recipients belong to middle-income sectors (more than 50%), and only a smaller portion are in lower strata (26%), suggesting that remittances tend to finance middle-class consumption rather than cover the basic needs of the poorest. This pattern suggests that, although remittances support household consumption, their capacity to fundamentally change poverty conditions is limited, especially in times of economic crisis.

In 2007 Elcano Royal Institute study revealed that remittances from Ecuadorians in Spain have not had a significant impact on reducing poverty in Ecuador. Its findings demonstrate the need for more effective policies that can amplify the socio-economic impact of remittances (EFE, 2009).

Furthermore, remittances may even have adverse effects on labour supply, creating a “*perverse incentive*” where an increase in non-labour income may reduce labour participation, according to Andrade (2022).

In 2020, The Inter-American Development Bank indicated that remittance-dependent nations such as Ecuador were facing economic and social issues. The increase in remittances will have a fallout effect on poverty and hunger levels and induce lower consumption and taxes collected. Second, the difficulty in the situation might persist due to the possibility of crisis-context return migration. It would complicate what's already difficult economic and social contexts for these nations inhabited by the Ecuadorian diaspora (Parrado et al., 2020). This difficult context emphasises the importance of integrating remittances into a broader economic strategy aimed at fighting poverty and promoting financial inclusion and sustainable development.

Finally, the personal stories of Ecuadorian families, such as those of Cynthia Zapata and Elizabeth Figueroa, vividly illustrate the duality of remittances as a source of economic support and as a reflection of ongoing vulnerabilities. These stories not only show how remittances sustain families in times of crisis, but also how a reduction in these flows can drastically impact their well-being.

For example, young mother Cynthia Zapata, from Guayaquil, notes that she has been used to her mother sending her the monthly amount of money equivalent to one basic salary in Ecuador. Yet when her mother, who was working in Spain, lost her job, she refused to continue supporting (AGENCIA EFE, 2020).

Blanca Ortiz, leader of the Ecuadorian Corporation for Human Mobility, testifies to a reduction in the amount of remittances, although she highlights the persistence of solidarity among migrants. Despite the decrease, many emigrants continue to send what they can, a gesture that contrasts with the economic aid received by low-income families in the United States, which they even share with their relatives in Ecuador (AGENCIA EFE, 2020).

Elizabeth Figueroa, for her part, experienced a positive surprise when she received alimony from her ex-partner in Spain, despite the crisis, which allowed her to continue providing for her children's needs. These stories show how remittances are a pillar for many families, directly affecting their quality of life and alleviating poverty, although they also reflect the tensions and challenges that emerge when these financial flows are interrupted or diminished (AGENCIA EFE, 2020).

These aspects emphasise the need for a deep and nuanced understanding of how remittances affect poverty and economic development in Ecuador and underscore the importance of designing policies that maximise their benefits while mitigating their potential negative effects.

## 4.2 Changes in socio-economic indicators

From the above discussions, it is clear that foreign remittances are essential in the auguring of an economy and the alleviation of poverty of the recipient countries. Firstly, remittances ensure a stabilizing foreign exchange earnings and reserves and the maintain ace of a stable monetary in the receiving country. They also boost domestic consumption and strengthen a country's economic situation. In the event of an economic crisis or natural disaster, remittances often have a counter-cyclical effect, increasing and mitigating the negative impact on the local economy. Such financial support improves the quality of life of beneficiary families, enabling them to invest in goods and services that improve their social and economic well-being.

Remittances have been found to have a direct social impact by providing additional income for basic needs such as food, housing, education and health, contributing significantly to poverty reduction. In addition, these funds often empower women, who frequently manage these resources, facilitating important financial decisions and the development of their households and communities. Specifically in Latin America, and particularly in Ecuador, indicators of subjective well-being between 2019 and 2022 have been shaped by the global economic challenges driven by the COVID-19 pandemic.

In addition to the above, the meanders of how remittances with relation to GDP in Latin American and Caribbean countries mirror their impact on the region's economy will be further traversed. This interconnectedness offers an in-depth measure of the economic magnitude of remittances in every country and thereby a better judgment on the effect it has on their socio-economic welfare and a contribution to human development.

Table 2 Remittances as a percentage of GDP 2019 and 2023 in Latin American countries

Country	Remittances/GDP 2019 (%)	Remittances/GDP 2023 (%)
Chile	0.19%	0.10%
Argentina	0.10%	0.20%
Uruguay	0.18%	0.20%
Brazil	0.16%	0.20%
Panama	0.74%	0.6%
Costa Rica	0.83%	0.9%
Trinidad and Tobago	0.57%	1.2%
Paraguay	1.48%	1.4%
Peru	1.44%	1.6%
Colombia	2.08%	3.0%
Bolivia	3.20%	3.4%
Mexico	2.87%	3.9%

Belize	5.45%	4.2%
Suriname	2.4%	4.3%
<b>Ecuador</b>	3.01%	4.4%
Guyana	6.55%	6.9%
Dominican Republic	7.96%	8.3%
Haiti	42.51%	15.7%
Guatemala	13.70%	19.5%
Jamaica	15.14%	20.6%
El Salvador	20.90%	24.3%
Honduras	22.16%	27.3%
Nicaragua	13.42%	29.7%

*Sources: Maldonado, 2020 - Maldonado & Harris, 2023.  
Own elaboration.*

According to the information in Table 2 with data collected from the IDB (Maldonado, 2020; Maldonado & Harris, 2023), Nicaragua stands out for the high proportion of remittances in relation to its GDP, reaching 29.7% in 2023, closely followed by Honduras, El Salvador, Jamaica, Guatemala and Haiti. These data indicate that remittances play a crucial role in the economies of these countries, directly impacting aspects such as consumption, investment and human development indicators.

Before analysing indicators of the social and economic well-being of remittance-recipient families, it is relevant to consider a significant variable for the current research: the Human Development Index (HDI). This index provides a broad and multidimensional perspective of progress, covering crucial elements of health, education and income, and is not limited only to economic aspects. HDI is fundamental in providing a comprehensive perspective on human development, making it easier to compare nations and monitor their evolution. This metric is invaluable for policymakers, researchers and society in general, as it provides key information on the current state of human development and the areas that require priority attention to improve the quality of life of the population (United Nations, 2023).

The ranking of countries in the Human Development Index reveals the level of progress and well-being in different regions. For example, Switzerland, which ranks first, reflects the highest standards of health, education and income. In contrast, Somalia, in last place, highlights significant challenges in these areas (UNDP, 2023/2024). UNDP's 2023/2024 report for Latin America and the Caribbean offers a detailed overview of human development using 2022 data, which is crucial for understanding the achievements and challenges of these countries and for guiding policies aimed at improving the quality of life of their inhabitants.

Table 3 Human Development Index in Latin American and Caribbean countries (2019&2022)

Country	Human Development Index		Ranking (2022)
	2022	2019	
Chile	0,860	0,849	44
Argentina	0,849	0,841	48
Uruguay	0,830	0,820	52
Panama	0,820	0,809	57
Trinidad and Tobago	0,814	0,799	60
Costa Rica	0,806	0,811	64
Mexico	0,781	0,781	77
Dominican Republic	0,766	0,765	82
<b>Ecuador</b>	0,765	0,734	<b>83</b>
Peru	0,762	0,758	87
Brazil	0,760	0,758	89
Colombia	0,758	0,756	91
Guyana	0,742	0,670	95
Paraguay	0,731	0,742	102
Jamaica	0,706	0,726	115
Belize	0,700	0,720	118
Bolivia	0,698	0,691	120
Suriname	0,690	0,724	124
El Salvador	0,674	0,676	127
Nicaragua	0,669	0,661	130
Guatemala	0,629	0,645	136
Honduras	0,624	0,629	138
Haiti	0,552	0,559	158

Source: UNDP (2024).

Own elaboration.

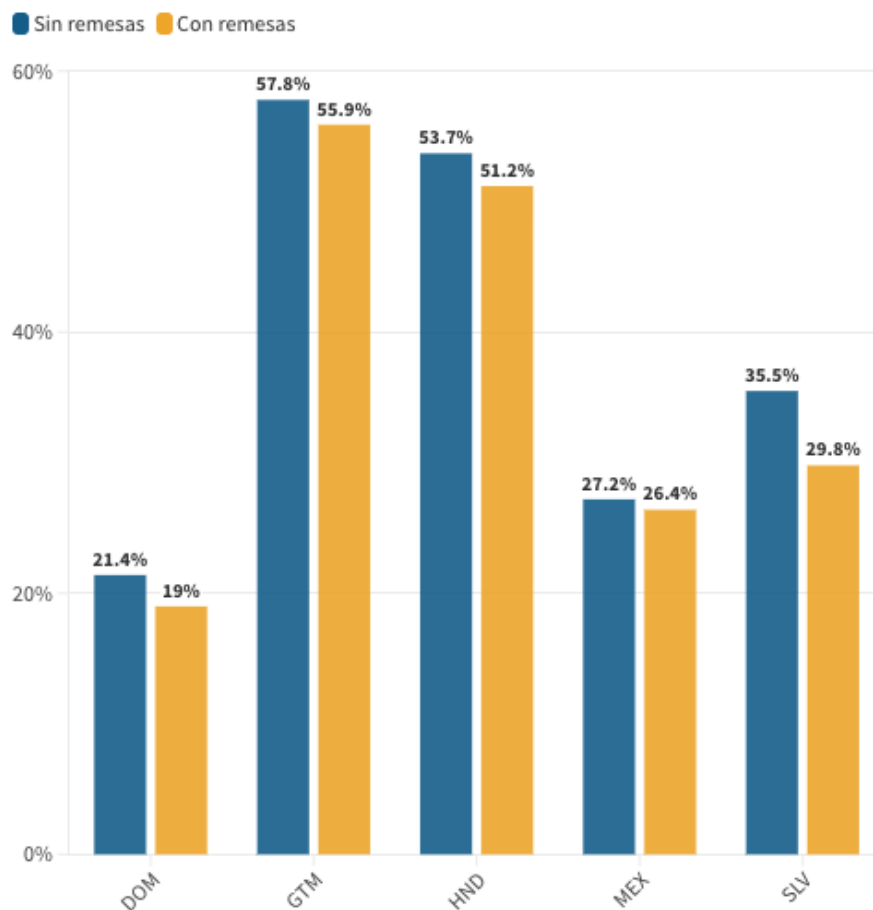
Based on Table 3, countries that are less dependent on remittances in relation to GDP, such as Chile, Argentina and Uruguay, perform better in the Human Development Index (HDI). Meanwhile, countries such as Haiti, Honduras and Guatemala, which have a high ratio of remittances to GDP, perform worse in the HDI.

After analysing the HDI of the countries of Latin America and the Caribbean, the distribution of prosperity and social justice in the region should be investigated by examining the Gini coefficient. This index measures income inequality within a population and fluctuates between 0 (perfect equality) and 1 (perfect inequality). Accompanying this analysis is the Lorenz curve as a graphical aid for visualising income distribution (Gini index, n.d.).



When it comes to remittances, countries such as the Dominican Republic, Guatemala, Honduras, Mexico and El Salvador show that these economic transfers are vital for the recipient households as they enable them to cover their basic needs and improve their quality of life. Through this financial support, remittances contribute significantly to lowering the Gini coefficient, emphasising their positive impact on reducing income inequality in these nations (Eggers & Jiménez Montero, 2023).

Graph 11 shows the direct correlation between remittance flows and the improvement of socio-economic indicators in the Dominican Republic, Guatemala, Honduras, Mexico and El Salvador. This graph emphasises the importance of remittances as a key element in promoting economic well-being and reducing inequalities in recipient countries (Eggers & Jiménez Montero, 2023).



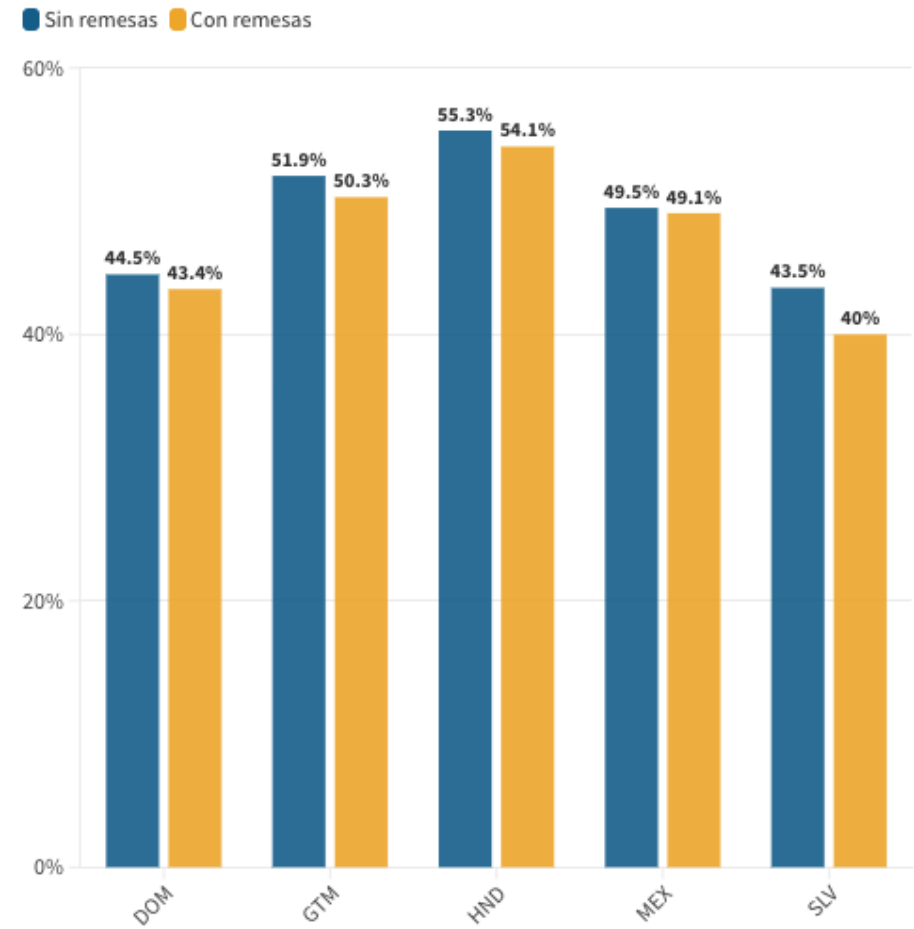
Fuente: cálculos propios con base en encuestas de hogares, 2019 o último dato disponible.

Graph 11: Poverty before and after remittances.

Source: Cálculos propios de los autores Eggers & Jiménez Montero BID con base en encuesta de hogares, 2019 o último dato disponible (2023). Retrieved from <https://blogs.iadb.org/migracion/es/el-papel-de-las-remesas-en-centroamerica-mexico-y-republica-dominicana-en-el-alivio-a-la-pobreza/>

Graph 12 illustrates how remittances contribute to the reduction of poverty and inequality, with El Salvador in particular standing out, with a notable decrease in the poverty rate of almost six percentage points and a reduction in the Gini coefficient of about three points. In other countries studied, remittances have reduced poverty and the Gini coefficient by about two and one percentage point, respectively, preventing poverty for about 2.2 million people in five countries (Eggers & Jiménez Montero, 2023).

Graph 12: Gini coefficient before and after remittances.



Fuente: cálculos propios con base en encuestas de hogares, 2019 o último dato disponible.

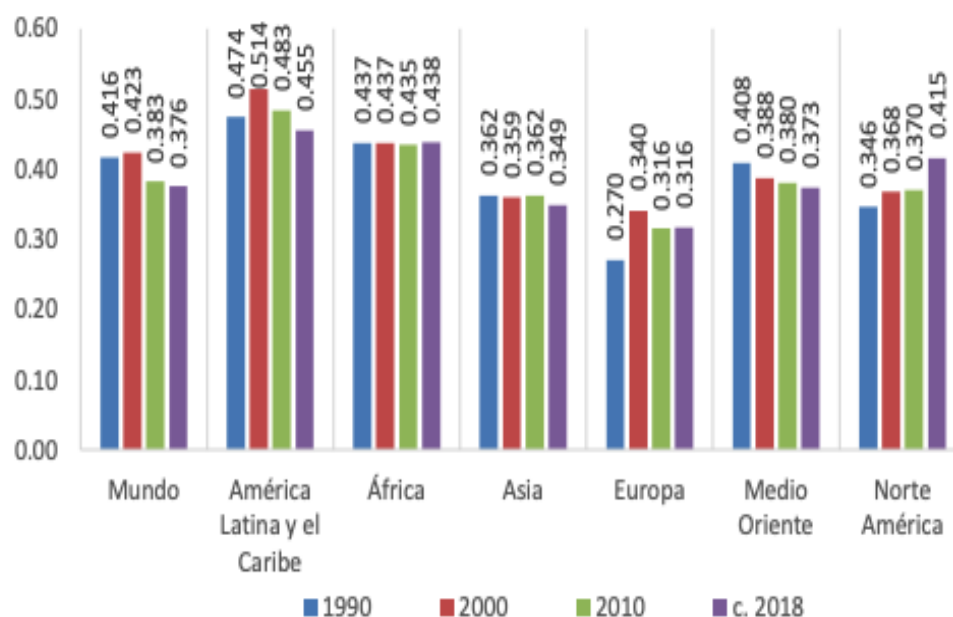
Graph 12: Gini Coefficient before and after remittances.

Source: Cálculos propios de los autores Eggers & Jiménez Montero BID con base en encuesta de hogares, 2019 o último dato disponible (2023). Retrieved from <https://blogs.iadb.org/migracion/es/el-papel-de-las-remesas-en-centroamerica-mexico-y-republica-dominicana-en-el-alivio-a-la-pobreza/>

Regardless of the progress made, Latin America and the Caribbean continues to face serious challenges related to inequality, as it is the region with the highest inequality in the world. Disparities in Latin America have historical roots that date back to colonial times and have been persistent and diversified over time. Nowadays, income

distribution is extremely unequal: the poorest 50% of the population has access to only 10% of total income, while the wealthiest 10% of the population has 55% of this income (Batthyány, 2023).

According to Nora Lustig (2020), the dynamics of inequality in the region have followed three distinct trends in recent decades. In the initial period, during the 1990s and early 2000s, most countries saw inequality increase. From 2002 to 2013, a general reduction in inequality was observed across most of the region. But since 2013, this trend has shown signs of stagnation, and in some countries, inequality has even started to increase again or the pace of reduction has slowed down. All these findings highlight the need for effective policies to address and mitigate deep socio-economic gaps and ensure that the benefits of remittances and other sources of income are distributed more equitably. Graph 13 shows that, despite significant progress during the first decade of the 21st century, the region remains the most unequal in the world.



Nota: Años utilizados para América Latina y el Caribe: 1992, 2000, 2010 y 2017. El conjunto de países utilizados varía en cada año.

Fuente: Banco Mundial. Indicadores de Desarrollo Mundial y SEDLAC. Consulta realizada el 7 de enero de 2020.

Graph 13: Inequality by region: Gini coefficient.

Note: Years used for Latin America and the Caribbean: 1992, 2000, 2010 and 2017.

The set of countries used varies in each year.

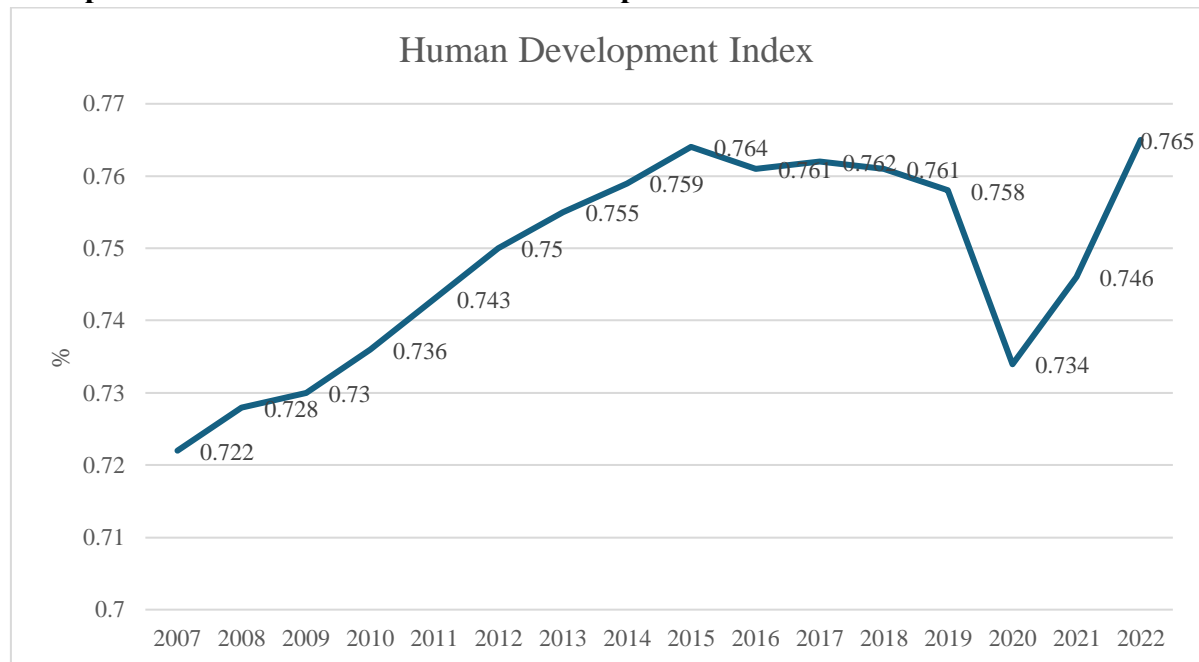
Source: World Bank. World Development Indicators and SEDLAC. Retrieved 7 January 2020.

Source: Lustig, Nora, (2020) "Desigualdad y política Social" en El desafío del desarrollo en

*América Latina. Políticas para una región más productiva, integrada e inclusiva.*  
*Caracas,*  
*Venezuela: CAF. Pendiente de publicación.*

This information highlights the importance of continuing sustained efforts and effective policies to address inequality in the region.

### The specific case of Ecuador: Human Development Index



Graph 14: Human Development Index period 2007-2021.

Source: United Nations (2024).  
 Own elaboration.

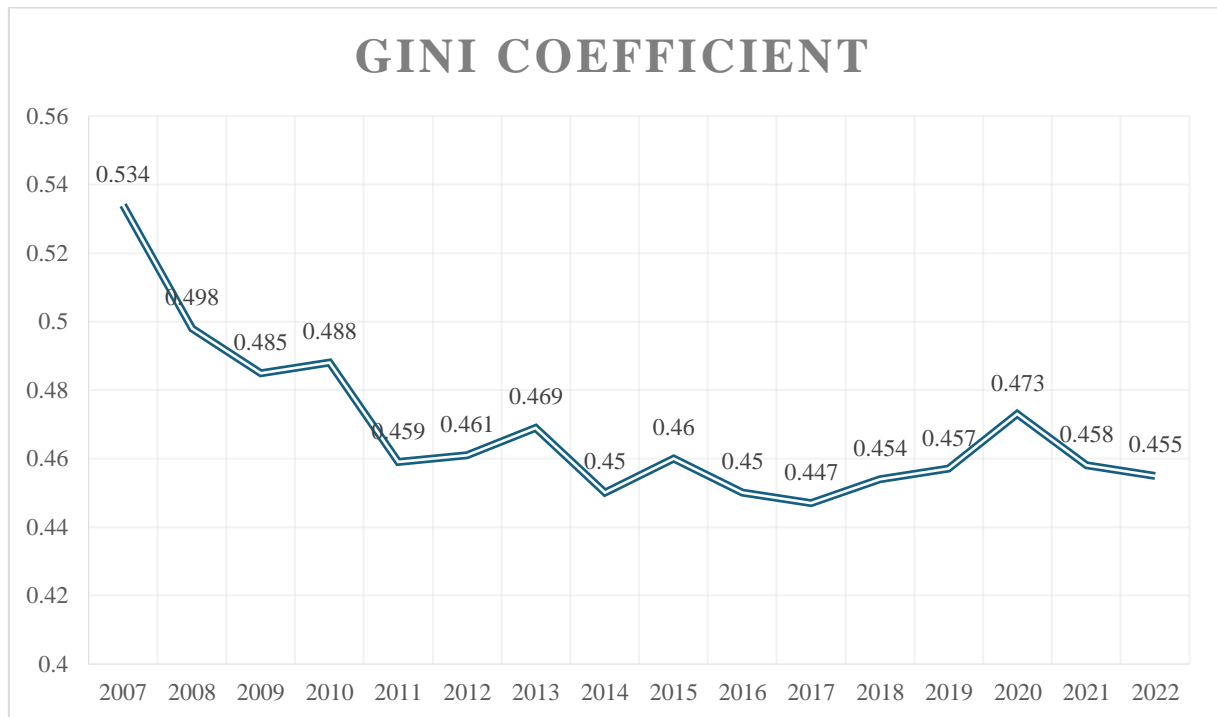
Ecuador's Human Development Index (HDI) increased significantly between 2007 and 2022, from 0.722 to 0.765. With this momentum, Ecuador will rank 83rd out of 193 countries in 2022. Since 1990, the country has seen improvements in health, education and income, and the HDI has increased by 18.6 per cent (United Nations, 2024).

According to Pineda and Ponce (2020), remittances have a positive influence on improving the quality of life in Ecuador, contributing significantly to the country's human development.

Despite this progress, the socio-economic challenges exacerbated by the Covid-19 pandemic have represented a major setback. The crisis has negatively impacted per capita income and complicated access to quality health and education services. Of particular concern is the labour market situation: in August 2022, only 30% of the economically active population had a job offering at least the basic wage of USD 425

per month, which, together with rising inflation, has deteriorated the living conditions of many Ecuadorians, directly affecting several HDI indicators (Coba, 2023).

### Gini Coefficient in Ecuador



Graph 15: Gini Coefficient period 2007-2022.

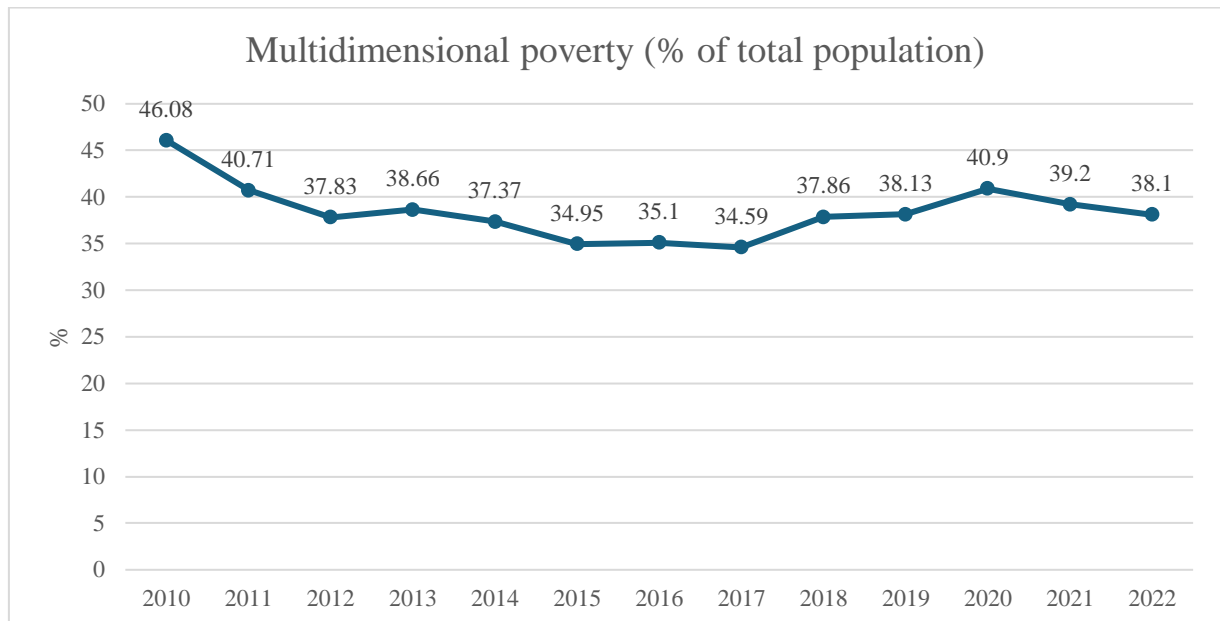
Source: World Bank Open Data (2024).

Own elaboration.

The Gini Coefficient, which measures income inequality, has shown significant variations in Ecuador since 2007, when it registered an index of 0.534, until 2021. This coefficient decreased progressively until 2014, reaching a value of 0.45, reflecting an improvement in income equity. During the following years until 2018, the index remained stable, experiencing a slight increase in 2019. However, inequality worsened with the arrival of the pandemic in 2020, raising the Gini to 0.473, before falling again to 0.455 in 2022. This latter change could be influenced by the increase in remittances, as discussed in the previous chapter.

Despite the observed variability, studies such as Sanmartín, García & Songor (2017) point out that remittances do not significantly impact inequality reduction in Ecuador. Their findings suggest that the effects of remittances on the structure of income inequality are marginal; in 2014, the difference in the Gini coefficient with and without remittances was minimal, changing from 0.4398 to 0.4395. This result implies that, although remittances may improve the economic situation of some households, their ability to change income inequality at the national level is limited.

## Multidimensional Poverty



Graph 16: Multidimensional poverty 2010-2022 period.

Source: World Bank Open Data (2024).

Own elaboration.

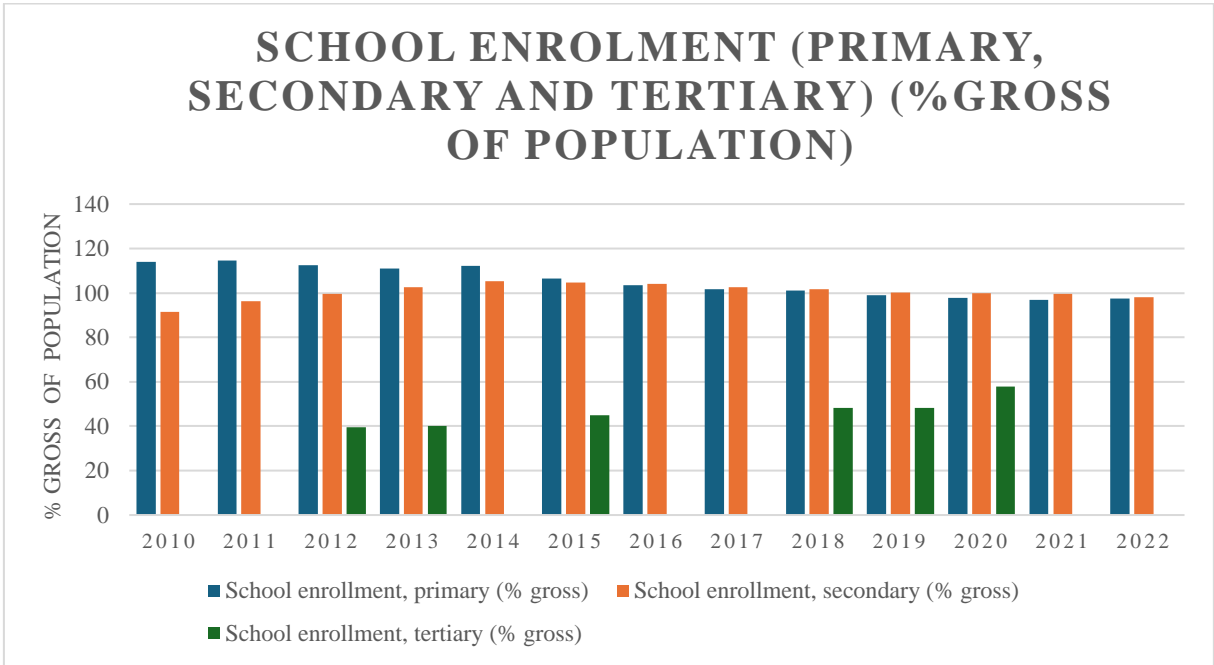
Graph 16 shows a remarkable fall of around 11 percentage points in the multidimensional poverty rate in Ecuador between 2010 and 2016, demonstrating considerable progress in the fight against poverty in its various dimensions. According to other authors, such as Ordoñez and Iñaguazo in research conducted in 2020, this progress is due to the intensification of social protection policies and strategies implemented by the government during this period (Quilli-Granda & García-Vélez, 2023).

The progress observed was considerably hampered by external factors such as the appreciation of the dollar and the fall in oil prices, which had a negative impact on the Ecuadorian economy and therefore on efforts to reduce poverty. The situation worsened with the COVID-19 pandemic in 2020, which pushed the multidimensional poverty rate up to 40.9%, a figure that has almost returned to the 2011 level (40.71%). That increase indicates that almost a decade of progress in the fight against multidimensional poverty is under risk, pointing to the need to develop more resilient economic and social strategies capable of sustaining and promoting poverty reduction in the face of external adversity (Quilli-Granda & García-Vélez, 2023).

In addition, Andrade (2022) notes that while remittances play an important role in the economy, their impact on poverty reduction has been limited. While remittances improve the quality of life of beneficiary families by providing them with additional income to meet basic needs and education, their long-term ability to eradicate poverty is

limited, highlighting the need for more effective policies to increase the impact of remittances on Ecuador's socioeconomic development.

**School enrolment (From primary to tertiary)**



Graph 17: Schooling period 2010-2022.

Source: World Bank Open Data (2024).  
Own elaboration.

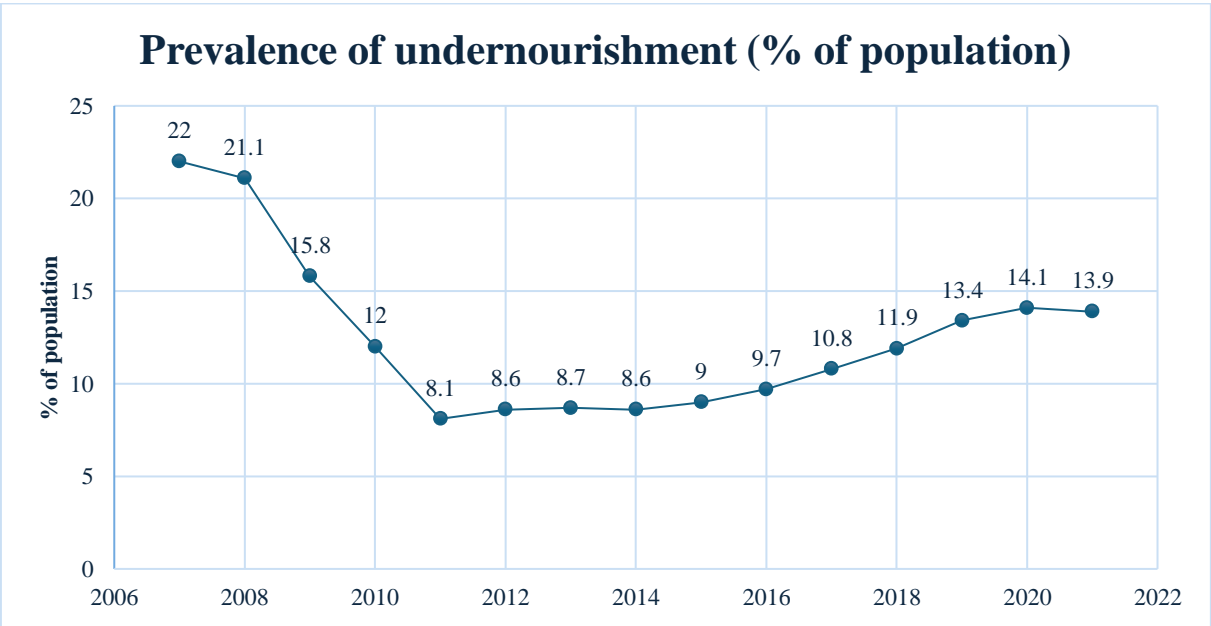
School enrolment rates in Ecuador, covering primary up to tertiary education, have shown fairly stable levels between 2010 and 2022. According to the Sistema de Información de Tendencias Educativas en América Latina (SITEAL), although attendance at the primary level declined slightly, there was notable progress in primary completion, with more than 98% of students graduating. Secondary and tertiary education showed variations in attendance, particularly among young people from urban areas and middle-income households, where a decrease was recorded, contrasting with an increase in tertiary completion among adults (SITEAL, n.d.).

COVID-19 intensified educational challenges in Ecuador, exacerbating the digital gap and affecting access to education at all levels. Although more than half of the population has access to the internet or owns a smartphone, only 12% have fixed broadband, complicating the implementation of distance education (Borgobello et al., 2022). The COVID-19 education plan focused on ensuring educational continuity, supporting virus prevention in the education community and providing emotional support (SITEAL, n.d.).

Remittances have played a crucial role in Ecuador's economy, particularly in the field of education. A 2006 study by the Central Bank of Ecuador indicates that households receiving remittances spend approximately 21% on education and health. On the other hand, the distribution of remittances in Ecuador focuses on: 54% for daily household expenses, 21% on education and health, 8% on savings, 7% on long-term investments, 5% on own businesses and 4% on debt repayment (Casares et al., 2022, p.90). However, studies such as Ordóñez (2010) and Pesántez et al., (2022) suggest that remittances, while providing crucial financial support, do not guarantee significant investment in education or a direct reduction in socio-economic inequality. These findings highlight the need for policies that not only promote education but also maximise the positive impact of remittances on the socio-economic development of the country.

In sum, while remittances provide important economic support for many Ecuadorian households, their ability to have a significant impact on improving education indicators and reducing poverty and inequality is limited without complementary policies that promote an equitable distribution of these resources.

**Prevalence of undernourishment**



Graph 18: Prevalence of undernourishment- period 2007-2021.

Source: World Bank Open Data (2024).  
Own elaboration.

World Bank graph 18 shows a continuous decline in the prevalence of undernutrition in Ecuador since the peak in 2007 until 2014, followed by a slight increase until 2021. It reflects the volatility in food security influenced by external economic and political factors.



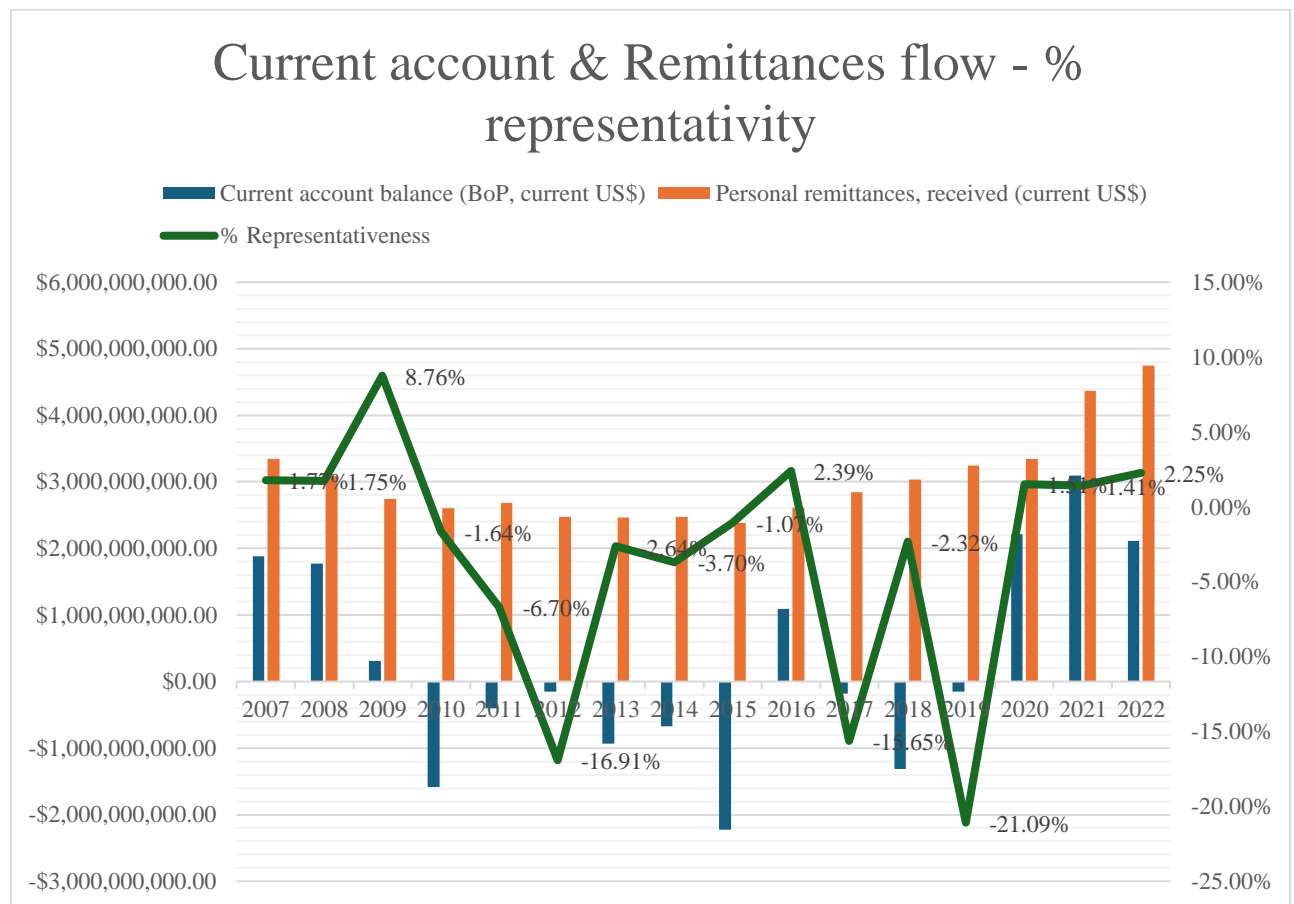
According to FAO (n.d.), the global prevalence of hunger has remained high post-pandemic, affecting 9.2% of the world's population in 2022. Specifically in Latin America and the Caribbean, hunger affects 6.5% of the population. An additional report by FAO et al. (2023) highlights that, in Ecuador, around 2.5 million people suffer from hunger, with a significant increase attributed to the fall in commodity prices since 2014 (Fajardo-Ronquillo, 2020).

A report by the World Food Programme and the International Organization for Migration (Naciones Unidas, 2020) warns of the increased risk of hunger and displacement due to the pandemic, mainly affecting migrants and those dependent on remittances. In addition, this phenomenon has aggravated food insecurity and has contributed to economic instability that affects remittances, a vital livelihood for millions.

Contrary to expectations of a decline, remittances to Latin America showed a remarkable increase during 2020 and 2021 (Vlaicu, 2022). While this provides temporary relief, over-reliance on remittances could generate vulnerabilities in the long run. It is crucial to strengthen domestic policies to reduce dependence on remittances and promote sustainable economic development.

Remittances, while providing crucial economic support, are not sufficient to address the structural problems that cause malnutrition and food insecurity in Ecuador. Effective government policies and international assistance are essential to ensure food security and promote sustainable development.

## Current account balance & Remittances Flow



Graph 19: Current account & Remittance flow - % representativity: 2007-2022 period.

Source: World Bank Open Data (2024).

Own elaboration.

Graph 19 illustrates the relationship between Ecuador's current account balance and remittances received each year from 2007 to 2022 and includes a percentage showing the relationship between remittances and the current account balance (see Appendix 3). During most years, Ecuador's current account has been negative, reflecting a deficit in which imports and other foreign exchange outflows exceed exports and foreign exchange inflows (Rae, n.d.). Although the current account was in deficit in most years, a notable change occurred between 2020 and 2022, with a significantly positive balance. In 2021, Ecuador recorded a surplus of USD 2.965 billion, or 2.8% of GDP. This surplus is largely due to the positive evolution of the oil sector and the contribution of remittances, which increased by 8.7% per year in 2022, representing 4.1% of GDP (CEPAL, 2022; CEPAL, 2023).

Analysis of remittance trends in Ecuador from 2007 to 2022 shows a steady upward trend, with a remarkable increase since the start of the pandemic in 2020. The ratio of

remittances to the current account has varied over time, showing that remittances have not been able to fully offset the current account deficit at certain periods.

This table highlights the importance of remittances in Ecuador's economic structure, not only as an economic stabilisation mechanism, but also as vital support for families in difficult times, contributing significantly to the country's economic stability at a time of considerable global uncertainty.

### **Net Secondary Income – Personal Remittances Received**

Remittances are critical to Ecuador's economy, because they do not increase the country's external debt. Remittances provide stability without compromising the nation's future solvency (Herrera & Correa-Quezada, 2023).

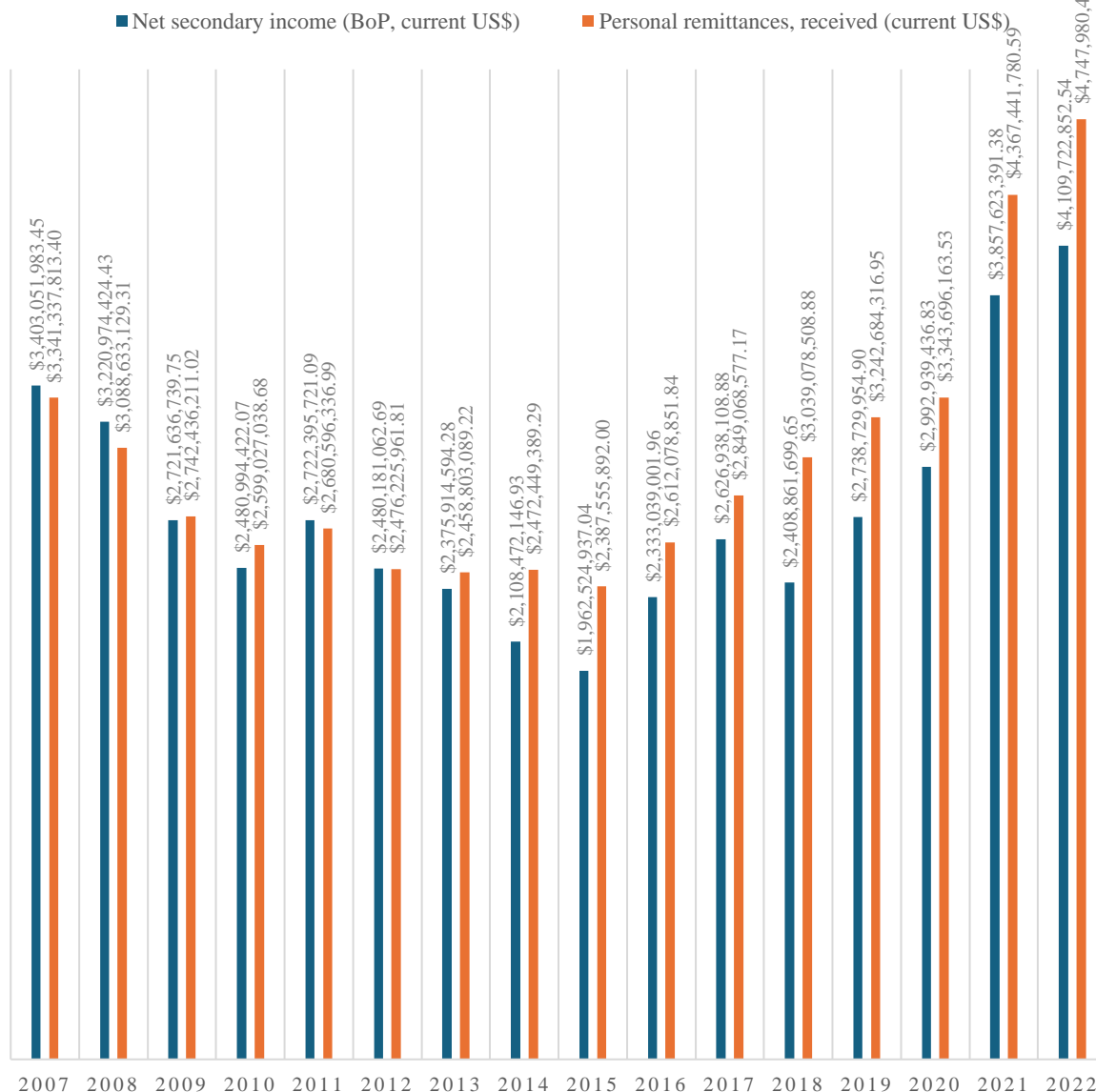
In comparison to other capital flows, such as foreign direct investment and grants, remittances play an equivalent role in financing recipient economies (Islas and Moreno, 2011). Figure 20 shows that both net secondary income and personal remittances have shown an overall upward trend from 2007 to 2022, with remittances growing during the COVID-19 pandemic and reaching their highest level in 2022, reflecting their growing importance in Ecuador's economic structure.

The secondary income surplus recorded in 2021 was US\$3,857.6 million, a significant increase over the previous year, with remittances accounting for a large part of this increase. In 2022, the surplus continued to reach US\$4,110.5 million and remittances increased to US\$4,747.4 million, indicating the Ecuadorian economy's growing dependence on remittances (BCE, 2022; BCE, 2023).

Although initially projected to decline due to the pandemic, remittances experienced continued growth (Ministerio de Economía y Finanzas, 2022). The United States, Spain and Italy remain the main senders of remittances to Ecuador, underlining the dependence of the Ecuadorian economy on economic conditions in these countries (BCE, 2023).

The analysis shows a growing dependence of the Ecuadorian economy on remittances as a crucial source of external income. This upward trend in remittances, especially during periods of crisis such as the COVID-19 pandemic, highlights their role as a stabilising pillar for the economy, providing vital support for many Ecuadorian families in times of economic uncertainty.

## NET SECONDARY INCOME - PERSONAL REMITTANCES RECEIVED - 2007-2022 PERIOD.

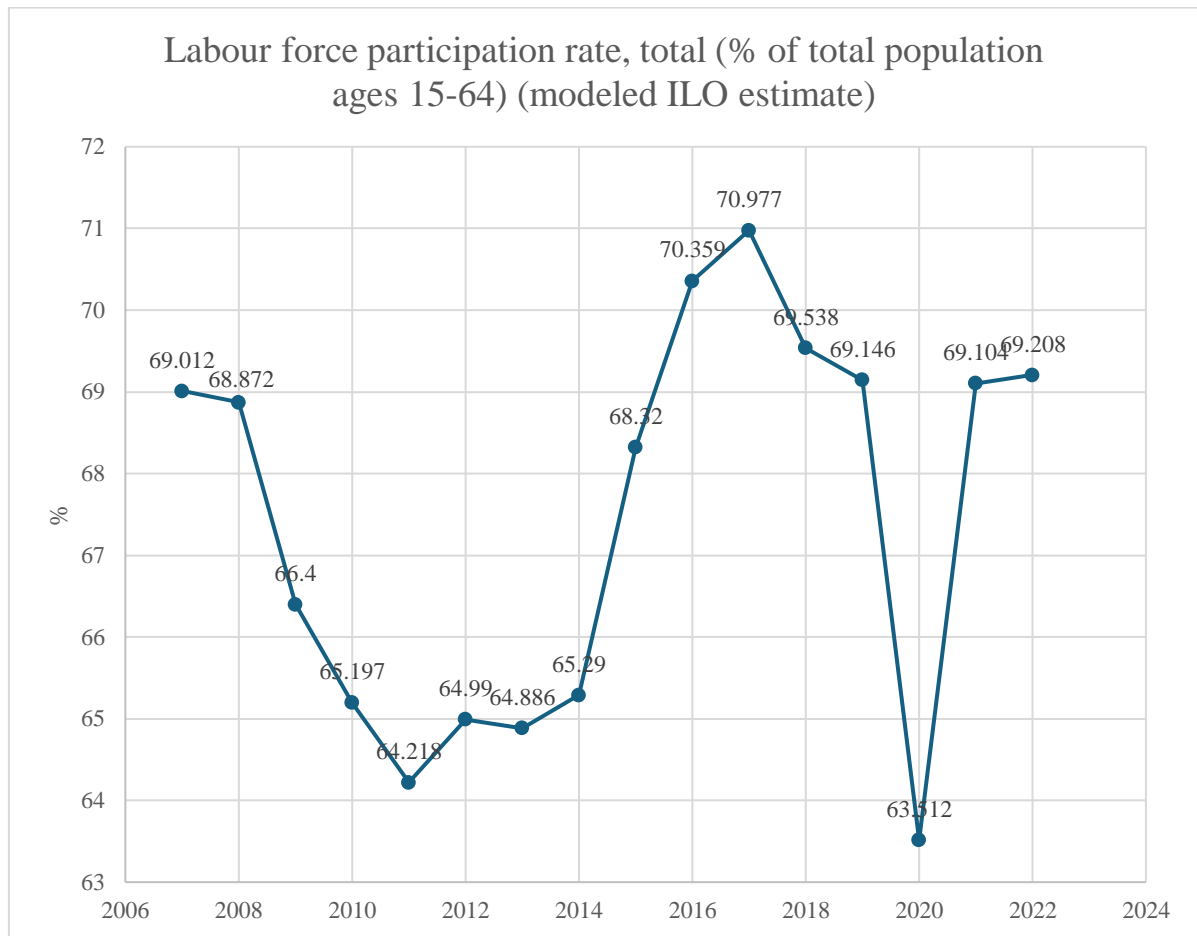


Graph 20: Net Secondary Income – Personal remittances received, 2007-2022 period.

Sources: World Bank Open Data (2024).

Own elaboration.

## Labour force participation rate



Graph 21: Labour force participation rate, 2007-2022 period.

Source: World Bank Open Data (2024).

Own elaboration.

Graph 21, on the basis of data from the International Labour Organisation (ILO), shows the labour participation rate in Ecuador for the population aged 15-64 from 2007 to 2022. It shows an overall decline from 2007 to 2014, with a notable recovery peaking in 2017. Nevertheless, the COVID-19 pandemic causes a significant drop in 2020, followed by a slight recovery in 2022.

Several reports (ILO, 2020, 2022a; ECLAC-ILO, 2021, 2022a, 2022b; Maurizio, 2021a, 2021b, 2022) describe how the pandemic negatively impacted the Latin American economy, affecting employment and incomes and exacerbating poverty and destitution (ILO, 2022).

Later, the recovery of labour indicators allowed the employment rate to return to pre-pandemic levels, thus highlighting the resilience of the labour market (ILO, 2022).

Regarding remittances, a study by Lozano (2008) found that a \$10 increase in remittances per capita reduced the amount of monthly work by 6-7 hours, suggesting that remittances increase the economic capacity of recipients, allowing them more leisure time.

Further analysis of the impact of remittances between 2010 and 2018 in Ecuador by Herrera (Herrera, 2022) reveals that whereas remittances increase economic well-being, they also tend to result in lower labour force participation, reflecting a stronger preference for leisure activities among recipients.

Thus, labour force participation in Ecuador has been strongly influenced by various economic and social factors, including the significant impact of the pandemic and the impact of remittances on the country's labour force dynamics.

### 4.3 Conclusions of chapter 4

Thorough research in Chapter 4, *“Impact of Remittances on Socio-economic Welfare”*, provides a detailed analysis of the fundamental role of remittances in the economic structure of Ecuador, especially during the COVID-19 pandemic. These remittances have not only provided vital economic support to vulnerable families but have also served as a pillar of stability in times of global economic uncertainty.

Nevertheless, while remittances have mitigated the adverse effects of the pandemic, improving access to essential services such as education and health, and maintaining job stability, their ability to effect sustained poverty reduction is limited. Their influence on economic dependency may even constrain long-term development. Measures are therefore recommended to integrate remittance support with local economic development strategies in order to strengthen the country's resilience to future economic and social crises.

The research question is the impact of the COVID-19 pandemic on remittances received in Ecuador and the socio-economic well-being of the most vulnerable Ecuadorian families (living in poverty and extreme poverty). Through all the indicators studied in Chapter 4, it is evident that there were several significant changes in the lives of the Ecuadorian population, such as improved access to quality education and a reduction in inequality due to the received remittances.

Furthermore, the methodological framework used in this thesis is provided in Chapter 5. In this upcoming chapter, the analytical methods used to ensure the validity and accuracy of the results presented are described in detail, which are key to generating sound, evidence-based policy recommendations. This methodological approach not only supports the current research, but also guides future efforts to maximise the positive impact of remittances on socio-economic well-being in Ecuador.

## Part II: Empirical Research and Analysis

### Chapter 5: Methodological framework

#### 5.1 Research methodology

In this research a mixed methodological approach is adopted, blending quantitative and qualitative techniques. The justification for this method is the need for a comprehensive analysis of the differential impact of remittances on vulnerable Ecuadorian households during the COVID-19 pandemic. Combining these two approaches, the study provides a detailed and multidimensional perspective to validate the hypothesis which is that the influence of remittances in reducing poverty and strengthening socio-economic welfare in Ecuador is considerable, although their effect differs according to the degree of vulnerability of beneficiary households, so to better understand how the variations in remittances affect households in poverty and extreme poverty.

#### 5.2 Research design

The methodological design is non-experimental and uses a mixed approach, combining quantitative and qualitative elements. It is descriptive, in that it details the specific characteristics of the remittance phenomenon in the context of the pandemic; exploratory, in that it seeks to uncover new areas of interest and patterns that emerge; and explanatory, in that it seeks to understand the root causes of the observed variations in remittances. This approach allows us to look at the research question from different angles and contributes significantly to a better understanding of the impact of the COVID-19 pandemic on the economic and social dynamics of the most vulnerable households in Ecuador.

#### 5.3 Data sources and analysis

##### **Data Sources:**

1. **Survey Data Analysis:** Data from the National Employment, Unemployment and Underemployment Survey (ENEMDU) and the Central Bank of Ecuador are mainly used, providing details on remittance flows, poverty indices and labour force participation rates, thus allowing a detailed description of the socio-economic conditions of Ecuadorian households.
2. **Surveys:** A structured survey was developed for economically disadvantaged Ecuadorians to assess their dependence on remittances. In the survey, it gathers



data on the frequency and volume of remittances and their impact on the recipients' well-being. In total, 155 people were interviewed, all of them of Ecuadorian origin and living in Ecuador when the survey was conducted. The period of the survey was during the month of April 2024. Since the aim was to reach a widely distributed population in Ecuador, and thanks to the help of many of the family members living in Europe, mostly in Spain, Belgium and Italy, it was possible to reach many people in rural areas with the help of some of their relatives to carry out the survey, which was distributed both online and on paper, although most of it was carried out online.

The survey was anonymous in order to reach as many people as possible; however, some open-ended questions were proposed to allow the respondent to give his or her opinion on the impact of the coronavirus on remittances received. Fortunately, a considerable number of 23 people gave their opinion openly, as detailed in the annexes.

This method provides a deeper insight into personal experiences, but is time and resource intensive, which may limit the number of participants.

### **Analysis Techniques:**

**1. Descriptive statistical analysis:** The findings of the study will be displayed using descriptive statistics, including frequency tables and graphs, among other estimation techniques. It will provide a detailed description of the predominant characteristics of remittances during the pandemic and will provide a quantitative view of the changes in these financial flows and their effect on remittance-receiving households.

**2. Content analysis:** Qualitative data from the interviews are analysed using content analysis techniques. This approach facilitates the identification of patterns and recurring themes, providing a more detailed and qualitative look at personal and family dynamics related to remittances.

## **5.4 Limitations and scope of the study**

### **Limitations:**

- **Accessibility of the sample:** The representativeness of the sample could be affected by the fact that it is difficult to access families in conditions of poverty and extreme poverty, especially from remote areas. This will be overcome by using the network of family contacts to distribute and explain the surveys, thus ensuring that family members of respondents in urban areas facilitate the sending of surveys to relatives in isolated areas and help them to understand and complete the questionnaires. Through this strategy, it is intended to increase participation and the accuracy of data collected in these communities.

- **Response bias:** Self-reported responses in surveys and interviews may be subject to biases such as social desirability or inaccurate recall. To counteract these effects, cross-validation and clarification procedures will be implemented during the conduct of surveys in order to improve the reliability of the data collected.

**Scope:**

- **Direct impact and resilience:** This study will provide valuable insights on the direct impact of COVID-19 on remittances and how remittances influence the resilience of vulnerable households in Ecuador.
- **Policy formulation:** The results could contribute to the formulation of public policies and intervention strategies designed to optimise the effectiveness of remittances as a support mechanism during and after health crises.

## Chapter 6: Interpretation of results and analysis

This chapter interprets and discusses the results obtained according to the methodology described in chapter 5. The data are evaluated in relation to the initially proposed objectives and hypotheses, which were set out in the theoretical framework and analysed in the previous chapters.

### 6.1 Analysis of results

#### **a. Analysis of quantitative results**

Data from the survey of vulnerable families in Ecuador (see Annex 3) are analysed, complemented mainly with secondary information from the National Survey of Employment, Unemployment and Underemployment (ENEMDU) and the Central Bank of Ecuador. This analysis focuses on the impact of COVID-19 on remittances received, particularly by poor and extremely poor families.

The data have been meticulously collected and analysed to evaluate the hypothesis that remittances have a significant, albeit differentiated, impact on the economy of vulnerable families in Ecuador. Comparisons are made between the amounts and frequencies of remittances during the pandemic and pre-pandemic periods.

Using descriptive statistical techniques, frequency tables and graphs are created to show the trends and variations in remittances over the pandemic.

The results support the hypothesis that remittances play a crucial role in alleviating poverty and strengthening socio-economic well-being in Ecuador during the pandemic. Nevertheless, analyses also indicate that the impact of remittances varies depending on the vulnerability of recipient families.

#### **Socio-economic profile of respondents**

The socio-economic profile of most of the respondents corresponds to the lower-middle class and poor. This is due to the fact that almost all respondents earn less than the Ecuadorian minimum wage. Specifically, it is evident that the majority (40%) receive between 101–500 dollars per month, according to question 17 of the survey. In addition, I made sure that the family members who helped me distribute the survey confirmed that these respondents were in a situation of poverty, since to date they have been subsisting on the remittances they receive every month from their relatives abroad, mainly in Europe and the US.

It was difficult to survey a population living in extreme poverty, but it is clear that many of the respondents are living in poverty, according to the words of their relatives and the responses to the survey.

## **Profile of remittance recipients**

### **Gender and age**

According to data collected in the survey, approximately 55% of remittance recipients in Ecuador are women, while men make up the remaining 45%, highlighting the significant role of women in receiving these international financial flows (see Annex 3, Question 2). This gender distribution reflects overall trends in which women tend to manage household income, including remittances.

In relation to age, the data reveal that young people between 18 and 30 years old are the main beneficiaries, capturing 35.5% of total remittances in dollars from respondents. This group is closely followed by the 31-45 age group, which receives 32% of remittances. Individuals between 46 and 60 years old receive approximately 20% of remittances, and those over 60 years old, the least representative group, receive 13% (see Annex 3, first question). This analysis by age suggests that remittances are an important source of income especially for the younger and older working-age population, possibly reflecting patterns of economic dependency and family responsibilities.

### **Name of household residents and employment within the household**

According to the survey of 155 individuals in Ecuador, households consist predominantly of five members, representing 42% of all respondents (see Annex 3, third question). Family households with four members make up about 22%, followed by households with three members at 15%. Large households with seven members account for about 13 %. This pattern indicates that most remittance-receiving households are relatively large, which may indicate a greater reliance on external income to provide for all members.

It should be noted that most people in these households are employed: in more than 92 % of these households at least one person has a job (see Annex 3, question 4). This high level of employment among remittance recipients may reflect an income diversification strategy in which remittances supplement local wages, thereby strengthening the financial stability of the household.

### **Remittance destinations**

Analysis of the geographical distribution of remittances in fourteen Ecuadorian provinces surveyed reveals that Pichincha, Azuay and Loja are the main recipients. The

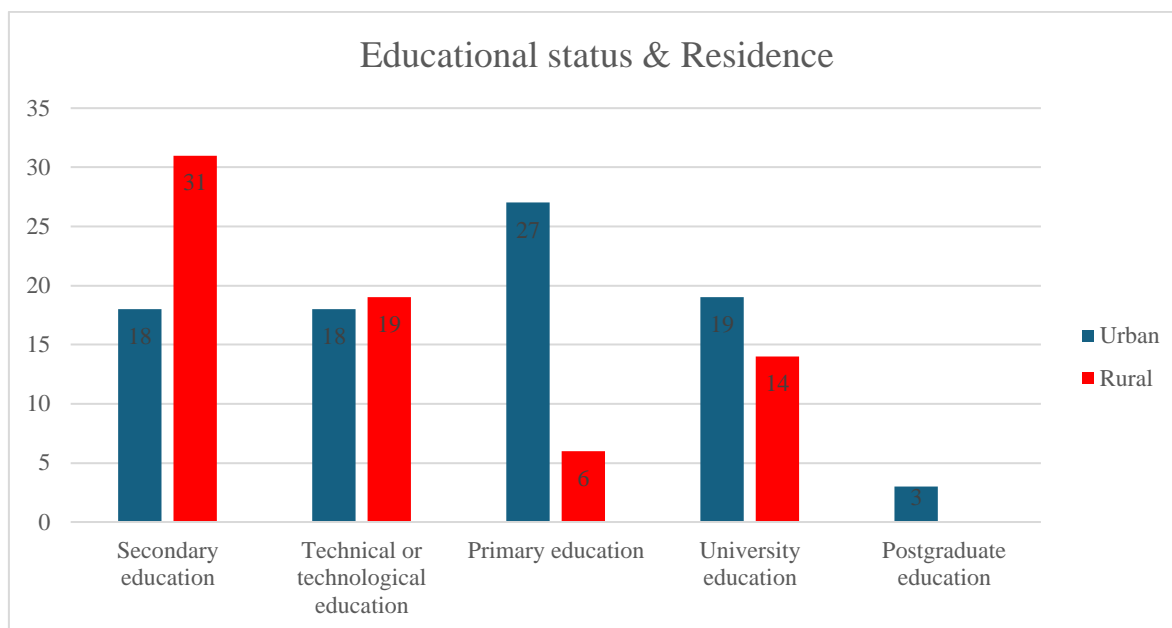
top of the list is Pichincha with 18% of total remittances, followed by Azuay with 15% and Loja with 14% (see Annex 3, Question 5). This pattern reflects the concentration of remittances in Ecuador's larger and more accessible urban areas, suggesting that there is more developed and accessible infrastructure to manage these financial flows.

In addition, data from the Central Bank of Ecuador (BEC, 2023) show that in 2023 the provinces of Guayas, Azuay, Pichincha and Cañar accumulated 72.5 % of the country's total remittances, representing US\$3,962.8 million. This amount is not only 8.2% higher than the USD 3,663.2 million registered in 2022, but also underlines the economic relevance of remittances in these regions. The presence of a wide network of financial entities and remittance companies in these localities contributes significantly to this phenomenon, thus facilitating the consolidation of these provinces as key centres for the receipt of remittances.

### **Level of education and place of residence**

According to the survey of 155 people, the results of which (see Appendix 3, sixth and seventh questions) are shown in graph 22, most people with secondary education live in rural areas: 31 people compared to 18 people in urban areas. The situation is similar for technical or technological education: 19 people live in rural areas compared to 18 in urban areas. Primary education is much more widespread in urban areas (27 people) than in rural areas (only 6 people). On the other hand, the distribution of university and post-graduate education is predominantly urban: 19 people with university education and 3 people with post-graduate education in urban areas, compared to 14 and 0 people respectively in rural areas. This indicates that access to tertiary education is unevenly distributed according to geographical location.

To confirm these data, they were compared with INEC statistics (2023). According to INEC, about 40% of the Ecuadorian population has a basic level of education, 35.5% have a secondary or higher level of education, 21% have a tertiary level of education, and 3.5% have no education at all. In addition, 65 % of the population lives in urban areas and 35 % in rural areas.

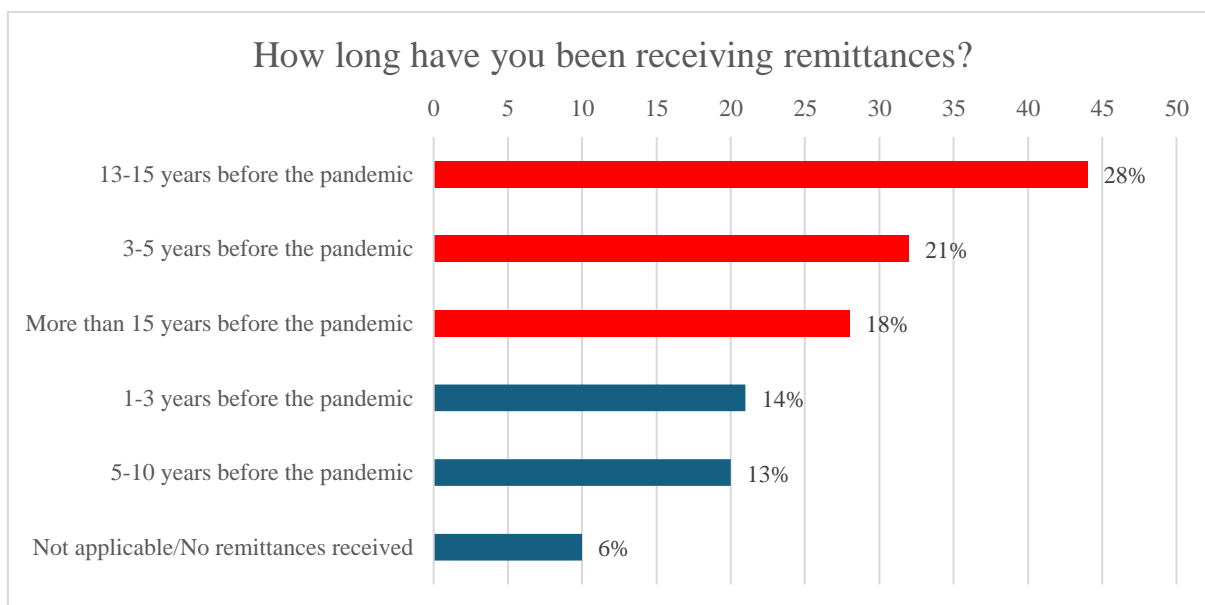


Graph 22- Question 7&8 of the survey: What is your level of education & is your residence urban or rural?

### Frequency of remittances received prior to the pandemic

The data presented in graph 23 (see Annex 3, Question 10) from the survey of 155 Ecuadorian participants reflect the depth and persistence of remittances in the Ecuadorian household economy prior to the pandemic. In particular, 28% of the respondents stated that they had received money transfers continuously for between 13 and 15 years. This shows that many households rely on these money transfers for a long time. Furthermore, 21% of respondents stated that they had received remittances for 3 to 5 years and 18% for more than 15 years.

Some 14% of respondents started receiving remittances between 1 and 3 years before the pandemic, and another 13% started receiving remittances between 5 and 10 years before the pandemic, showing a diversity in the duration of remittance dependency. Interestingly, 6% of participants reported no receipt of remittances, which could indicate economic self-sufficiency, lack of diaspora connections, or the presence of alternative support networks.



*Graph 23 - Question 10: How long have you been receiving remittances?*

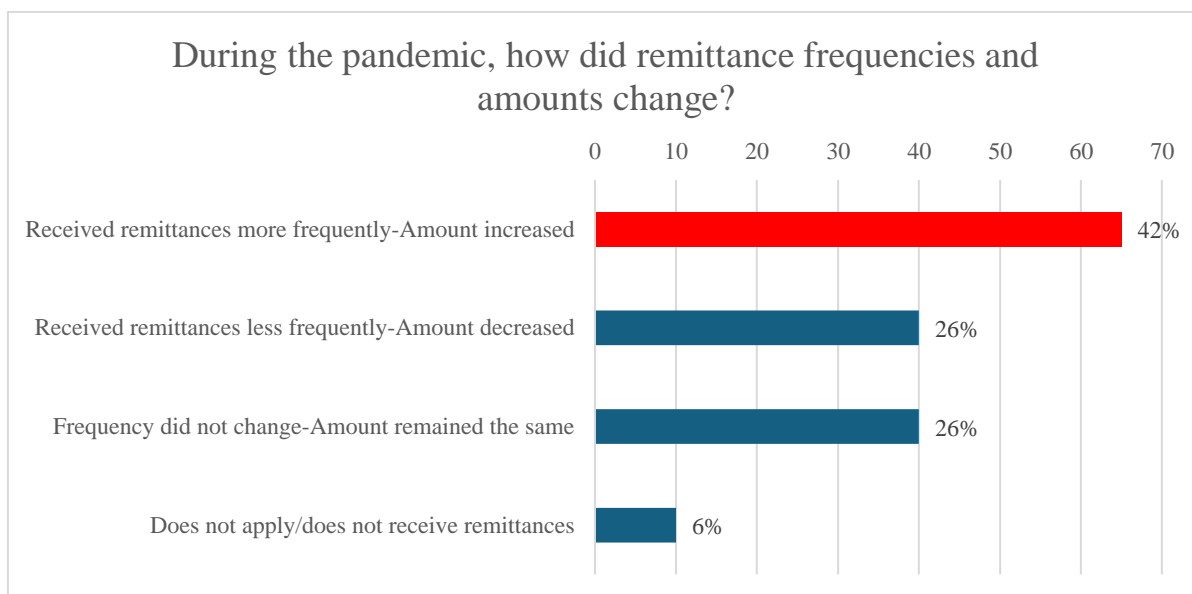
### **Variation and amount of remittances during the pandemic**

The COVID-19 pandemic significantly transformed remittance sending patterns globally. According to the data collected in the survey of 155 Ecuadorian individuals, presented in Graph 24 (see Annex 3, eleventh and twelfth questions), 42% of respondents observed an increase in both the frequency and amount of remittances received. This positive trend suggests that, in the face of global adversity, some remitters increased their economic support to Ecuador, which may reflect a solidarity response to the crisis.

On the other hand, 26% of respondents experienced a decrease in these aspects, which may indicate that senders faced economic hardship such as unemployment or wage cuts in their countries of residence during the pandemic.

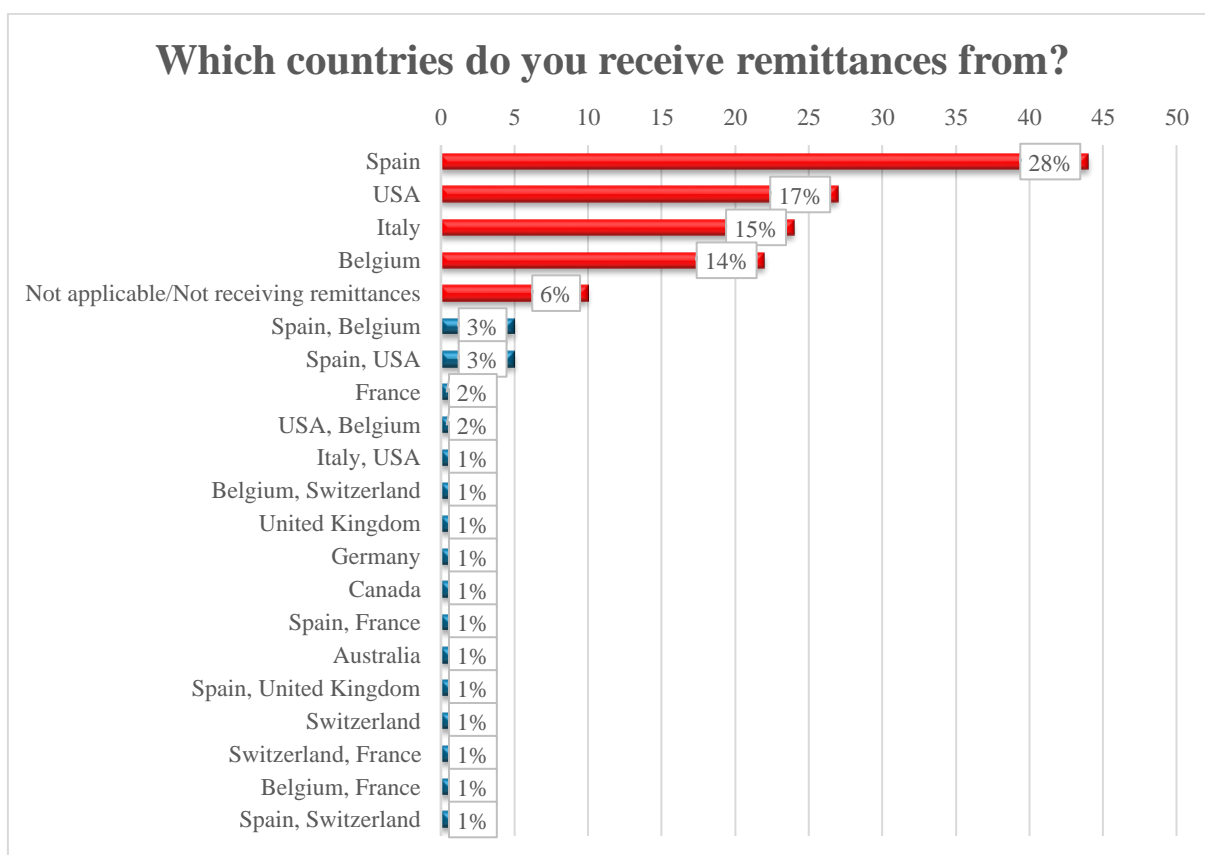
In addition, 26% of respondents stated that they did not notice any significant changes in the frequency or amount of remittances, suggesting that remittance channels remain stable despite global economic shocks.

Finally, 6% of respondents stated that they had not received any remittances or experienced any significant changes as a result of the pandemic, suggesting that economic conditions and Ecuadorians' financial support networks are different.



Graph 24- Question 11&12: Did remittances frequencies change during the pandemic? & Did the amount of remittances change in the pandemic?

### Origin of remittances



Graph 25- Question 13: Which countries do you receive remittances from?

The survey of 155 residents in Ecuador, the results of which are illustrated in Graph 25 (see Annex 3, Question 13), reveals details on the flow of remittances to the country. Spain emerges as a predominant contributor, accounting for 28% of total remittances, underlining a strong economic connection with Ecuador. The United States follows with

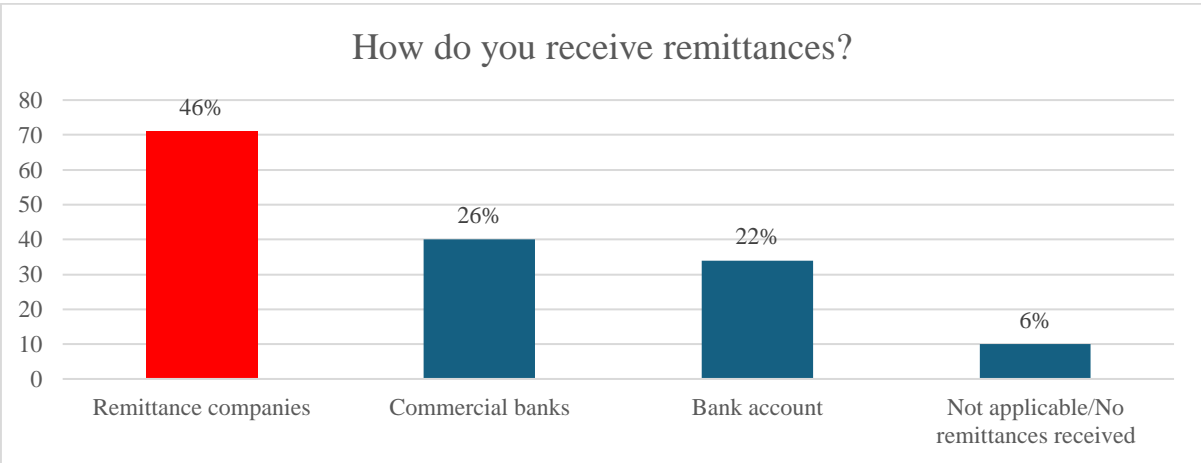


17 %, while Italy contributes 15 % and Belgium 14 %. Interestingly, 6% of participants indicated that they do not receive remittances, which opens the way for future research on financial inclusion and migration patterns.

Statistics from the Central Bank of Ecuador (BCE, 2023) were consulted to create a better context for these data. According to the ECB, in 2023, remittances from the US reached USD 3,880.6 million, representing 71.2% of the total and registering an increase of 17.3% over the previous year. Remittances from Spain amounted to USD 876.6 million, representing 16.1% of the total and an increase of 12%. Remittances from Italy amounted to USD 180.9 million (3.3%), an increase of 5.5%, and those from the rest of the world totalled USD 509.4 million (9.4%), an increase of 5.8%.

These data not only confirm the geographic diversity of the sources of remittances to Ecuador, but also the vitality of these transfers for the country's economy, underlining the relevance of continuing to monitor these flows for effective economic policies.

**How do you receive remittances?**



*Graph 26- Question 14: How do you receive remittances?*

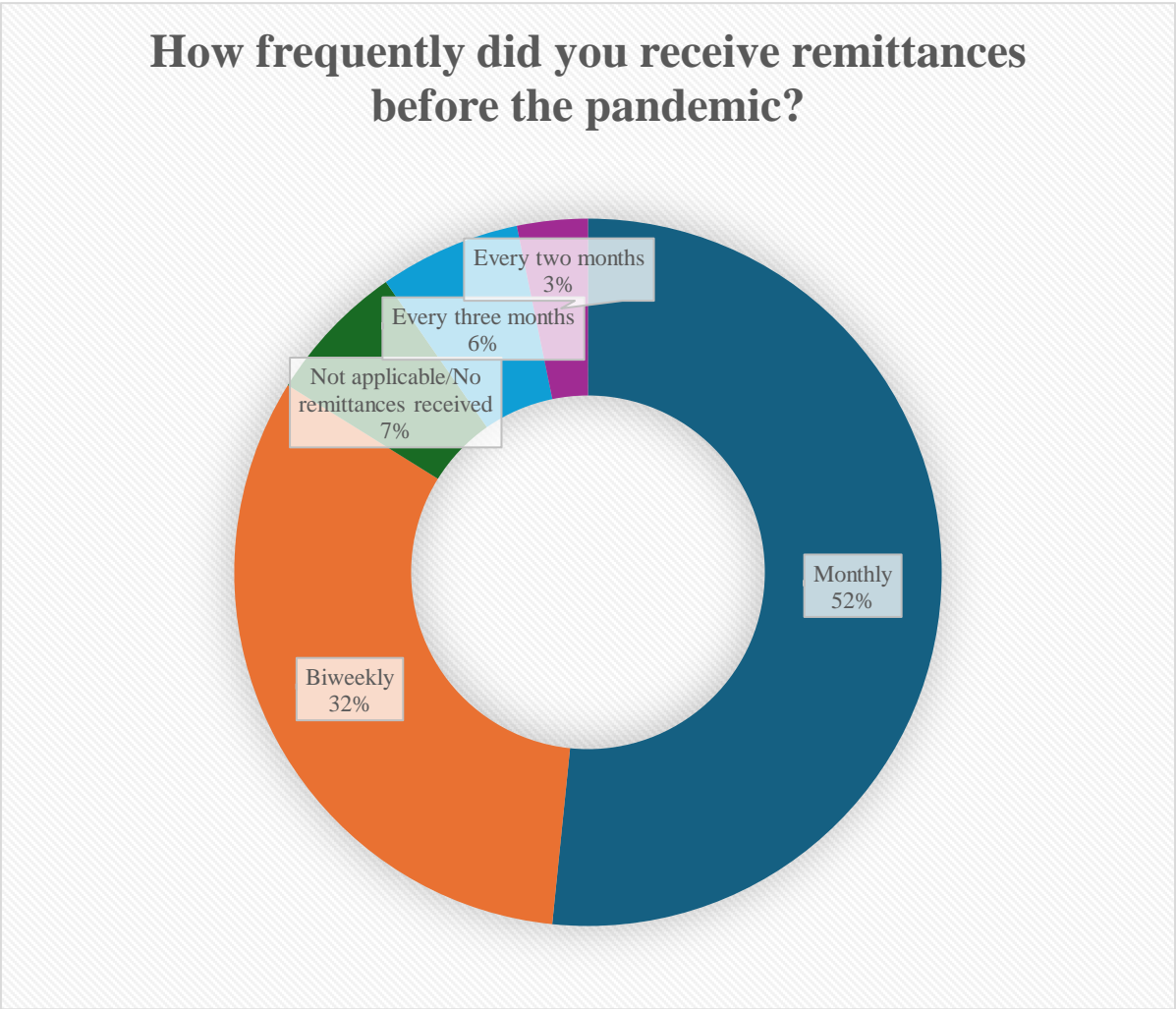
According to the survey results, reflected in Graph 26 (see Annex 3, question fourteen), Ecuadorians show a clear preference for using remittance companies to manage their international transfers, with a remarkable 46% of respondents choosing this option. Commercial banks are also a popular choice and received 26% of the preferences, reflecting a strong trust in traditional financial institutions. On the other hand, 22% of respondents prefer to manage remittances through personal bank accounts, underlining the importance of personal banking in managing cross-border financial resources. Only a small but significant 6% of respondents do not engage in this activity, underlining the diversity of Ecuadorians' financial situations.

To give a broader context, the latest statistics from the Central Bank of Ecuador (ECB, 2023) were employed. The ECB found that in 2023, the majority of remittances were handled by private banks, which use auxiliary companies to credit accounts and process

cash payments. Money transfer companies handled 42.5% of remittances, using financial institutions in their offices and agents to credit accounts and process cash payments. In addition, the remaining 3.1% was processed by savings and credit cooperatives and mutual societies, which were mainly responsible for crediting savings accounts.

Based on these data, a clear preference emerges for formal and regulated remittance processing mechanisms, which underlines the importance of the established financial infrastructure in facilitating the international flow of capital in Ecuador.

**How often did you receive remittances before the pandemic?**



*Graph 27- Question 15: How frequently did you receive remittances before the pandemic?*

The survey of 155 participants in Ecuador, which results are illustrated in Graph 29 (see Annex 3, Question 15), reveals that prior to the COVID-19 pandemic, the majority of recipients (52%) received remittances on a monthly basis. This monthly regularity indicates a significant dependence on these transfers for daily subsistence and the

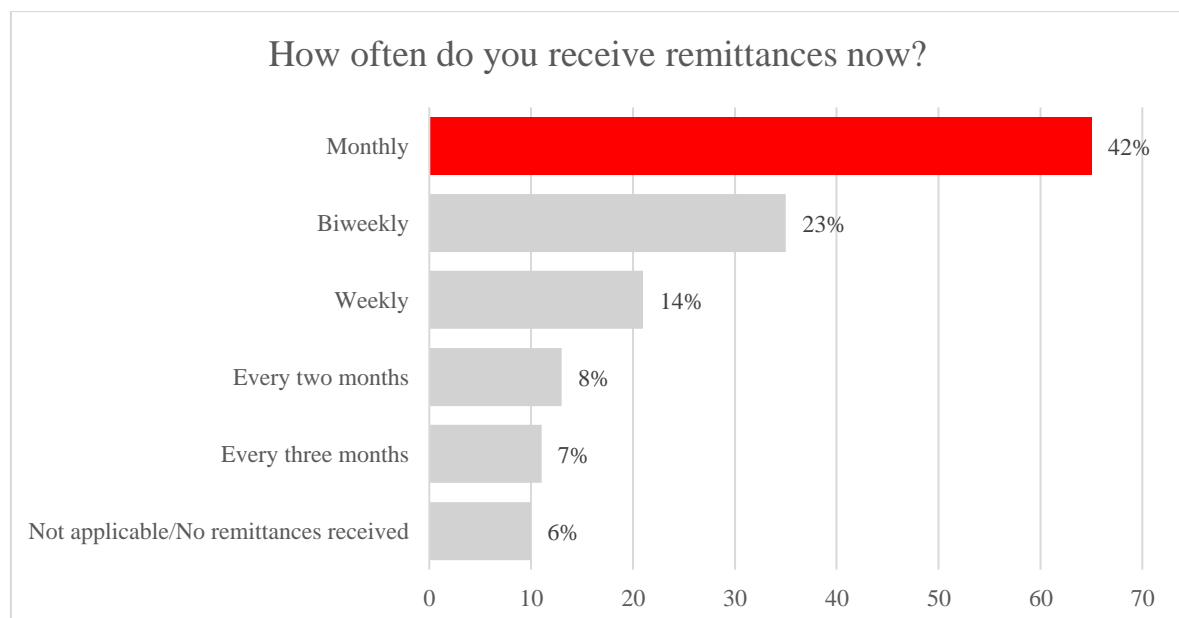
management of recurrent expenses. In addition, 32% of respondents received remittances every fortnight, reflecting a more frequent need for financial support.

A smaller percentage, 6% and 3% respectively, indicated that remittances arrived every three and two months. Perhaps this less frequent pattern suggests less direct dependence on these funds for day-to-day expenditures or that these remittances were used for larger, non-recurrent purposes.

Significantly, 7% of participants mentioned that they did not receive remittances at all, highlighting the exclusion of certain sectors of the population from the flow of cross-border capital and underlining a disparity in financial inclusion. This data provides crucial information on economic inequalities and differences in the access to external financial networks.

This analysis demonstrates not only the prevalence of remittances in the daily lives of many Ecuadorian families, but also underscores the vital importance of considering the frequency of remittances in any post-pandemic social support policy or measure. These findings can serve as a basis for designing more effective strategies to address the financial needs of the most vulnerable households and mitigate financial exclusion.

#### **How often do you receive remittances now?**

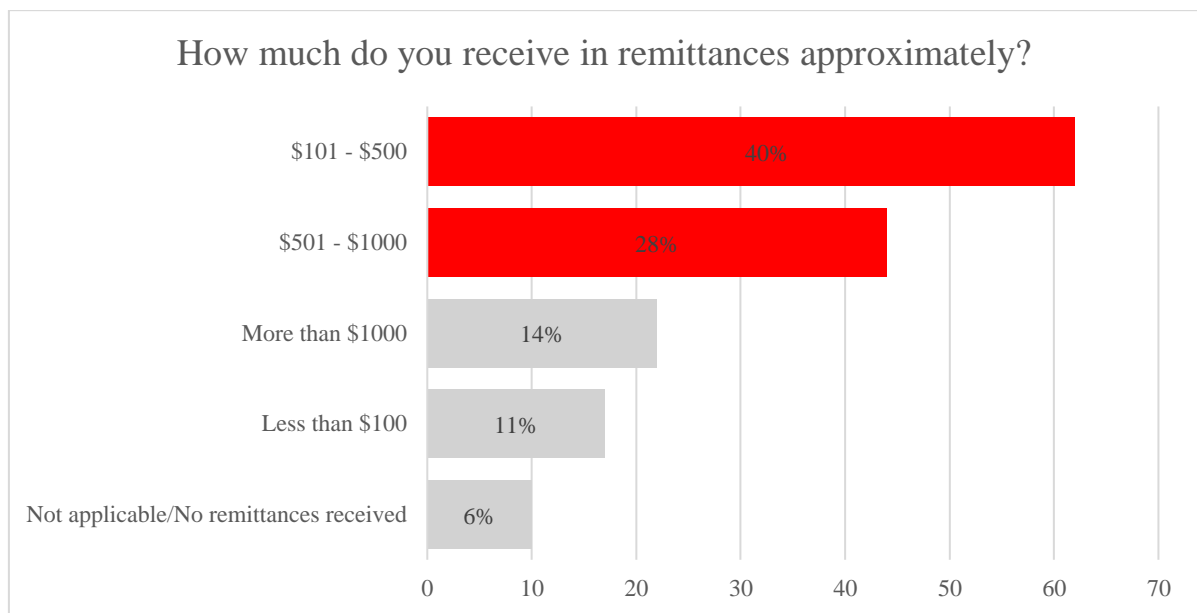


*Graph 28- Question 16: How often do you receive remittances now?*

According to the survey data, represented in Graph 28 (see Annex 3, question sixteen), the majority of Ecuadorian households (42%) continue to receive remittances on a monthly basis, reflecting the need for regular income to cover ongoing expenses. Twenty-three % of households receive remittances on a fortnightly basis and 14% on a weekly basis, which may indicate adaptations to different liquidity requirements or

economic urgencies. Bimonthly and quarterly remittances are less common (8 % and 7 %, respectively), indicating that some households plan for the long term. 6 % of respondents do not receive remittances, indicating variation in the integration of remittances into personal and household finances.

### How much do you receive in remittances approximately?



Graph 29- Question 17: How much do you receive in remittances approximately?

According to Graph 29 (see Annex 3, question seventeen), 40% of respondents receive between \$101 and \$500 per month, indicating resources that cover basic necessities. 28 % receive between \$501 and \$1000, allowing for more robust financial planning. 14% receive more than \$1000, implying the possibility of making investments or fostering entrepreneurship, which may be correlated with a higher level of education or entrepreneurial competence. On the other hand, 11% receive less than \$100, reflecting the persistence of significant challenges to income sufficiency for some families. The 6% that do not receive remittances underscores the existence of segments of the Ecuadorian population that do not participate in this economic flow, either because of self-sufficiency or because of barriers in accessing money transfer networks.

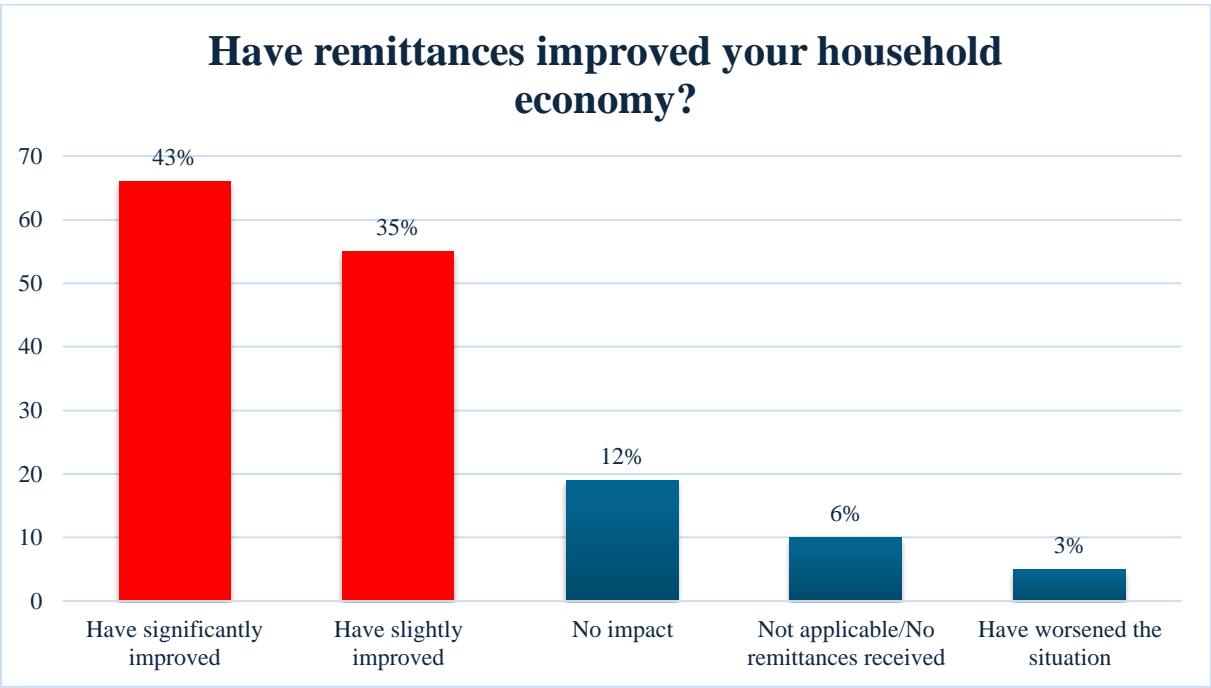
### What do you mainly use remittances for?

According to the data collected in the survey (see Annex 3, question 18), the use of remittances in Ecuadorian households shows that 39% of respondents depend on these transfers to cover basic daily needs, evidencing their crucial role in family subsistence. In addition, a considerable percentage invest in education and savings, indicating long-term planning in the face of foreign capital inflows. Remittances also stand out for their

importance in covering medical expenses, acting as an essential safety net during health crises.

Interestingly, the 6% that do not receive remittances illustrates the economic diversity and self-sufficiency of certain segments of the population, suggesting that remittances are a vital but not universal component of the Ecuadorian economy.

**Have remittances improved your household economy?**



Graph 30- Question 19: Have remittances improved your household economy?

The impact of remittances on the household economy is significant, as shown in Graph 30 (see Annex 3, question nineteen). 43 % of respondents indicate substantial improvements in their economic situation, highlighting the role of remittances in improving welfare and investment capacity. Some 35% perceive a slight improvement, strengthening the role of remittances as a complement to income, providing a needed financial respite.

Yet, the 12% who notice no change and the 3% who report a deterioration, point out that remittances do not always result in real economic improvements and can lead to problematic economic dependencies. Also, the 6% with no remittances or for whom the question does not apply, highlight the heterogeneity of remittance receipts, and underline the need for inclusive policies that embrace those outside the remittance system.

### **Did remittances improve access to basic services? & Do remittances contribute to reducing community poverty?**

According to the survey results (see annex 3, twenty-first and twenty-first questions), remittances play a crucial role in improving access to basic services and alleviating community poverty in Ecuador. An impressive 68% of respondents report improvements in access to essential services, demonstrating the importance of remittances to overall welfare. At the same time, 44% consider that remittances have played a role in reducing poverty in their communities, emphasising their positive influence beyond the family level.

But 25% do not perceive improvements in access to basic services, and 30% do not see a clear contribution of remittances to community poverty reduction. This suggests a complex relationship between remittances and development indicators, highlighting the need for complementary policies to maximise their positive effect.

### **What improved in your household because of remittances?**

According to the survey (see Annex 3, question 22), remittances have improved fundamental aspects such as food, housing and health, underlining their vital role beyond a simple financial complement. Moreover, their impact on education and employment highlights how families use these transfers to make long-term investments in human capital, which can foster socio-economic mobility and provide a pathway to stability and economic growth.

However, there is a minority who do not receive remittances, highlighting the variability of economic realities within Ecuador. This aspect emphasises the importance of developing inclusive financial strategies that address the needs of all segments of the population.

### **Have you faced problems receiving remittances?**

The survey (see Annex 3, Question 23) reveals a diversity of experiences in receiving remittances in Ecuador. While the majority of respondents report not having faced significant problems, suggesting efficient operation of current transfer channels, a considerable 36% have experienced difficulties such as high transaction fees, delays or accessibility problems. This non-trivial percentage suggests the urgent need to improve the remittance infrastructure in order to ensure more efficient and cost-effective remittance delivery.

To address these issues, it is necessary to analyse the economic impact of transaction costs. The study by Ahmed et al. (2020) revealed that reducing the cost of sending \$200 by one % could potentially increase the volume of remittances received by about 1.6 %.

A finding that has important implications for remittance policy, as it suggests that cost reductions can potentially increase the volume of remittances received in Ecuador, benefiting both senders and receivers.

In addition, 6% of respondents stated that they do not participate in the remittance system. These individuals emphasise the economic diversity and variability of family support structures in the country. Recognising this heterogeneity is key to understanding the limits of the penetration of remittances in all sectors of Ecuadorian society and to designing interventions that reach people who are currently marginalised by these financial flows.

### **How did remittances during the pandemic influence your quality of life?**

According to the survey results (see Annex 3, Question 24), the COVID-19 pandemic has modulated the influence of remittances on the respondents' quality of life in several ways. Thirty-four % of participants noted a slight improvement in their quality of life, reflecting resilience enhanced by external financial support. By contrast, twenty-six % reported a deterioration in their situation, indicating the economic challenges exacerbated by the pandemic. 17% of respondents noted a significant improvement in their quality of life, suggesting that remittances played a vital role during this turbulent period. Yet 15% perceived no change, and 6% did not apply to the receipt of remittances, indicating variability in the perceived effects of these international financial transfers.

Such findings indicate the importance of remittances as economic support in times of crisis and indicate the need to address differences in how different groups benefit from these financial flows.

### **Did COVID-19 impact on employment/income in your household?**

According to the survey, (see annex 3, twenty-fifth question), a remarkable 49% of respondents reported a decrease in their household income, while 41% indicated that at least one person in the household lost their job, underlining the severe employment situation that was experienced. Yet, 10 % experienced no noticeable change in their employment or income, possibly indicating resilience or stability in specific sectors or under certain circumstances.

### **How have remittances helped mitigate the impact of COVID-19 on employment/income in your household?**

According to the survey results (see Annex 3, Question 25), remittances have been instrumental in cushioning the economic effects of the pandemic on many Ecuadorian households. About two-fifths of respondents consider remittances as an essential relief

from loss of income, demonstrating their importance as economic support during critical periods. More than one third of respondents say that remittances were instrumental in maintaining basic needs during the pandemic. Remittances were surprisingly used by 18% to continue investing in education and vocational training, demonstrating that the impact of these cash transfers transcends immediate survival and plays a crucial role in long-term development.

## **b. Analysis of qualitative findings**

This part of the thesis explores the vital role that remittances have played in sustaining the household economy of the most vulnerable families during the pandemic. Through direct testimonies, it deepens the understanding of the practical impact of these cash transfers on the lives of beneficiaries.

As mentioned previously, as the survey was anonymous in order to reach many more respondents, some questions proposed open-ended questions to allow respondents to give their perceptions of the impact of the coronavirus on remittances received. Fortunately, a considerable number of 23 respondents gave their views openly, as detailed in the annexes.

Of the 155 respondents surveyed in April 2024, only 23 people shared their opinion by answering this open-ended question. In addition, these 23 people share common behaviours, for example, they have been receiving remittances for a long time. When the coronavirus broke out, many of them managed to survive and feed themselves in the early stages of the pandemic, as many of them were unemployed.

### **Direct testimonies**

One of the recurring responses in the interviews (see Annex 4, response to question 26) highlights how remittances have compensated for job loss and reduced income. One respondent explained:

*“During the beginning of the pandemic, my two children were unemployed and were not receiving help from the state either, and the remittances from my relatives in Italy, helped us to overcome the situation and be able to cover the expenses and supply food for the whole family, as we are 6 people living under the same roof”.*

However, not all respondents received ongoing support in the form of cash transfers. Some had to face a reduction in the amount of support they received, as another participant noted:

*“When the pandemic started, my relatives in Europe could not continue to support us with the same amount we received every month or at the same frequency because they too had less income and were unemployed”.*



Despite the difficulties, some families were able to adapt and overcome the challenges thanks to remittances, as another respondent relates:

*“Thanks to the remittances received by my relatives in Europe, I was able to help my children who lost their jobs at the beginning of the pandemic, as there were job cuts in their companies”.*

These stories (see annex 4 for more details) reflect not only the diversity of impacts of remittances, but also the complexity of the support networks that play a vital role in the economic and social resilience of communities affected by the pandemic.

### **Reflections and analysis on the impact of remittances**

These testimonies show that remittances go beyond their role as simple financial transfers; they act as important safety nets that enable families to cope with major economic challenges such as job loss and falling incomes. The main points to emerge from the qualitative analysis include the following:

- 1) **Support in times of hardship:** Remittances have proved essential for many families, not only to sustain themselves, but also to continue their education despite global economic difficulties. Studies such as that by Ekanayake and Moslares (2020) have shown that workers' remittances have a positive impact on long-term economic growth in most Latin American countries and tend to reduce poverty rates.
- 2) **Reaction to the decline in remittances:** The decline in the frequency and volume of remittances received clearly shows how economic crises in countries of origin have a direct impact on recipients. These challenges highlight the fragility of relying solely on remittances for economic security, as shown by the tightening of immigration policy in the United States, which could limit employment opportunities for migrants (Belchi, 2024).
- 3) **Resilience and adaptation:** stories of resilience and adaptation show that remittances have enabled many families to adapt and temporarily overcome economic adversity. A further illustration is the work of Bhattacharya et al. (2018), who argue that institutional strengthening can increase remittance flows and promote financial development in developing countries where foreign direct investment plays a key role.

Together, these insights highlight the critical importance of remittances as part of a broader economic strategy and point to the need to act to maximise their potential to help the most vulnerable communities.

## 6.2 Response to the hypothesis

The assessment of the impact of remittances on the socioeconomic situation of Ecuadorian households during the pandemic, especially those living in poverty and extreme poverty, was confirmed by the results of surveys and statistical analyses. A remarkable 68% of respondents indicated improvements in their access to basic services thanks to remittances, corroborating the initial hypothesis about their significant, albeit varied, impact depending on household vulnerability.

These results are in line with studies such as those of the BCE (2022) and ECLAC (2020), which recognise remittances as essential economic shock absorbers in times of crisis. Contrary to the generalised idea of a uniform impact of remittances, the results obtained suggest the importance of developing personalised policies that take into account the socio-economic particularities of the recipients, in order to optimise the benefits of these monetary transfers.

Interviews conducted in Azuay and Pichincha reveal that families have used these funds mainly to cover basic needs and education, and have invested significantly in human capital. These stories not only validate the subsistence function of remittances, but also illustrate their contribution to the improvement of economic potential and quality of life in the long run.

In spite of these benefits, it is important to address the observed limitations in the effective distribution and utilisation of remittances. Several households reported minor or no improvements, underscoring the need for more targeted policies that can increase the effectiveness of remittances as economic and social development tools, an approach supported by the research of Parrado et al. (2020).

## 6.3 Conclusions of the analysis

This thesis demonstrates that remittances are critical to reducing poverty and enhancing socioeconomic well-being in Ecuador, especially during crises such as the COVID-19 pandemic.

Remittances support economic stability and significantly improve the quality of life for many families by providing basic access to services such as health and education. This impact highlights the vital role of remittances in improving living conditions across the board.

The results underline the need for policies that improve the flow and equitable distribution of remittances. Reducing remittance costs and optimising delivery mechanisms can increase the efficiency of these funds. It is recommended that NGOs and development agencies implement financial education programmes for remittance

recipients, helping to maximise their benefits. In addition, financial institutions should create products that facilitate the productive use of remittances, such as low-interest loans for entrepreneurship.

Further research should explore the impact of economic policies and financial regulations on the efficiency of remittances in different socio-economic and political contexts. Long-term longitudinal studies could reveal the long-term effects of remittances on Ecuador's economy and society.

In short, remittances represent not only economic transfers, but also investments in human and social welfare, that are essential for the sustainable development of Ecuador. This study highlights the importance of targeted policies that consider variations in the impact of remittances and suggests that Ecuador can serve as a model for other countries with similar migration and remittance dynamics.

# Chapter 7: Conclusions and Recommendations

## 7.1 Key findings

This thesis has shown that remittances are a vital support for families in need in Ecuador, especially during the COVID-19 pandemic. Surveys show that 68% of participants had better access to basic services thanks to remittances, which were essential not only for daily consumption but also for education and health.

They have been instrumental in stabilising household economies, providing much-needed financial resources in times of crisis. For example, 25 % of respondents reported improvements in education, as remittances were used to buy teaching materials and pay school fees. In addition, 30% of households stated that remittances helped them to overcome periods of unemployment without falling into extreme poverty, as they provided an important financial buffer.

In addition, 35% of people surveyed said that remittances had played a crucial role in maintaining stability during the pandemic, enabling them to adapt and react to rapid changes in the economic and social environment. But 15% of respondents did not see any significant improvement in their economic situation despite the remittances. This highlights that remittances, while useful, are not a foolproof solution to the socio-economic challenges faced by all vulnerable households.

## 7.2 Limitations

The study of this thesis has faced several limitations that need to be acknowledged in interpreting the results and in planning future research:

- 1) **Accessibility and diversity of the sample:** despite efforts to include a representative sample of the vulnerable Ecuadorian population, limited accessibility to remote areas and populations with limited access to technology may have affected the diversity of the sample. This may limit the generalisability of the results to the entire beneficiary population of Ecuador.
- 2) **Biases associated with self-reporting:** the use of self-reporting carries a risk of biases, such as social desirability and recall bias. Techniques such as cross-validation and clear question design have been used to mitigate these effects; however, the subjective nature of responses may affect the accuracy of the data.

- 3) **Pandemic context:** The unique and changing situation of the COVID-19 pandemic add another layer of uncertainty that makes it difficult to extrapolate results to other periods or crisis situations. The conditions at the time of data collection may not reflect normal or future circumstances.
- 4) **Need for complementary methodological approaches:** Although the use of a mixed methodological approach enriches the understanding of the impact of remittances, the complexity of economic and social dynamics may require complementary analyses, such as advanced econometric models or longitudinal studies, in order to obtain information on long-term trends and causal relationships.
- 5) **Implementation of recommendations:** Recommendations are based on the study findings, but their implementation may be constrained by external political, economic and social factors. It is crucial to adapt the suggested interventions to local conditions to maximise their effectiveness, considering that the environment necessary for their success may not be present in all regions.

### 7.3 Recommendations

From this thesis research, on the impact of remittances on the living conditions of vulnerable families in Ecuador during the COVID-19 pandemic, key areas for future exploration and policy action have been identified. Based on the findings and limitations identified, I recommend the following actions for future research and policy:

- **Longitudinal studies:** It is imperative to continue longitudinal research to observe the long-term effects of remittances on the socio-economic conditions of recipient families. Adopting methods such as those used by Cazachevici et al. (2020), which analyse the economic effects of remittances through time series, could deepen the understanding of how these effects vary in different regional contexts in Ecuador.
- **Sample expansion:** Future studies should expand samples to include a greater diversity of areas, especially rural areas, and indigenous communities. Drawing on financial inclusion models such as the one studied by López et al. (2019) in Guatemala, research could adopt mobile technologies and collaborate with local organisations to reach isolated populations.
- **Public policy impact:** Researching how public policies affect the efficiency and distribution of remittances is crucial. A detailed analysis of financial and fiscal

regulations, as suggested by Song et al. (2021), could provide guidelines for improving the efficiency and socio-economic impact of remittances.

- **Financial technologies:** The role of financial technologies in remittance intermediation deserves further exploration. Studying how Fintechs can facilitate cheaper and more efficient transfers would open up new avenues for economic development. The research by Bersch et al. (2021) provides a useful framework for assessing the impact of these technologies on recipient communities in Ecuador.

In conclusion, this thesis has not only highlighted the critical importance of remittances during times of crisis in Ecuador, but also underlined the need for more inclusive and differentiated approaches to maximise their positive impact. Remittances should be seen not only as economic transfers, but as investments in human and social welfare, whose efficient management can be fundamental for the sustainable socio-economic development of the country and as a model for other similar contexts.

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