



# **INTERNATIONAL BUSINESS**

2015 / 2016

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EXPLORING BUSINESS  
OPPORTUNITIES IN ECUADOR

# INTERNATIONAL BUSINESS

2015 / 2016

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Exploring business opportunities  
in Ecuador

# conexus

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# LIST OF ABBREVIATIONS

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**AEBE:** Executive Director of the Association of Banana Exporters in Ecuador  
**Agrocalidad:** The Ecuadorian Agency for Quality Assurance of Agro  
**ARCONEL:** Agency of Regulation and Electricity  
**ATPA:** Andean Free Trade Preference Act  
**BIT:** Bilateral Investment Treaty  
**CapEx:** Capital Expenditure  
**CERES:** Consorcio Ecuatoriano para la Responsabilidad Social  
**CNE:** National Electoral Council  
**CIA:** Central Intelligence Unit  
**CIF:** Cost, Insurance, and Freight  
**CSR:** Corporate Social Responsibility  
**CIT:** Corporate Income Tax  
**CONELEC:** National Electric Council  
**CONESUP:** Consejo Nacional de Educación Superior  
**DTT:** Double Taxation Treaty  
**E&P:** Exploration and Production  
**EIA:** United States Energy Information Administration  
**EU:** European Union  
**ExpoFlores:** The Association of Producers and Exporters of Flowers  
**FAO:** Food and Agriculture Organization of the United Nations  
**FDI:** Foreign Direct Investment  
**GDP:** Gross Domestic Product  
**HDI:** Human development index  
**IATTC:** Inter-American Tropical Tuna Commission  
**IFRS:** International Financial and Reporting Standards  
**ILO:** International Labour Organization  
**IMF:** International Monetary Fund  
**IOC:** International Oil Company  
**IRENA:** International Renewable Energy Agency  
**IRS:** Internal Revenue Service  
**MEER:** Ministry of Electricity and Renewable Energy  
**MSP:** Ministry of Health  
**MW:** Mega Watt  
**NGO:** Non-Governmental Organization  
**NOC:** National Oil Company  
**OECD:** Organisation for Economic Co-operation and Development  
**OFS:** Oil Field Services  
**OPEC:** The Organization of the Petroleum Exporting Countries  
**PhD:** Philosophiae Doctor  
**PPP:** Public-Private Partnership  
**UN:** United Nations  
**UNDP:** United Nations Development Program  
**UNESCO:** United Nations Educational, Scientific and Cultural Organization  
**US:** United States  
**USD:** United States Dollar  
**VAT:** Value-Added Tax  
**ZEDE:** Zone of Employment and Economic Development



# / INTRODUCTION

## INTRODUCTION TO ECUADOR

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**Ecuador has its name from its position; right on the equator. It might be one of the smaller Latin American countries but it has a lot to offer; raging mountains, active volcanoes, calm beaches and thick Amazon jungle. Quito is the capital and it is situated approximately 2,850 meters above sea level, in the Andes Mountains. Quito is Ecuador's second largest city, after Guayaquil, which is a coastal city. Guayaquil has the country's largest port and is therefore an important business centre for shipping.**

The current President, Rafael Correa, was elected in late 2006 and came into office in 2007. A new constitution was requested by the government in and it came into force in 2008. As a consequence a new election was held where Correa won and he started his first official four-year period as president in 2009 and was re-elected in 2013. A new election will be held in 2017. A constitutional amendment has recently been approved to allow the president and other officials to be re-elected for an indefinite number of terms. This increases the importance of maintaining good relations with the government.

Ecuador is a country that is quickly reaching a cross-roads where tough decisions have to be made. The country has developed one of the best healthcare and educational systems in Latin America under President Correa's leadership. However, the investment

and expenditure level has been based on a strong oil price and the dramatic price decrease in 2015 is predicted to affect the country's ability to sustain their public sector offer to the population. As a consequence, Ecuador needs to look for new ways to attract fresh capital. The government is in the process of making changes to the law with the aim of attracting more Foreign Direct Investment (FDI); this includes tax benefits and better terms of doing business.

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**ECUADOR NEEDS TO LOOK FOR NEW WAYS TO ATTRACT FRESH CAPITAL. THE GOVERNMENT IS IN THE PROCESS OF MAKING CHANGES TO THE LAW WITH THE AIM OF ATTRACTING MORE FOREIGN DIRECT INVESTMENT (FDI); THIS INCLUDES TAX BENEFITS AND BETTER TERMS OF DOING BUSINESS.**

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Ecuador is classified by the World Bank as an upper middle income country. Similarly to developed countries, the majority (more than 50%) of the labour force is working in the service industry, followed by agriculture and manufacturing industries. Agriculture is particularly important for Ecuador as they are the world's largest exporter of bananas; some of which end up in Norwegian stores. They also produce and export large quantities of flowers, coffee, shrimp and fish. However, crude oil is still the country's most important and largest export. The majority of oil exports go directly to China to pay off debt. China is Ecuador's largest debtor and their second largest trading partner after the U.S.

Ecuador is an interesting country for companies wanting to enter the Latin American market and needs a starting point for their expansion. Foreign companies who wish to establish trade or incorporate a company will find a wide range of opportunities in different sectors, but they will also face sector-specific challenges. In general, Ecuador is less expensive for incorporation compared to the Latin American average, but it is more time consuming. Currently, few Norwegian companies are established there, but some are already trading. The number of companies expanding their operations to Ecuador may increase in the future as the government is in the process of changing laws and regulations to attract more FDI.

The aim of this report is to explore opportunities for Norwegian companies in Ecuador, as well as highlighting relevant challenges. The report is divided into three sections. The first section provides a general profile of the country and an analysis of the most relevant topics that impact the business environment. The second section provides insight into the most important industries in Ecuador, their investment and expansion opportunities, and relevant challenges. The third section looks at the ease of doing business in Ecuador and explores more specialised topics such as tax and corporate social responsibility.

**KEY STATISTICS / Republic of Ecuador**

**Capital:** Quito

**Government:** Republic

**President:** Rafael Correa Delgado  
(since 15 January 2007)

**Independence:** 24 May 1822 (from Spain)

**Population:** 15,868,396 (July 2015)

**Religion:** Roman Catholic (74%),  
Evangelical (10.4%), Jehova's Witness  
(1.2%), atheist (7.9%), agnostic (0.1%)  
other (6.4%)

**Land area:** 276,841 square km ( 74th larg-  
est, Norway is 68th)

**Official language:** Spanish 93% (official),  
indigenous 5%

**Currency:** USD

**GDP:** USD 100.5 billion (2014)

**GDP real growth rate:** 3.8% (2014)

**Exports:** USD 26.6 billion (2014)

**Imports:** USD 26.67 billion (2014)

*Source:  
See Demographics and social infrastructure section,  
CIA (2016a)*





# NORWEGIAN COMPANIES ARE RESPONSIBLE PARTNERS



Photo: Berit Roald

**As Director General for Norway's largest and most important private business organization, it is a pleasure to witness students from Norway describing new international market opportunities. The Confederation of Norwegian Enterprise, NHO, works to promote good framework conditions, representing employers in collective bargaining and through offering a variety of networking opportunities. We also work to promote trade and different free trade agreements around the world.**

Ecuador has had a growing economy yet unexperienced by most Norwegian companies. A considerable number of our 24 000 company members are internationalized and the number seems to be growing these days. NHO's latest survey showed that

70 % of the companies seek new markets. This report could inspire some of them to have a closer look at the opportunities for establishing business with or in Ecuador.

Our enterprises supply society with goods and services, and provide jobs. They create financial profits that give owners a return on their investments and contribute to the common good through direct and indirect taxes. Accordingly, it is reasonable to assume that the most important contribution an enterprise can make to society is to deliver its product as efficiently and profitably as possible.

However, companies are not just operating in a market. They are also operating within a culture, a local community and within a political system. This

broader social context is an area where Corporate Social Responsibility – CSR – plays an important role for Norwegian companies. Recognizing responsibility is of course a moral duty, but also a business advantage. Knowing the CSR challenges, and working to address them, is a way of maintaining a good reputation in an increasingly transparent world.

NHO expect all companies originating from Norway operating abroad to comply with the host country's laws and regulations, as well as with Norwegian legislation insofar as it applies to activities or operations carried out abroad. CSR is one area where activities extend beyond each company's statutory obligation to comply with national legislation.

Norwegian companies have a head start by default when it comes to implementing CSR. Several elements of CSR are at the core of the Nordic Welfare model. This is said to be due to strict national standards in health, service and environment (HSE), their strong skills in terms of dialogue with employees and the fact that they already have to live up to high expectations when it comes to social responsibility in Norway. As a result, companies have integrated CSR into their operations and their decision-making processes.

Many Norwegian companies and branches are experiencing the effects of the global crisis and the sharp decline in oil prices. In these unstable times, companies may ask whether they can afford the luxury of exercising CSR. NHO believes that CSR efforts are important regardless of the economic situation and that companies have a clear self-interest in conducting business in a sustainable manner.

Avoiding corruption is a crucial part of CSR. Corruption is a cancer in the market place and a real obstacle to growth. It also serves to distort market signals that

should guide economic operators to make the right decisions. Norway's anti-corruption legislation is an example of the implementation and enforcement of international conventions nationally. Companies headquartered in Norway must abide by Norwegian anti-corruption laws as well as international anti-corruption conventions.

To sum up: NHO expect our members to do their core business well, to respect basic human rights, to provide decent working conditions and to protect the environment. These expectations are as valid in times of crisis as otherwise, and they are valid no matter where in the world Norwegian companies are operating.

**Kristin Skogen Lund**

Director General of the  
Confederation of Norwegian Enterprises



# EXPLORING BUSINESS OPPORTUNITIES IN ECUADOR

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**International Business is proud to present the 2015/16 Ecuador report; the 32nd edition since the project began in 1984. International Business is a non-profit student project that seeks to provide Norwegian companies with business insights in emerging markets.**

The International Business project is an extraordinary student project in several ways. Firstly, the team consists of students from three top universities in Norway: NHH, NTNU and BI. Each of the team members have a unique professional and educational background, which gives the report an analytical perspective. Secondly, the project is 100% non-profit and student-driven, meaning that it is unbiased with respect to the focal country. What you are about to read is the result of one year of hard work; taking the project from a somewhat diffuse scope to a final

report that aims to provide insightful information to Norwegian companies about business opportunities in Ecuador.

The value of this report comes from the overview of business opportunities based on a wider range of sources than those publicly available. We have had the honour to interview more than 20 experts in different sectors; from lawyers and business owners, to ministers and head of governmental institutions. Interviews in the public sector gave us a broad perspective of the future expectations in sectors such as education, healthcare and the economy in general. For the private sector, lawyers, Norwegian investors, and scholars were a fundamental part of the research as they provided us with key insights regarding the most effective ways of doing business in Ecuador. The methodology used in this report consisted

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THE VALUE OF THIS REPORT COMES FROM THE OVERVIEW OF BUSINESS OPPORTUNITIES BASED ON A WIDER RANGE OF SOURCES THAN THOSE PUBLICLY AVAILABLE. WE HAVE HAD THE HONOUR TO INTERVIEW MORE THAN 20 EXPERTS IN DIFFERENT SECTORS; FROM LAWYERS AND BUSINESS OWNERS, TO MINISTERS AND HEAD OF GOVERNMENTAL INSTITUTIONS.

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of two main phases. In the first phase, we made extensive research within top databases to gain a general overview of the country and identify the most important industries. This phase allowed us to strategically plan the field trip to Ecuador by focusing on key information gaps. In the second phase, we carried out interviews in Ecuador. The aim of this phase was to develop our analysis from a holistic perspective in order to provide more valuable and applicable insights for Norwegian companies.

The present report covers three main areas of interest: (1) general information about Ecuador, (2) information about the most important sectors in Ecuador, and (3) the business environment in Ecuador. This report aims to show that 'the whole is greater than the sum of its parts'. By combining a variety of information sources, we have ensured the validity and reliability of this report.

As the project manager of International Business 2015/16 I thank every company and professional that contributed with their knowledge. A very special thanks to our sponsors that made the development of this report possible. Most importantly, I would like to acknowledge all the members of the IB team for their commitment and dedication that resulted in a great report.

**Monica Torp Olufsen**

Project Manager  
International Business Ecuador 2015/16



# 1 / OVERVIEW





# DEMOGRAPHICS AND SOCIAL INFRASTRUCTURE

Ecuador is a developing country characterised by a young, urban and literate population. Over half the workforce is employed in tertiary industries signalling the shift towards a developed economy. However, with 22.5% of its inhabitants living below the national poverty line in 2014 and a high level of inequality in income distribution, Ecuador is still facing challenges.

## Population

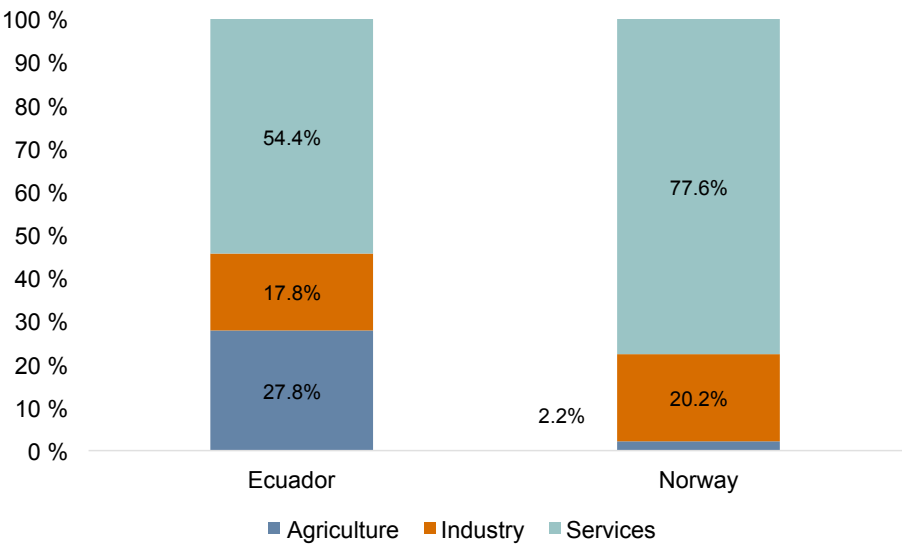
Ecuador's population size is just over 15 million with an annual growth of 1.35% as per 2015 and it is the 68th most populous country in the world (CIA, 2016a). In terms of GDP per capita Ecuador ranks 128th out of 230 countries (CIA, 2016a). The World Bank classifies the general income levels as upper middle income and the proportion of people living below the national poverty line has gone down from 37.6% in 2006 to 22.5% in 2014 (World Bank, 2016a; World Bank, 2016b). The Income Gini Index measures the income distribution of a nation and a value of 0 means perfect equality and 100 means perfect inequality. Ecuador is ranked 98th with a Gini score of 49.3; Norway is ranked number 1 and has a Gini score of 25.8 (UNDP, 2016).

The population of Ecuador is young, with 46.55% being less than 24 years old. The median age is 27 years compared to 39.1 in Norway (CIA, 2016a; CIA, 2016b). The life expectancy at birth as per 2014 for the whole population was 76.36 years (CIA, 2016a). This is not too far off the Norwegian life expectancy which in 2015 was estimated at 81.7 years (CIA, 2016b).

## Urbanisation and the workforce

As of 2015, the urban population in Ecuador was estimated to be 63.7% of the total population (CIA, 2016a). The two largest cities are Guayaquil with 1,952,029 inhabitants and Quito with 1,399,814 inhabitants (Worldatlas, 2015). The high level of

WORKFORCE DIVISION, ECUADOR AND NORWAY (2012)



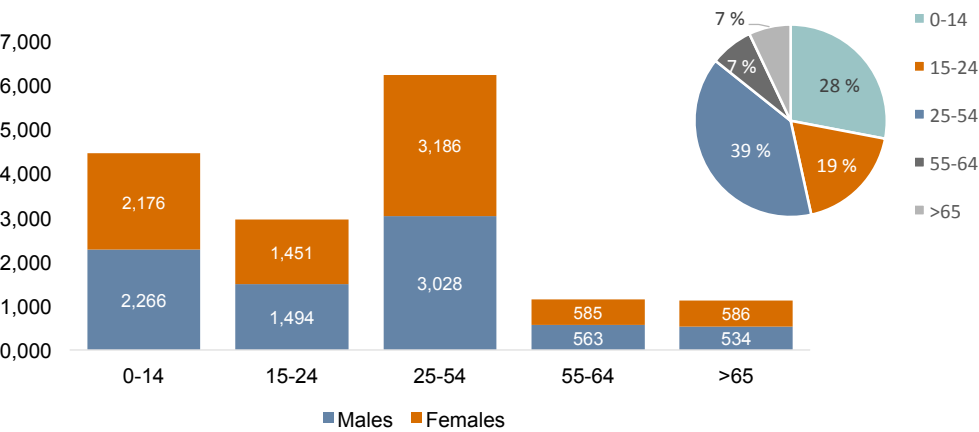
Source: CIA (2016a; 2016b)

urbanisation is reflected in the division of labour force according to occupation. In the table below, the workforce division as of 2012 show that over half of the Ecuadorian workforce is involved in service industries (CIA, 2016a). The same figure is 77.2% for Norway (CIA, 2016b). The most significant difference between Ecuador and Norway is Ecuador's large agricultural sector; Norway only employs 2.2% of its workforce in this sector versus 27.8% in Ecuador. The total labour force in Ecuador in 2014 was 7.214 million, just under half of the population (CIA, 2016a).

The unemployment rate increased by 0.3% between 2013 and 2014, from 4.7% to 5% respectively (CIA, 2016a). Unemployment among youths aged 15 to 24 years was in 2011 estimated to be 11.1%, which is higher than the national average (CIA, 2016a). However, there is a significant difference in gender as 15% of young women were unemployed in 2011, but for men this number is significantly lower at 9% (CIA, 2016a). The literacy rate among people 15 or older for the total population was estimated to be 94.5% in 2015 (CIA, 2016a).



AGE STRUCTURE 2015, THOUSANDS OF PEOPLE AND % OF TOTAL POPULATION



Source: CIA (2016)

# POLITICAL CLIMATE

Ecuador is a young country, which returned to democracy in 1979 after years of military rule (GlobalSecurity.com, 2016). The political history has since then been characterised by conflict and instability. In particular, the period between 1996 and 2007 saw frequent changes of government and eight presidents in eleven years (Schemmel, 2016); two of them were overthrown. Today, Ecuador has a multi-party system in which the president is elected for four years each time and may under current law rule for two periods. Due to constitutional changes made in 2008 a new presidential election was required in 2009 (Congressional Research Service, 2013). Presidential and National Assembly elections are now held in odd-numbered years. As of December 2015, an amendment to the constitution makes it possible for presidents after 2021 to sit for an indefinite number of periods. The opposition said they will revoke the amendment if they achieve majority after 2017 election (BBC, 2015). Indigenous population has become increasingly active in the political arena and support from these groups is considered important (Congressional Research Service, 2013).

### The ‘Citizen Revolution’

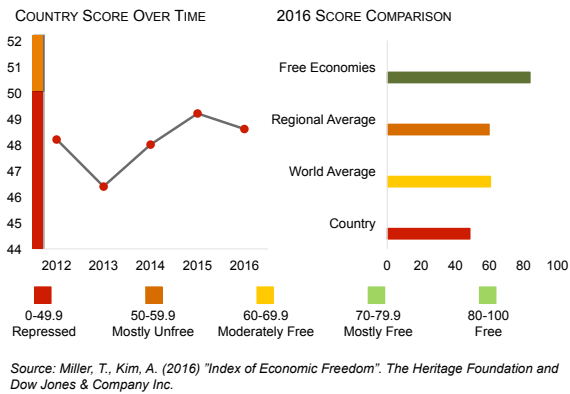
After the 2006 election of the current president, Rafael Correa, the country has experienced a transformation with respect to social development and political stability. For the first time in decades, Ecuador has had a president with widespread support among the population and a clear message for what he wants to achieve through his program ‘Citizen Revolution’ (Congressional Research Service, 2013). Correa has won three presidential elections with more than 50% of the votes every time.

For the general population of Ecuador the changes have been for the better, but the populist policies of

Correa have surfaced problems with attracting foreign investments. In particular, several international oil companies (IOCs) have chosen to leave the country after recent reforms (see Oil and Gas section for more information). On the social front, his policies have reduced poverty by 27% since 2006, expanded access to medical care and doubled public spending on education (The Guardian, 2013). Increased governmental spending when the oil price was floating around USD 100 per barrel (NASDAQ, 2016) has been the main driver behind the social development policies. However, the current level of governmental spending will be hard to maintain in the years to come now that Ecuador is facing an economic crisis.

### Attitudes toward private and foreign investments

The last ten years have been characterised by a growing economy due to high oil prices and increased public spending, while at the same time Ecuador has made it more difficult for private and foreign companies to participate. There has not been a substantial nationalisation of private companies, but new laws have fortified the government’s position in business and particularly in strategic sectors. The foreign direct investment is low compared to its Latin American neighbours, comprising less than 1% of the



GDP, which testifies the investors’ reluctance to invest in the country (World Bank, 2016). Ecuador also ranks low in the Index of Economic Freedom, with a world rank of 159 and a score below both the world and the regional average. In the 2016 edition, Ecuador is said to “[...] lag significantly in promoting the rule of law and has yet to establish a judicial system that is free from political interference” (The Heritage Foundation, 2016).

However, all political parties recognise the country’s need for foreign capital and in December 2015 a new ‘Law of Public-Private partnership’ (PPP) was passed (Loose, 2016). This law aims to create incentives for foreign investments, both in terms of opportunities that before had not been available, as well as better tax conditions. The upcoming 2017 election is considered particularly important and the current government is expected to be more flexible towards private investments than before.

### Freedom of speech

According to the Human Rights Watch (2016), the government of Rafael Correa has used its power to decrease freedom of speech and expand state control of the media. Like other state leaders in the region president Correa believes his administration is a victim of private media persecution.

Following a September 2010 police uprising (which has later been referred to as an attempted coup d’état), president Correa brought a lawsuit against the newspaper El Universo for publishing a controversial editorial referring to him as a dictator (The New York

Times, 2012). The initial result was a USD 40 million verdict with three-year prison terms for journalists and newspaper executives (Congressional Research Service, 2013). President Correa said that the ruling was a victory over ‘media dictatorship’, but later pardoned the newspaper employees after facing international pressure on the issue (The New York Times, 2012).

Only a month before winning the 2013 election Correa’s government launched a Communications Law that mandates a governmental body to monitor media content and possibly issue sanctions if information is not ‘verified’ or ‘precise’ (Human Rights Watch, 2016). Further, the law limits private ownership of the media and prohibits private media from covering issues the government considers to be of ‘public interest’. Critics of the law consider it a significant cap on the free press and suggests that it raises potential for censorship (Congressional Research Service, 2013). During the Cotopaxi volcanic eruption in August 2015, the government decreed a national state-of-emergency and temporarily banned the media from publishing unauthorised information on the matter (Bloomberg Business, 2015).

### Final remarks

The last ten years have marked a clear shift in the Ecuadorian political climate, as Rafael Correa is the first president in many years to have widespread support in the population over a longer period. His ‘Citizen Revolution’ has been a transformation of the welfare state, which have promised the population greater social rights. However, the low oil price is draining the public budgets and there is uncertainty about how the people will react if the country needs to cut back on costs. The negative governmental attitude towards private investments have eased and the new ‘Law of Public-Private partnership’ (PPP) might provide attractive opportunities for some investors. When Rafael Correa is approaching an end of his presidency, the 2017 elections should be of particular interest of potential investors as the political climate in Ecuador has had a history of rapid changes.

ELECTION RESULTS (2006-2013)

ELECTION	CANDIDATE	% (FINAL ROUND)
2006	Rafael Correa	56.67%
2006	Álvaro Noboa	43.33%
2009	Rafael Correa	51.99%
2009	Lucio Gutiérrez	28.24%
2009	Álvaro Noboa	11.41%
2009	Other candidates	8.36%
2013	Rafael Correa	57.17%
2013	Guillermo Lasso	22.68%
2013	Other candidates	9.70%

Source: Election Guide, 2016. URL: <http://www.electionguide.org/countries/id/64>



# ECONOMY

## Economic performance

Supported by positive developments in trade, high oil prices and large public investments, the Ecuadorian economy experienced an average growth rate of 4.5% over the past decade, while at the same time social indicators improved. Financial stability has been supported by the dollarization in year 2000. After a small recession in 2009 during the financial crisis, the GDP growth has been high, peaking at 7.87% in 2011 but decreasing to a more moderate level of 3.8% in 2014, in line with developments in the region. The unemployment rate has decreased and is relatively low compared to both neighbouring and western countries (IMF, 2015).

Ecuador has struggled with poverty and inequality, but has seen significant improvements as recent growth has benefitted the poor. The poverty headcount ratio at national poverty lines has fallen from 32.8% in 2010 to 22.5% in 2014; still a high number but lower than many of its neighbouring countries including Venezuela, Colombia and Peru. The poverty is higher in the rural areas where 35.3% live in poverty, compared to 16.4% in the urban areas (The World Bank, n.d.).

Ecuador is far behind the western countries on the Gini index, but has similar results as other Latin American countries. A low Gini coefficient reflects a better resource distribution in the country. For Ecuador, the Gini index was 47.3 in 2014, after a fall from 56.4 in year 2000. In comparison, Sweden was top in 2014 with 23.0 (The World Bank, n.d.).

Since the fourth quarter of 2014, the Ecuadorian economy has been hit by external shocks and is slowing down. The sharp decline in the oil price significantly undercut oil revenues, the biggest revenue source for Ecuador. In addition, competitiveness is being eroded by the real appreciation of the dollar. Due

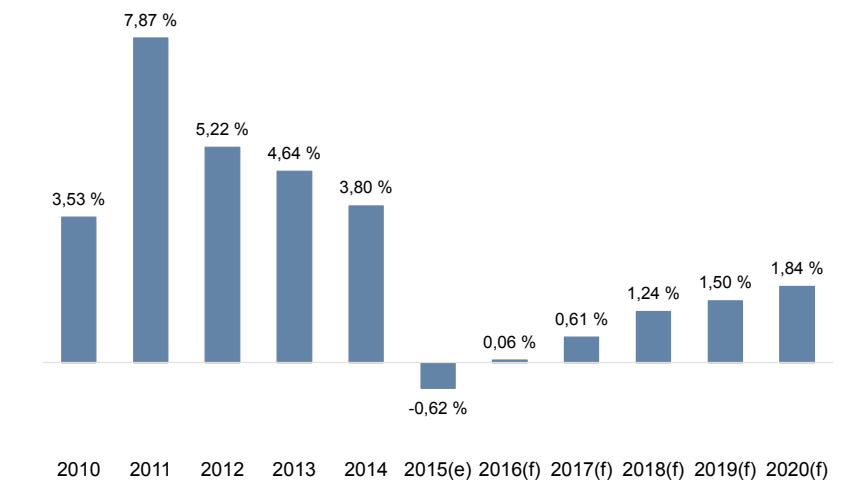
to the shocks, the economy is projected to contract somewhat in 2015, and return to a weak growth in the following years (IMF, 2015; Statista, 2015a).

## Government spending, budget balance and debt

Ecuador and president Correa's goals of improving infrastructure and social equality drives high capital spending, and the fiscal position of the public sector deteriorated from balance in 2011 to deficits in the budget of up to 5.4% of GDP in the following years (IMF, 2015; Statista, 2015). The public sector's expense and investment have increased from 21% of the GDP in 2006 to 44% in 2013 (The World Bank, 2015). In 2014 the state revenues were estimated to be USD 39.5 billion and the expenditures USD 44.7 billion (CIA, 2015).

With budget deficits, Ecuador has accumulated sovereign debt, reaching a government debt to GDP of 29.8% in 2014 (TradingEconomics, n.d.). In December 2008, the country led by Correa, defaulted on debt with a total face value of USD 3.2 billion, which represented about one third of Ecuador's public external debt. Correa also terminated 13 bilateral investment treaties, including one with the US. His economic policies have generated some uncertainty and fear of abrupt changes and therefore discouraged private investment (CIA, 2015). Since the default in 2008, the Ecuadorian state has been considered unreliable by many countries and funds, and China has become Ecuador's largest foreign lender, lending over USD 11 billion (Kuo, 2014). Ecuador is very dependent on China, who in 2013 covered 61% of the government's financing needs. In exchange, China has claimed as much as 90% of the country's oil shipments over the next years (Kuo, 2014).

GROWTH RATE IN REAL GDP FROM 2010 TO 2020



Source: Statista (2015B)

## Important sectors and oil dependency

The biggest sector in Ecuador, as in most countries, is the service sector, which represents 59.6% of the GDP (CIA, 2015). Agriculture represents 6% of the GDP, where bananas, coffee and cocoa are important products. The industry sector represents 34.4% of the GDP, and petroleum is by far the most important product (CIA, 2015). According to Alexis Carrera at EY Ecuador (Personal communication, January 14, 2016), agriculture and aquaculture will become more important in the years to come; besides petroleum, these are the most developed industries in Ecuador. These industries have also been supported by strict import regulations. Carrera also believes that exports of energy from other sources such as hydropower will become increasingly important, but due to the economic downturn subsidies to hydropower projects are in the risk of being cut (Personal communication, January 14, 2016).

The country is substantially dependent on its petroleum resources, which have accounted for more than half of Ecuador's export earnings and approximately 40% of the public sector revenues in the recent years (CIA, 2015). Since the fourth quarter of 2014, the oil price has fallen from historically high levels of over USD 100 a barrel to a

current price under USD 40. The dramatic fall in public revenues restricts the government's spending and increases the dependency on external debt. The effect of the oil price decrease is worsened by the appreciation of the U.S. Dollar. As a consequence, the government cut the budget twice in 2015, cutting a total of USD 2,220 million or roughly 6.4% of the original budget (Alvaro, 2015; Ulmer, 2015); the majority related to investment expenses. The government has adjusted its expected oil price to USD 35 a barrel, which lowers the budget for 2016 by USD 4 billion compared to the original budget for 2015.

## Exchange rates, inflation and currency reserves

Ecuador's currency was changed from Sucre to USD in 2000 after a series of negative shocks destabilised the economy and created hyperinflation. The dollarization was successful in reducing the inflation, which was 3.6% in 2014 (CIA, 2015). It also eliminates the currency risk for external investors (Benedict, Crucini & Landry, 2014).

The dollarization also has significant disadvantages by relinquishing monetary and exchange rate policy and the loss of seigniorage revenues to the government (Berg & Borensztein, 2000). In addition,

the oil price shock would have led to a depreciation of the currency if Ecuador had their own, like we have seen in Norway. This would have reduced the fall in oil revenues and increased their competitiveness. With the recent interest rate increase in the U.S., Ecuador experiences a real appreciation of their currency at the worst possible moment (IMF, 2015). However, going away from the dollar will not be an easy task. According to Alexis Carrera (Personal communication, January 14, 2016), the main issue for several Latin American countries is that an own currency would not have the trust of investors. Hence, if the Ecuadorian government introduces an Ecuadorian currency, the country will struggle to keep the trust of investors.

In the face of the economic slowdown in Ecuador, bank liquidity has tightened, credit growth has slowed and non-performing loans have risen from a low level. The inflation has been increasing slightly due to changes in transport tariffs, food prices and utility prices (IMF, 2015).

In 2015, Ecuador became the first state to roll out an electronic money system. The system is not meant to replace the U.S. Dollar, but to cut costs in replacing deteriorated notes and to simplify transactions for the 40% of Ecuadorians that do not have a bank account (The Economist, 2014).

### Capital markets and institutional capacity

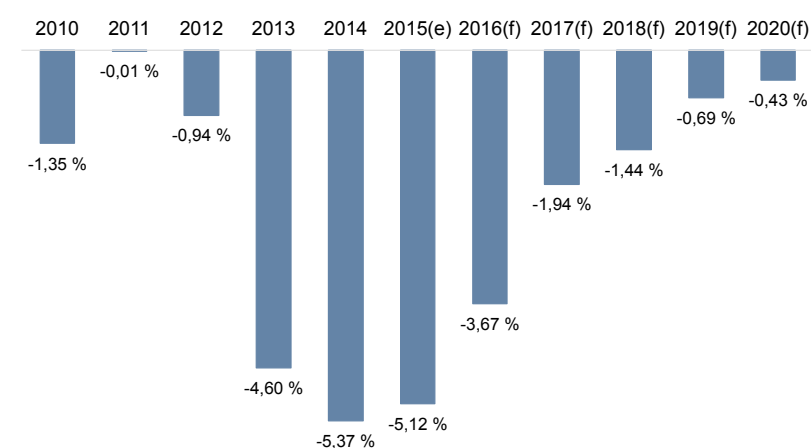
The financial and banking system began in 1948 with the establishment of The Central Bank of Ecuador. After the dollarization in 2000, the role of the bank is to control and monitor the money supply, facilitate financial transactions and offer financial information to the public (Marketline, 2014).

Ecuador has two stock exchanges in Quito and Guayaquil, which were established in 1969. Nevertheless, the exchanges have a limited size and turnover, with 25 listed companies in Guayaquil and 34 in Quito (Marketline, 2014).

### Final remarks

The Ecuadorian economy is heavily oil dependent, and the GDP has been driven by government spending on infrastructure. The sharp decline in the oil price along with the appreciation of the USD make the future of the Ecuadorian economy look uncertain. However, there are plans to build new pillars for the economy, but several of these are currently underdeveloped and will take years to fully develop. Hence, improving industries such as agriculture and aquaculture will be important. Chinese and other external funding is vital in order to continue to create a stable economic situation in Ecuador.

BUDGET BALANCE FROM 2010 TO 2020 IN RELATION TO GDP



Source: Statista (2015B)



NHH is ranked among the top 40 business schools in Europe. It is the leading business school in Norway and provides research-based education at a high international level. NHH is the first choice for Norwegian students and for the Norwegian business community.

NHH offers a Bachelor of Science programme, Master of Science programmes, Doctor of Philosophy programme, and a broad portfolio of Executive programmes.

## IMAGINE A BUSINESS EDUCATION THAT:

- is top ranked in the world
- emphasizes a practical approach, internationalism, ethical awareness and social responsibility
- in a worldwide perspective, probably has the best integration with industry
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# CULTURAL DIFFERENCES

Ecuador consists of four very distinct regions and its population consists of a multitude of ethnicities. The country is marked by its history with the Inca Empire and the Spanish colonisation as well as the unstable political climate over the past century. All these factors have affected the Ecuadorian culture in different ways, making it a complex task to paint the full picture. The focus of this section will therefore be on the cultural aspects that can have a more directly effect on doing business in Ecuador.

## Communication

Ecuadorians are proud of their language, so trying to communicate in Spanish is perceived as a sign of respect and is appreciated (Johanson, 2015). You should not expect everyone to know English, especially people who do not have office jobs. Knowing a little Spanish will come in handy in everyday situations like taking a taxi, shopping and asking for directions.

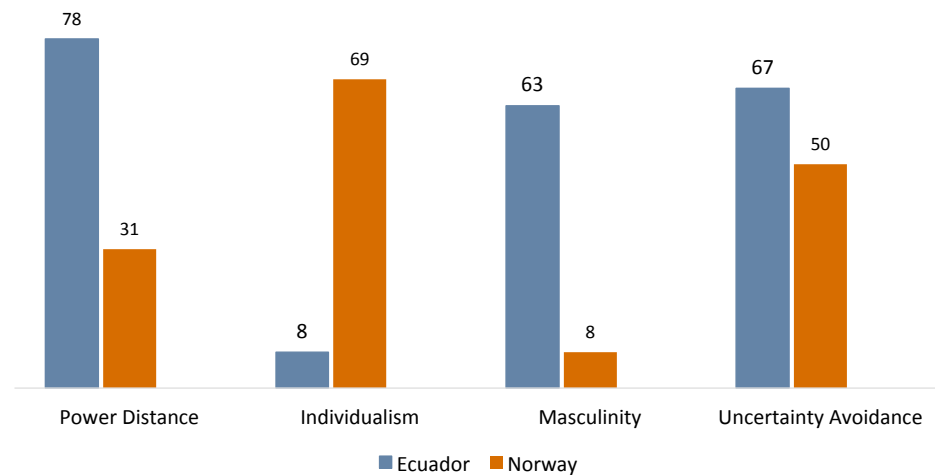
In Spanish you have a formal and an informal way of addressing someone, usted and tu, respectively, and when they should be used is not always straight forward. In general, Ecuadorians are more formal than what is usual in Norway and it is common to use the formal option, especially when talking to a senior or a person in a higher job position. Titles are important and should always be included on business cards and when addressing a person. A Ph.D or a physician is called Doctor, teachers prefer the title Profesor, engineers go by Ingeniero, architects are Arquitecto, and lawyers are Abogado. If the person does not have a title, use the formal Señor, Señora or Señorita together with the surname. The first time you meet someone the most common greeting is shaking hands, regardless of gender. The second time you normally proceed to a brief kiss on the right cheek, more common between a man and a woman and between women; men usually stick with the handshake (Kwintessential, 2014; International Business Center, 2012).

Ecuadorians are known for being friendly, helpful and polite, and are in general more tactile than Scandinavians. They normally stand quite close to each other and place a lot of importance on body language and non-verbal communication (Kwintessential, 2014).

According to Gert Hofstede's analysis of cultural differences, the Ecuadorian culture is marked by a high degree of power distance (The Hofstede Centre, n.d.). This can be seen in the way people tend to interpret inequalities in society. In Ecuador, inequality is to a large extent seen as a normal part of life and is mostly accepted by the different classes of society (International Business Center, 2012). The importance of titles and the elevated respect for the leader or boss are examples of how this trait affects business. The same applies to the attitude towards formal rules and regulations; an employee is likely to be overruled if contradicted by a person with authority (Globalnegotiator, 2013). The impact can also be expected to be seen in business meetings as they are normally used to give instructions to the employees rather than opening up for discussion. It is generally considered disrespectful for an employee to correct or make a suggestion to a superior, especially in front of other employees (Ibid).

Ecuador's culture is also described as collective, which is characterized by people belonging to strong groups that take care of them in exchange for loyalty

HIERARCHY, INDIVIDUALISM, AND MASCULINITY



Source: Pennstate (2016)

(The Hofstede Centre, n.d.). The impact of this in the work place can be seen by employees tending to value harmony and good relationships more than personal advancement. They are expected to be loyal, hard-working, and willing to do what they are asked for. In return, workers generally expect their employers to be loyal to them as well, and employees are often seen as an extended family of the paternal boss (Globalnegotiator, 2013). The family plays an important role in the lives of most Ecuadorians, and is in fact considered very important by 99% of the respondents of the World Value Survey in 2014. In line with this strong emphasis on families, many Ecuadorians seek to work with and hire family members, which is something to consider when hiring (Globalnegotiator, 2013). Building a personal contact of trust and understanding is very important because of the reliance on personal relationships (International Business Center, 2012). This is also important when doing business, as lengthy greetings with inquiries about health, family, travels and friends are considered crucial before getting to the purpose of the meeting. This is a way of getting to know you personally, since you as a person are seen as more important than the faceless company you are representing (Johanson,

2015). Quick greetings might therefore be considered disrespectful and thoughtless, and being open about personal information is a way of assuring an Ecuadorian that you are trustworthy, open and reliable (International Business Center, 2012; Kwintessential, 2014). In addition to the initial greeting, the important table talk, sobremesa, that takes place after a dinner, is also important for building a personal connection. It is expected that you linger after a meal and you might actually get more business done at this moment than any other.

These examples of Ecuadorians' emphasis on power, trust and personal relationships in the work place makes them fit with the so-called family type of corporate culture, defined by Fons Trompenaars (Straker, 2003). He places countries along two axes; hierarchical and personal. Norway is normally placed at the opposite corner from Ecuador, as a so-called guided missile. Norwegian corporate culture is according to this theory characterized as task-oriented, managed by objectives and power of knowledge.

Ecuador scores high on Hofstede's dimension of masculinity, which indicates that the society is driven



by competition, achievement and success as opposed to feminine values such as caring for one another and quality of life. Because of the emphasis on ‘we’ rather than ‘I’ (collectivity), competition is directed against other groups rather than members of your own. Together with the high ranking of power distance and low individuality, a task might be completed quickly with cooperative effort, or abandoned collectively if that is the opinion of the group or its leader decides to (The Hofstede Center, n.d.)

### Religion

The main religion in Ecuador is Roman Catholic and the church continues to have an important influence on the national identity as well as the personal and social behaviour (Kwintessential, 2012). According to a survey conducted by the World Values Survey organization (2014) 97% of Ecuadorians consider God to be of great importance in their everyday life, and 52% belief that religion is superior to science.

### Dresscode

In line with the importance of formalities in Ecuador and the presence of religion, you are expected to dress quite conservative when doing business, as well as in public. This expectation increases as you move

more inland and away from the coast. Dark suit is considered appropriate for men, and a suit or a dress for women (International Business Center, 2012).

### Time

As in most parts of Latin-America the attitude towards time is less rigid, but punctuality is more expected in business settings (International Business Center, 2012). Giving an end time for a meeting might be interpreted as rude, as you are seen to put more value on the time than the topic discussed. Scheduling meetings back to back should therefore be avoided (Johanson, 2015).

### Business cards

Business cards are part of the formal way of doing business in Ecuador and are normally exchanged in the beginning of a meeting to all the participants. It is advised to have one side written in English and one in Spanish, and it should contain information of your professional title or your academic degree. The Spanish side should be facing the recipient when handed to them (Johanson, 2015; Kwintessential, 2012).

“

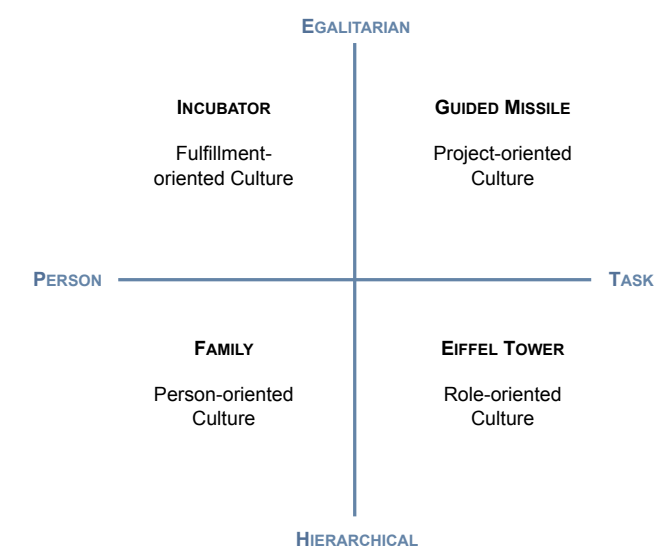
I ONCE HAD SOME DIFFICULTIES WITH A BOAT BUILDING PROJECT, AND WHEN I TRIED TO CONTACT THE PERSON IN CHARGE IN ORDER TO SORT OUT THE PROBLEM, I WAS TOLD THAT SHE WAS NOT AVAILABLE BECAUSE SHE WAS SITTING IN ANOTHER ROOM, PRAYING FOR THE SUCCESSFUL RESOLUTION OF THE PROBLEM

*Kjetil Haugan, CEO of Columbus Travel Group and Spanish school Simon Bolivar*

### Recommendations

The cultural differences between Norway and Ecuador are many and complex and we therefore suggest to further investigate them before investing. As a general rule of thumb, always try to be open to local customs and be ready to adapt them when needed. This section gives a general description of a handful of factors which does not necessarily full represent the very diverse and nuanced culture in Ecuador;

incidents described here should therefore not be over-generalised. That being said, a good starting point is to adapt to the importance of relationships. Try to be open to the ‘intimacy’ and the personal questions. Rather, one should be prepared to spend time building personal relationships with clients and employees before getting down to business; you might get on the right track a lot easier.



Source: The Hofstede Centre



# LABOUR MARKET AND RECRUITMENT

**The labour force in Ecuador is 7.214 million, and is distributed by occupation with 27.8% in agriculture, 17.8% in industry and 54.4% in the service sector (CIA, 2015). According to Statista (2015), the employment in the industry is stable, while it is slowly decreasing in agriculture and increasing in the service sector.**

Ecuador had the second lowest unemployment rate in Latin America in 2014, with 4.3% (CIA, 2015). The low unemployment is supported by high capital spending from the government, but it increased in 2015 due to the oil crisis and is estimated to be 4.7% (Statista, 2015). The Ecuadorian central bank estimated that 41% were underemployed in May 2015 (Banco Central del Ecuador, 2015). Underemployment is defined as highly skilled workers in low paid low skilled jobs, and part time workers that would prefer full time job (Investopedia, n.d.). For comparison, underemployment is estimated to be 14.6% in the US (Statista, 2016). This implies that there exists an unreleased potential in the workforce, which is also reflected in a poor score on the ‘efficient use of talent’ rank of the Global Competitiveness Ranking (World Economic Forum, 2015).

## Language and educational level

Ecuadorians generally speak poor or little English, which can be a challenge for foreign companies recruiting in Ecuador. Nevertheless, the government is prioritising English language learning, and the public sentiment towards English is positive as it is linked with better employment prospects (British Council, 2015).

The educational level in Ecuador is substantially lower than in most western countries, as Ecuador is ranked 67 in the world by the World Economic Forum with respect to education (World Economic Forum, 2015). This suggests that companies should be prepared for difficulties in finding qualified employees if higher education is needed. However, Ecuador is ranked higher than most countries in Latin America. According to the 2015 Investment Climate Statement from the US Government, trained financial professionals and engineers can be difficult to attract and many need training to reach international standard. Business managers often have education from abroad, frequently from the US (US Bureau of Economic and Business Affairs, 2015).

## Child labour and ethnic issues

There are some occurrences of child labour in Ecuador. It is estimated that there are approximately 227,000 workers between 5 and 14 years, corresponding to 8% of the population in this group (CIA, 2015). Companies investing in Ecuador should therefore implement routines to avoid this challenge. Child labour was prohibited in 2008 and is a decreasing problem according to Evangelina Gómez-Durañona in CERES, a non-governmental CSR organisation. Most of the child workers today are present on farms to learn the profession (Personal communication, January 5, 2016).

Ecuador has an important indigenous and Afro-Ecuadorian population, which accounts for 7% and 4.3% of the inhabitants respectively, while over 70% are mestizos (CIA, 2015). Both the indigenous people and the African descendants have significantly lower wages than the rest of the population. This is mainly due to lower education in this group and discrimination (Gallardo & Ñopo, 2009).

## Requirements for the workforce

Companies in Ecuador are required to have at least 80% of their workers from Ecuador, and at least 80% of the wage expenses must go to Ecuadorians (Ministerio de Trabajo, n.d.). The company must justify the need for permanent foreign workers to the Directorate for Employment and Human resources based on required experience, technical level, the lack of Ecuadorian competence or other relevant factors (Ministerio de Trabajo, n.d.).

All companies with more than 25 workers are required to have a minimum of 4% of the workers with some type of disability, either mentally or physically. A parent or another close relative to a person with strong disabilities can substitute the person and be counted in as a disabled when calculating the percentage (Consejo de Discapacidades, 2014).

Foreign workers staying in Ecuador for more than 90 days are required to obtain a work visa. There

are several different types, but the most common for business purposes are: 12-VI Work visa and 12-IX Long stay business or tourism visa. Each has its own application process, and the Dirección General de Extranjería in Quito, or the Sub-Dirección de Extranjería in Guayaquil should be contacted upon arrival in Ecuador (EcuadorExplorer, 2012; Internations, n.d.).

## Working time and health expenses

A normal work day in Ecuador is eight hours, hence a workweek is 40 hours. Supplementary hours cannot exceed four hours a day and 12 hours a week (Pro Ecuador, 2015). Ecuadorian workers have a right to 15 days of holidays a year without interruption. After working in the same company for five years, they get one extra day-off for each year, with a maximum of 30 days (Pro Ecuador, 2015).



The maternity leave in Ecuador is twelve weeks, and is fully compensated. The social security system covers 75%, while the employer covers the rest. Mothers also have the right of two hours of breastfeeding a day until the child is one year. The paternal leave is ten days, but can be extended if the child or mother is sick (Unicef, 2011). Ordinary sick leave in the private sector is paid for by the employer the first three days, and then

GLOBAL COMPETITIVENESS REPORT- LABOUR MARKET

	ECUADOR		NORWAY	
	Score (1-7)	Ranking	Score (1-7)	Ranking
Higher education and training	4.3	67	5.8	7
Quantity of education	5.2	63	6.6	19
Tertiary education enrollment %	40.5	67	74.1	20
Quality of education	4	75	5.5	11
Labour market efficiency	3.8	112	5.1	9
Flexibility	3.9	118	4.8	37
Efficient use of talent	3.6	99	5.4	3

Source: World Economic Forum, 2015



by the social security system (EcuadorLegalOnline, 2015a).

To be part of the social security system, employees need to pay 9.35% of their wage to contribute to social security, while employers need to pay 12.5 % of the wage. This includes pension, health insurance, and other insurances (Pro Ecuador, 2015).

### Wage requirements

The minimum wage in Ecuador was USD 354 per month in 2015, which is one of the highest in Latin America. However, 83% of permanent employees earn more than this, but mostly under USD 400, due to sector specific deals (Ministerio de Trabajo, 2015). In addition to the regular salary, the law mandates a thirteenth and fourteenth salary equal to the monthly salary to be paid every year, either in a lump sum or in instalments throughout the year (US Bureau of Economic and Business Affairs, 2015). For example, if an employee earns USD 354 per month, he or she receives USD 708 a year in addition to the regular salary.



Ecuadorian law sets a limit to how much salary top executives of a company can deduct in their tax accounting. This limit is a multiple of the lowest salary paid to an employee in the company. The multiple is decided by the authorities considering the size of the company, revenues, number of employees and sector (US Bureau of Economic and Business Affairs, 2015).

A special feature in Ecuador is the distribution of profits, where 15% of the company's pre-tax profits must be distributed to the workers. 10% is shared between all the workers in the company adjusted for seniority, while the remaining 5% is shared based on family responsibilities such as children under 18 or children with disabilities (EcuadorLegalOnline, 2015b).

### Labour terms and conditions

Workers in the private sector and state-owned companies have the right to form trade unions. Private employers are required to engage in collective bargaining with recognised unions. In case of conflicts between employers and employees, the Labour Code provides for resolution through a third party council to ensure an unbiased judgement. It is prohibited to discriminate against union members and it is required for employers to provide space for union activities (US Bureau of Economic and Business Affairs, 2015).

However, according to The PRS Group (2014), The International Labor Organization (ILO) have stated that international labour standards are generally not respected in Ecuador. Workers that have been fired for organising union work have the right to a compensation, but not to get their job back. Despite the right to form trade unions, only 2% of the workers are officially organised, mostly skilled workers in medium to large sized enterprises. In addition, a change in the constitution in 2008 and the introduction of The Public Service Law in 2010 prohibits strike in the public sector and limits public workers right to join unions (The PRS Group, 2014). More than 50% of the Ecuadorian workers in small unincorporated companies that produce goods for sale and barter are



also very vulnerable (Vaillancourt-Laflamme, 2005). There seems to be a distance between the strong protection workers have in theory, and how things work in practice.

### Recommendations

Companies recruiting in Ecuador need to be prepared to use time on recruitment for positions requiring higher education, as it can be difficult to find qualified employees. The size of this challenge is very dependent on the industry, for example Ecuador has highly qualified labour in agriculture and the seafood industry, but lacks engineers and financial professionals. The 80%-rule is a factor that strengthens this problem, as it limits the possibilities to bring in workers from abroad.

To make sure that the company fulfils all the requirements from the government, both regarding the workforce and payments, help from legal expertise is probably necessary. In most sectors, it is

recommended to have leaders that speak Spanish as very few workers speak sufficient English to communicate in the workplace. However, English is more widely spoken in some industries, for example the tourism sector. Companies investing in Ecuador need to develop good routines to make sure that no child labour is used in production and by suppliers, although the problem has been strongly reduced.



# GENDER EQUALITY

**According to several studies, gender equality boosts economic growth and development (U.S. Department of State, n.d.). Economic participation of women alters productivity, improves enterprise development and management, and increases return on investment. It also results in a multiplier effect with women reinvesting more extensively in their families and communities (U.S. Department of State, n.d.).**

## Latin America

Discrimination of genders in social institutions in Latin America is relatively low and in the past 20 years the region has had a substantial progress in promoting equality between genders (OECD, 2010). The region has closed 70% of the overall gap between genders (World Economic Forum, 2015). However, women still suffer from inequality, primarily due to sexism, stereotypes and traditional family values. Violence against women has increased in recent years and is a cause for concern across in Latin American countries (OECD, 2010).

## Ecuador

Ecuador is ranked by the World Economic Forum as number 33 out of 145 countries on the Global Gender Gap Index, with a score of 0.738 (0 = total inequality, 1 = total equality). The index measures gender gaps in the economy, politics, education and health on a national level. In the region of Latin America and the Caribbean, Ecuador is one of the top five performers on gender equality, behind Nicaragua, Bolivia, Barbados and Cuba. In comparison, Brazil, South America's largest economy and Norway's most important trading partner in the region, ranks 85 with a score of 0.686 and Norway is number two with a score of 0.850 (The World Economic Forum, 2015; Innovasjon Norge, n.d.; CIA, 2016). Ecuador has dropped 12

places on the Global Gender Gap index from last year, due to a decrease in estimated income inequality between genders but has fully closed the gender gap in health and survival. In 2006, when the first Global Gender Gap report was published, Ecuador ranked 82 with an overall score of 0.643, giving an increase of 49 places in ranking between 2006 and 2015 (World Economic Forum, 2006; World Economic Forum, 2015). According to the World Economic Forum's rankings, Ecuador has the second best improvement in the region and the fourth best improvement in the world on the Economic Participation and Opportunity Index. Ecuador scores very high on gender equality within education and health, medium on economy, and low on politics due to zero years with women as head of state (World Economic Forum, 2015).

Ecuador's business environment actively works to sustain the standard of gender equality and to guarantee human rights, where any form of sexual discrimination is prohibited (OECD, 2010). In 2011, under UN Women's Safe Cities Global Initiative, Quito



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committed to prevent and eliminate all forms of violence against women (UN Women, 2015). According to Elsie Aguilar, the Technical Director of the National Council of Gender Equality, one of the council's main objectives at the moment is to eliminate violence against women (Personal communication, January 6, 2016).

## Economic participation and opportunity

Women's economic independence depends largely on access to factors of production and to property. In Ecuador, both genders have the same opportunity to access productive resources such as materials, money and labour (OECD, 2010). On economic participation and opportunity Ecuador ranks 66 in the world and scores 0.677 (0 = total inequality, 1 = total equality), which is an increase of 26 places since 2006, when they scored 0.499. Ecuador is performing slightly better than Brazil and Nicaragua. Norway ranks number one with a score of 0.868 (World Economic Forum, 2015).

There is continuous effort to improve Ecuador's performance further. According to Aguilar, the National Council of Gender Equality works to improve the Ecuadorian business environment on gender equality, with some of the specific objectives being to decrease the domestic workload of women so they can integrate better in the remunerative working society (E. Aguilar, personal communication, January 6, 2016).

Most owners of land are men and households headed by women have a lower average income (OECD, 2010). The inequality is reflected in the labour force participation - where women are underrepresented, and wage rates; on average men have 50% higher wages than women. In 2014, the ratio of female to male labour force participation was 67:100, an improvement from 60:100 in 2000 (World Bank, 2016a). In comparison with both Brazil and Norway, the ratio is low. In Brazil, the ratio is 74:100 and in Norway it is 89:100 (World Bank, 2016b; World Bank, 2016c). In general, 58% of women and 86% of men participate in the labour force in Ecuador. The numbers for women are significantly lower than in Brazil (65% of women, 88% of men) and Norway (76% of women, 88% of men) (World Economic Forum, 2015). According to Kjetil Haugan, a Norwegian investor located in Ecuador, Norwegian companies can contribute to increase the female to male participation rate by focusing more on hiring women in their businesses (K. Haugan, personal communication, January 6, 2016).

On wage equality for similar work Ecuador ranks 81 out of 134 countries and scores 0.62. This is better than Brazil, who scores 0.48, but lower than Norway, with a score of 0.82. The average income in 2015 reflects the existing gap in income between genders; USD 9,000 for women and USD 13,600 for men in 2015 (PPP adjusted). This corresponds to an inequality of 50%. The inequality is higher than in Brazil where women earn on average USD 12,000 and men USD 20,400 (World Economic Forum, 2015). Given Ecuador's low





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score on these metrics increased focus from the government on decreasing the domestic workload of women and from firms on hiring women may prove fruitful in improving Ecuador's economic gender equality.

Firms with female participation in ownership in Ecuador was 24% in 2010, a reduction from 33% in 2006. This is substantially lower than in Nicaragua (62% in 2010) and Brazil (50% in 2009) (World Bank, 2016d). With respect to the ability of women to rise to positions of leadership, Ecuador scores 4.2 (1 = worst score, 7 = best score), higher than Brazil (score 3.3) and Nicaragua (score 3.7), but lower than Norway (score 6.0). (World Economic Forum, 2015). According to Kjetil Haugan, it has not been problematic to hire women for leadership positions in his businesses in Ecuador (K. Haugan, personal communication, January 6, 2016). Thus, obstacles to women entering leadership positions does not seem to stem from their qualifications, but rather from the sexual stereotypes and traditional values described above. By promoting female leadership, businesses may contribute to eliminating these obstacles.

#### Gender equality in other areas

To get a brief overview of gender equality in other areas not directly related to the business environment in Ecuador, this section presents general information on the equality between genders in three fundamental categories: educational attainment, health and survival, and political empowerment.

Ecuador scores very high on gender equality in educational attainment, both in primary, secondary and tertiary education. In 2015, the overall score was 0.996 (0 = total inequality, 1 = total equality), which is approximately the same as the score in 2006, and slightly lower than in Brazil, Nicaragua and Norway, as they all score 1.0 (World Economic Forum, 2006; World Economic Forum, 2015). Despite the high score on gender equality in educational attainment, there is still room for improvement and The National Council of Gender Equality works to strengthen the educational level for women (E. Aguilar, personal communication, January 6, 2016). On health and survival, Ecuador

has almost reached complete gender equality, and scores well in a regional and global perspective. It ranks 1 and scores 0.980, the same score as in 2006, and approximately the same as in Brazil, Nicaragua and Norway (World Economic Forum, 2015; World Economic Forum, 2006).

Ecuador scores low on gender equality within political empowerment (0.297), but the score has improved from 0.1 in 2006. The low score is partly due to zero years with women as head of state. The rank is higher than Brazil (score 0.123) but lower than Norway (score 0.55) (World Economic Forum, 2015). Ecuador's progress is mainly due to an increased number of women in parliament, but also an increase in women in ministerial positions. Even though Ecuador receives a low score on the political empowerment metric, the share of women in parliament in 2015 was 42%, an increase from 32% in 2012 and 16% in 2006. This was higher than Norway's 40% and Brazil's 10% in 2015 (World Bank, 2016e; World Economic Forum, 2006). The share of female legislators, senior officials and managers in Ecuador was 40% in 2012, compared to 31% in Norway in 2011 and 37% in Brazil in 2013 (World Bank, 2016).

#### Final remarks

The region of Latin America and Ecuador have had a substantial progress in the overall gender equality in recent years, closing 70% of the total gender gaps over the last 20 years. From 2006 to 2015, Ecuador climbed 49 places in ranking on the World Economic Forum's Global Gender Gap Index, from rank 82 in 2006 to 33 in 2015. The equality for enrolment in education is equal for genders, which was also the case in the first publication of The Global Gender Gap Report in 2006. However, women only receive half the salary of men and have a low participation in the labour force. The National Council of Gender Equality is working to improve this. On health and survival, Ecuador has almost fully equality between genders, as in 2006, while it scores low on political empowerment due to zero years of female head of state. Norwegian businesses operating in Ecuador may contribute to improving gender equality mainly through hiring female employees and management.



# EDUCATION

## Introduction

Education is the key driver of a country's sustainable development. It is related to factors such as productivity, social mobility, poverty reduction, the construction of citizenship and social identity, and the strengthening of social cohesion. Ecuador has 10 years of compulsory education, which in principle is free for all citizens inside Ecuador between 5 and 15 years of age. Ecuador has increased its literacy rate from 93.2% to 94.5% since 2010, which named the country the winner of UNESCO's Rey Sejong Literacy Prize (UNESCO Institute for Statistics, 2011).

Ecuador is one of the countries in Latin America that has experienced the most rapid improved education quality, measured by student learning. The World Bank (2016) uses two proxies for indicating a country's commitment to education are Per-Pupil Expenditure (PPE) and Pupil Teacher Ratio (PTR). In 2014, PPE was 9% of the GDP per capita, which is lower than other upper-middle income countries where the median spending is 16%. PTR indicates learning quality and resource availability. The PTR for Ecuador is 18.2, indicating that Ecuador has on average one teacher for every 18.2 pupils. This is slightly higher than the

median PTR of 17 in other upper-middle-income countries. In 2015, 3,649,000 pupils were enrolled in primary and secondary education, of these about 58% are enrolled in primary education, and 42% in secondary education (UNESCO Institute for Statistics, 2011).

## Regulation and reforms

The Ministry of Education regulates the education system in Ecuador. Of the three most prominent reforms in the Ecuadorian education system is the ten-year education plan (2006-2015), the new constitution in 2008, and the Organic Law on Intercultural Education in 2011. The next three sections are based on information from the British Council (2015).

## The ten-year education plan

The ten-year education plan sought to address issues of quality and equality and called for the following outcomes:

- Mandatory pre-primary and basic general education

- Enrolment in secondary school diploma programmes at 75%
- Eliminate illiteracy and strengthen continuing education programming
- Improved facilities and infrastructure in schools
- A system of national standards and reporting, leading to higher quality and equity in education
- An assessment of the teaching profession, including work-life balance and professional development
- Annual increase of 0.5% of GDP for education spending up to 6% of GDP

secondary education, or its equivalent. It further emphasised that public education, which should embody Ecuador's interculturality, should be free up to and including undergraduate level.

## Organic Law on Intercultural Education

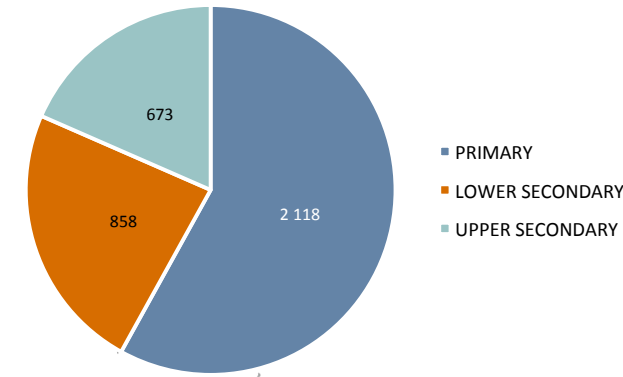
The Organic Law on Intercultural Education (Ley Orgánica de Educación Intercultural) was passed in 2011 and was designed to ensure that the entry to higher education was based on merit rather than means, as well as ensuring that courses hold national standards. The law states that the role of the Ministry of Education is to:

- Manage the national education system in co-operation with other levels of government
- Formulate and implement educational policies, including the compulsory national curriculum at all levels and modalities, and supervise quality standards
- Organise the provision of services for the development of human capital in the education system

## The new constitution of 2008

The new Constitution of 2008 confirms and expands the goals of the Ten-Year Education Plan. The constitution states that the education system should be regulated by the state and its entities, and reaffirmed that education spending would be increased to 6% of the GDP, from 4.1% in 2010. The constitution mandates universal access to education as well as compulsory enrolment in initial, basic and

NUMBER OF PUPILS BY SCHOOL LEVEL (IN 1000 PUPILS)



Source: UNESCO Institute for Statistics (2011)





- Approve the participation of all stakeholders in the system
- Develop and encourage scientific research and the extension of pedagogical and technological knowledge

### Results of the reforms

The challenges of improving the education system are endless. However, with the new reforms of the current government, Ecuador has been able to achieve significant results.

In 2011, students attending school 210 days per year, making it comparable with high-level education countries like Japan (243 days), South Korea (220), and the Netherlands (200). In Latin America students attend 160 days in average, making Ecuador an outstanding example.

Additionally, the government eliminated the 'voluntary contribution', through which parents had to pay an amount of USD 25 per year to public schools (WOB, 2015). As part of the new programs, the government also provides breakfast and lunch to students from public universities in the Basic General Education, new uniforms to students in rural areas, and scholar books to approximately 3 million children of the Basic General Education (UNESCO Institute for Statistics, 2011).

In regards to higher education, the main result of the 2008 constitution and the Higher Education Law of 2010 was that access to public higher education became free. It also changed the way universities are funded, administered, and accredited. From a total of 71 universities, 14 were closed because they did not meet the quality standards (ICEF Monitor, 2012). Since 2012, admission has been via a new aptitude test designed to level the playing field for low-income and indigenous students. By abolishing the tuition fees at public universities in 2008, the Ecuadorian government reports that there has been a significant increase in enrolment among indigenous and Afro-Ecuadorean students, as well as those from low-income households. Ecuador also claims to have the

second highest public investment in higher education in the world after Denmark, at 1.86% of GDP (Andes, 2012). The importance of research has been elevated and drastic changes have been made to the academic qualifications and employment conditions of full-time faculty.

### Structure and focus

The educational system in Ecuador is compromised by a 6-3-3-3 formal education structure. This includes Initial Education, Basic General Education, Baccalaureate, and Higher Education, in addition to special schooling options.

Initial Education focuses on children below five years and aims at supporting the integral development of children, their stimulation, health and nutrition. Net enrolment in initial education increased from 60.3 % to 81.5% from 2003 to 2012, whereas the greatest increase in net enrolment has been in the public sector (British Council, 2015).

The Basic General Education covers 10 years of schooling and begins with children at the age of five. It is integrated by four sub-levels, which are: Preparatoria (1st grade), Basic Elemental (2nd, 3rd, and 4th grade), Medium Basic (5th, 6th, and 7th grade), and Superior Basic (8th, 9th, and 10th grade). The basic curriculum is established and law enforced by the Ministry of Education, and consists of nine subjects; language and literature, mathematics, natural and social environment, natural sciences, social studies, aesthetics, physical education, foreign language and clubs. No certificate is issued upon completion, but it grants students admission to the next educational level (Nuffic, 2015).

The Baccalaureate Education level aims to prepare students to participate in the democratic society, enter the business or entrepreneurial world, and continue with studies in the Superior Education. The institutions at this level offer the students' common lectures or the possibility of choosing between a Science High School and a Technical High School.



Higher Education is comprised of Universities and Polytechnic Schools, which are managed by the National System of Higher Education (Consejo Nacional de Educación Superior - CONESUP). The main difference is that Polytechnic Schools have a greater focus on practical vocational training and Universities have a greater focus on theoretical academic qualifications. However, there is a significant overlap between the two. There are currently 57 higher education institutions in Ecuador, where 29 are public and 28 are private. Of these, nine are on the QS University ranking (UK Higher Education International Unit, 2014). The highest ranked in the nation is Universidad de San Francisco de Quito, a private liberal-arts university ranked 68th in Latin America. Around 70% of students are enrolled in public education institutions. The public institutions are completely dependent on government approval with regard to their budgets, curriculum development, administration, and student admissions. Private universities receive some financial support from the central government, and have some autonomy in regards to curriculum development and administration. The institutions, whether public or private, are not-for-profit. According to the British Council (2015) 47.9% of graduates studied business,

law and social sciences, 21.6% education, 7% engineering, manufacturing and construction; the share is smaller in science (5.5%), agriculture (3.3%) and arts and humanities (1%) in 2008.

Additionally, the government offers three additional opportunities for schooling. Special Education is for young people and adults that have unfinished schooling. Inclusive Education is for students with different capacities through a diversified educational offering. Lastly, due to the country's plurinational composition, the government offers indigenous people Intercultural Bilingual Education.

### English language education

English is perceived as a key driver to obtain a valuable employment. The government has developed strategies to increase the English language learning in public schools, and thereby remove the association between English proficiency and wealth. The quality level of the English language learning in Ecuadorian classrooms remains low (Loza & Ivonne, 2013). Reported problems include large class sizes of up to 60 students, lack of space and poorly trained or unqualified teachers. Additionally, the Ministry of Education estimates that 7,500 English teachers



are required to meet their objectives, whereas there are currently only 4,000, English teachers, many of whom are not meeting the quality requirements. The government is aiming to tackle this deficit through international recruitment and professional development initiatives (British Council, 2015).

### Future

Ecuador, as most of the Latin American countries, faces a wide range of challenges in terms of education coverage expansion. The country's education development is one of the main objectives of Ecuador's current government. There is still a quality gap between public and private education system. However, the Ministry of Education is taking significant steps towards raising the quality of the public higher education system. It is investing in new, high-tech

public schools, millennium schools, equipped with modern technologies, laboratories, libraries and facilities (British Council, 2015). The most significant investment in recent years is the new Yachay University, which serves as the cornerstone of the project City of Knowledge-project. The City of Knowledge aims to be a research-intensive institution, and will focus on three strategic areas: life sciences; IT, nanotechnology, energy; and petrochemicals (UK Higher Education International Unit, 2014). In addition to being a University, the City of Knowledge comprises all Ecuador's 13 public research institutes, a technology park and related industries. The main objective of the City of Knowledge is to create a research and innovation culture that will transform the country's economy to being knowledge-intensive.

# HEALTHCARE

Over the last years, Ecuador has seen major improvements in the healthcare system. Public spending on healthcare increased from 5.1% of GDP in 2007 to 7.5% in 2013, and better infrastructure has made the services more accessible (World Bank, 2016). The new constitution of 2008 states that health is a right guaranteed by the state. With President Rafael Correa’s ‘Citizen Revolution’ healthcare spending per person has more than doubled from USD 389 in 2006 to USD 789 in 2013. In fact, Ecuador is ranked 13th in Bloomberg’s Most Efficient Healthcare ranking (Bloomberg, 2014). However, the healthcare system is still facing challenges; 1 out of 4 Ecuadorians still does not have access to healthcare services (Lucio, Villacrés & Henríquez, 2011).

## Population health

According to the Human Development Report of 2015, health conditions in Ecuador have improved significantly between 1980 and 2014, and the HDI index increased by 21.3% in this period. The HDI index measures long term development in three dimensions: a long and healthy life, access to knowledge, and standard of living. In 2014, the HDI value was 0.732, which put the country in the high human development category (UNDP, 2015). In 2015, the under-5 mortality rate was 21.6 (per 1000) which is above the Latin American and Caribbean average of 19.3, and higher than the Norwegian value of 2.6. However, there has been a positive development regarding this indicator, as it has decreased from its 2005 value of 29.1. The maternal mortality ratio was 64 (per 100 000 live births), which is under the Latin American and Caribbean average of 85 and above the Norwegian value of 5 (World Bank, 2016). Ischemic heart disease, stroke, lower respiratory infections and road accidents are among the top ten causes of death in Ecuador (WHO, 2015). The HIV prevalence is 0.3%, compared to Norway’s 0.2% (World Bank, 2016).

## Structure

The healthcare system in Ecuador comprises two sectors, public and private. The public sector is administered by the Ministry of Health (MSP) alongside the healthcare service for municipalities and social security organisations. The MSP provides healthcare

### INDICATOR

Life expectancy in years, M/F: 73/78 (2013)

Infant mortality rate: 21.15 per 1,000

Expenditure on health: 7.5% of GDP

Health expenditure per capita: USD 789 at PPP (2013)

HDI ranking: 88 out of 188

Source: World Bank, 2016

services for the entire population. Workers from the formal sector have the right to join the Ecuadorian Social Security Institute (IESS), which covers at least 20% of the population (Lucio, Villacrés & Henríquez, 2011). The constitution of 2008 states that healthcare is a right guaranteed by the state. MSP has the widest provision of services, and covers around 51% of the Ecuadorian population. However, although the law guarantees universal coverage, in reality, this is limited and the quality is not always optimal (Lucio, Villacrés & Henríquez, 2011).



## Public vs. private healthcare

In theory, all Ecuadorians are covered by the public sector healthcare. However, there is also a private sector, where spending accounts for 47.7% of total healthcare expenditure (World Bank, 2016). The biggest share of private spending is out of pocket (OOP), and only 6.8% is paid through private healthcare insurance (World Bank, 2016). Although the public healthcare has improved, the waiting time can be long and the quality can be sub-optimal, making the private healthcare offer more attractive for the upper-economic class.

## Challenges

According to Lucio, Villacrés and Henríquez (2011), one of the greatest challenges in the healthcare system is to ensure coverage for everyone. It seems necessary to integrate all institutions into an all-encompassing system under the control of the MSP as the quality and availability of services vary from cities to rural areas. Many new laws and reforms have contributed to achieve this goal, but there is still a long way to go (Lucio, Villacrés & Henríquez, 2011).

According to Ruth Lucio (personal communication, January 7, 2016), the General Coordinator of Strategic Development of Health, the future economic prospects of Ecuador calls for a change in the healthcare system. Currently, public healthcare is completely free, but

with expected cuts in the public budget, it will be challenging to maintain this offer.

## Recommendations

Foreign citizens are by law covered by the same right to healthcare as local citizens. This implies that foreigners have access to local hospitals and medical care. However, as is often the case with public institutions, public services might have longer waiting times than private services. Other factors to consider, such as comfort, communication barriers, and quality of medical equipment, might make the private service offer more attractive. Regardless of this, it is mandatory for all companies to affiliate their employees before the IESS, and private healthcare will therefore represent an additional benefit. The cost of private healthcare insurance varies, depending on the insurance company and the kind of coverage and service that is included.



# INFRASTRUCTURE

After President Correa’s inauguration in 2007, Ecuador has increased its focus on infrastructure. Years of political turmoil and leadership changes had left infrastructure in a decaying state. President Correa’s campaign put this on the agenda, and instead of only fixing old infrastructure, they now began to build new roads and bridges, as well as increasing the accessibility of potable water. In addition, plans were made to overhaul sewage systems, electricity grids and other public services (Where International, 2013). However, the drop in the oil price might hamper future development in infrastructure, as evident by the USD 1,500 million budget cut in infrastructure investment through two rounds of budget cuts in 2015.

The Global Competitiveness Report for 2015-2016 by the World Economic Forum ranks Ecuador as number 67 out of 144 countries in infrastructure. Ecuador has steadily been climbing the ladder from 2011-2012 to the current year, showing the effects of increased investment in infrastructure. Ecuador received a score of 4.14 on a 7-point scale, ranking in the same region as Namibia, South Africa, Ukraine and Iran. The table above shows Ecuador in comparison to Norway (World Economic Forum, 2015).

### Roads

Road transport is the most important form of transportation in Ecuador and in the last years the country has invested heavily in their road system. It ranks as number 25 in the world in the Global Competitiveness Report for 2015/2016 (World Economic Forum, 2015). However, despite the improvements the road system in the rural areas is not sufficiently developed and needs large amounts of future investments. Ecuador also lacks sufficient infrastructure that can link production sites in the



countryside to more urbanized areas. According to BMI (2015) Ecuador’s competitiveness is weakened by its infrastructure, but it is more developed in the urban areas and between the larger cities. The road system consists of 43,197 km of road out of which only 9,700 km are paved. This reflects the need for more investments in this area (Pro Ecuador, n.d.; The Business Year Ecuador 2015, 2015).

### Trains and metro

Ecuador’s railroad grid is very underdeveloped and only consists of 965 km of tracks, which are narrow and thus unsuitable for large amounts of cargo. In addition, lack of investments and natural disasters have rendered much of the tracks inoperative. There does not appear to be any plans to upgrade the general railroad grid.

Due to increasing urbanisation and population growth, Quito is currently building its first metro system and has recently planned phase two of the operation (Railway Gazette, 2015). It is estimated to cost USD 2 billion and is financed by the central and local government, as well as loans of Latin American and European banks. It will be 23 km long with a capacity of transporting 369,000 people a day. The metro is scheduled to open in early 2017 (BMI, 2015; World Bank, 2016a).

### Communications

In 2014, 43% of the Ecuadorian people used the Internet. At the Akamai’s State of the Internet report of Q3 2015, Ecuador ranks number 84 with an average speed of 4.1 mbps. In comparison, Norway ranks number three with 16.4 mbps (Akamai, 2015). The telecommunications sector in general is steadily growing due to the impact of mobile phones. The cell phone penetration rate is 103 per 100 Ecuadorian (World Bank, 2016b). Because mobile phones were introduced roughly at the same time as fixed phones in parts of the country, the penetration for fixed phones is much lower. For fixed phones, the state owned company CNT accounts for 90% of the market (Marketline, 2014). Mobile phone coverage is generally good in Ecuador, however 4G is only present in the big cities (Movistar, 2016). Claro and Movistar are the biggest companies in this sector.

### Electricity and power supply

As most Latin-American countries Ecuador relies on hydroelectric power to generate electricity. Even though the country is one of the largest petroleum producers in South-America, it lacks the facilities to refine it. Hence, they have to import refined oil products in order to convert it to electricity (BMI, 2015).

### QUALITY OF ECUADORIAN INFRASTRUCTURE

	ECUADOR		NORWAY	
	SCORE (1-7)	RANKING	SCORE (1-7)	RANKING
OVERALL	4.1	67	5.0	31
TRANSPORT	4.2	42	4.5	37
Quality of overall infrastructure	4.6	45	5.0	27
Quality of roads	5.2	25	4.0	65
Quality of railroads	-	-	3.7	41
Quality of port infrastructure	4.8	40	5.5	18
Quality of airtransport infrastructure	5.0	42	6.0	10
ELECTRICITY AND TELEPHONE	4.0	79	5.5	33
Quality of electricity supply	4.6	77	6.7	7
Mobile-cellular phone subscriptions*	103.9	90	116.5	62
Fixed telephone*	15.3	69	22.7	46

\* Per 100 inhabitants  
Source: World Economic Forum (2015)





In general, the energy sources are dominated by hydropower and fossil fuels. In 2012, 55% came from hydropower, while 44% was from fossil fuels. The remaining 1%, was from other renewables (BMI, 2015). The goal is to reach 60% renewable generating capacity by 2017 (IRENA, n.d.). Ecuador have plans to build 25 hydropower plants. Ecuador's electricity regulator, Consejo Nacional de Electricidad, has issued a qualification certificate to Corporación Eléctrica del Ecuador (CELEC) to continue studies on the Santiago hydropower project on Zamora River. The plant is capable of producing a maximum 5,500 megawatts and is estimated to supply 15,647 gigawatt hours of power to the national grid. In addition, the Manduriacu hydropower plant in Northern Ecuador was launched in March 2015. It has a power generating capacity of 60 megawatts. The Coca Codo Sinclair hydropower plant project, of which China funds 85%, is expected to have a capacity of 1,500 megawatts when completed (BMI, 2015). In total, the 25 projects will supply 4.2 gigawatts by 2022. There are plans of building further renewable energy sources to increase the energy supply by 217 MW. This production can be seen in relation to the 1200 kWh per capita Ecuadorians used in 2014 (CIA, 2015).

### International transport

The busiest airport is the Mariscal Sucre International Airport in Quito, followed by José Joaquín de Olmedo International Airport in Guayaquil. Mariscal Sucre opened in 2013, and is the first 'greenfield' airport in South America, meaning that it was built on a new undeveloped site. The airport is run by the private company Quiport (The Business Year Ecuador 2015, 2015).

There are four main ports in Ecuador where the port of Guayaquil is the busiest in the country and the 13th busiest port in Latin-America. Guayaquil is the capital of industrial activity in Ecuador and handles around 63% of the cargo traffic and 93% of Ecuador's container traffic (World Port Source, n.d.). Its operations are run by private companies through concession agreements. The current concessionaire, Contecon, presented plans of investing USD 280 million in order

to expand operations. It is expected to be complete in 2016, and will among others reduce costs of using the facilities for exporters. The Ecuadorian seaports are in much need of development as none are able to accommodate post-Panamax ships, which are ships too large to pass through the Panama Canal (The Business Year Ecuador 2015, 2015).

One of the most ambitious plans for future infrastructure investments is the Manta-Manaos Multi-modal transport corridor, which aims to link the Pacific and Atlantic Ocean together through the continent (BMI, 2015; Bonilla, n.d.). The corridor will go from the coastal city Manta, through the country to Manaos which is in the middle of the Amazonas, and then to the Atlantic Ocean. It will carry cargo by road, water and air, and connect Latin America better to the Asian markets. The project has been ongoing for several years, and has met some obstacles along the way (Bonilla, n.d.).

### Final remarks

In conclusion the infrastructure in Ecuador has improved drastically over the last decade, and continues to develop. For example, there is now a six-lane motorway between the new international airport in Quito and the city centre, and the electrical system is planned to go through major extensions. However, there are still great challenges for the future, especially in the rural areas where there is a need for linking production sites to larger cities. The harbours are also in need of upgrading. Most of these upgrades will be dependent on government funding, which might even be cut in the years to come. The decrease in the oil price and the difficulties of borrowing money may limit future investments to some extent.



# RISKS IN ECUADOR

Operational risks in Ecuador are high. For many years, political instability and inefficient public administration have deterred the business environment. Current president, Rafael Correa, brought stability to the executive branch but his radical left-wing policies have lowered investment interest (The Economist Intelligence Unit, 2011). In particular, the 2008 constitution emphasizes state intervention in strategic business sectors. The country is facing challenges in terms of corruption in both the public and private sector, with few effective measures to combat it. High dependence on oil revenues makes the economy very unstable at the moment. According to The Economist Intelligence Unit (2011), the judicial system is highly affected by political pressure and bribery is a challenge.

## Economic and trade risks

Ecuador's dependence on oil makes the economy susceptible to external shocks and has a large effect on the current account. There are signs of further deterioration in the trade balance due to the rapid decline in the value of exports. The high oil prices in the 2008-2013 period and political ambitions of Rafael Correa to change the country's social policy direction led to an aggressive fiscal expansion of the government. Combined with negligible savings and few structural changes, the country now has no buffers (IHS Inc., 2015). In the medium and long run, financial instability could make the dollarization unsustainable (IHS Inc., 2015). Lower exports, higher imports and a low FDI are all threats to the current account balance and thus the dollarization.

SIX-FACTOR COUNTRY RISK ASSESSMENT		
Risk	SCORE (1-5)	DESCRIPTION
Overall	3.50	High
Political	3.75	Significant
Economic	3.75	High
Legal	3.75	High
Tax	3.50	High
Operational	3.75	High
Security	2.75	Medium
12-month Rating Trend: <span>▲</span> Positive		
SOVEREIGN RISK RATINGS		
Medium-Term	60 (B-)	Very high payment risks
Sovereign Risk Factor: <span>➔</span> Stable		

Source: IHS Inc., (March, 2015)

Since the country's exporters cannot depend on devaluation of currency to ensure competitiveness in the current economic downturn, they need to become more productive to stay competitive. The lack of an international trade agreements securing investor protection through international arbitration courts could be a cause for concern to foreign companies, and the current administration is averse to free-trade agreements. Further, national companies are favored when issuing public procurement contracts. A glimpse of FDI potential might be seen in the 'law of Public-Private Partnership' (PPP) which came into effect this year (for more information about the PPP law, see Taxation section).

## Political stability and legal risks

The political risks in Ecuador are considerably lower than in the early 2000s when frequent changes of government was the norm. President Rafael Correa will finish his second consecutive term this year; he has been the longest sitting president in the history of Ecuador. Although Correa has experienced tremendous support from the population, tension has risen sharply after implementing the 2013 'Communications Law' and decision to drill for oil in the Yasuni National Park. A proposal to increase inheritance taxes also sparked major protests in the summer of 2015, with several thousand taking to the streets of Quito. Because of the short remainder



of Correa's term and his ability to deal with the 2010 attempted Coup d'état, the political environment will probably remain stable in the short term. In the medium term there is uncertainties about the political direction of the country which increases the risk of political instability. For more information about these issues, see the political climate section.

The judicial system in Ecuador is highly affected by political pressure. Though there are good legal protection of property rights, competition laws and anti-trust laws, the enforcement of such laws is weak and in some instances non-existing.

## Security risks

Ecuador has a low security risk compared to other countries in the region. Still, due to high degree of police corruption, the risk of fraud makes it necessary for companies to implement costly legal security measures. As a key transit route for illegal drugs destined for US and Europe, Ecuador has some problems associated with organised crime (The Economist Intelligence Unit, 2011). Especially in the

north of the country close to the boarder of Colombia, illegal immigration from the neighbouring countries allow crime syndicates to establish themselves (BMI Research, 2016). Because of this, it is advised to stay clear of the northern areas close to the Colombian border. However, this risk is considered low compared to neighbouring countries.

Indigenous groups have historically opposed to natural resources extraction, seizing dozens of oil wells and suspended production. Political protests occur frequently and even though they do not usually target private companies, they often hinder business activity by closing down parts of large cities such as Quito and Guayaquil.



## 2 / INDUSTRIES





# OIL AND GAS

**Ecuador has been producing oil since the 1960s and it currently constitutes about 50% of the country's exports. Due to the low oil price, high prevalence of mature fields and uncertainty about development of the two largest oil fields, growth in the industry is expected to be negative in the short term. Unattractive contract terms, considerable CSR risks in developing Amazon fields and limited demand for offshore services translates to limited investment potential for Norwegian oil and gas companies. The following subsections aim to provide a general overview of the industry in Ecuador.**

## Overview

According to the U.S. Energy Information Administration (2015), Ecuador is the fifth largest oil producer in Latin America. The country produced 556,000 barrels of oil per day in 2014 and has proven crude oil reserves of 8.8 billion barrels in January 2015 (EIA, 2015). The country is heavily dependent on oil as a part of its energy matrix, with petroleum accounting for approximately 80% of the total primary energy consumption in 2013 (EIA, 2015). Production has stagnated for several years due to a challenging investment climate and a large number of mature fields with natural diminishing production efficiency. Ecuador is the smallest of the OPEC countries in terms of oil production. The upstream part of its oil sector mainly consists of national, state-owned oil companies (NOCs) with Petroamazonas being the largest one. Ecuadorian state-owned companies produce approximately 73% of total crude oil, amounting to 373,000 barrels a day (BMI Research, 2016). Other large players are Rio Napo (joint venture with Venezuelan PdVSA), Repsol (Spanish), ENAP (Chilean), Belrusneft (Russian) and Andes Petroleum (Chinese). Gas production has for a long time been a very small part of the total revenue-generation from the sector and seems likely to remain that way as the natural gas reserves in the country are relatively small (EIA, 2015).

The Ecuadorian oil sector is a very important source of revenue for the country, with crude oil generating around 50% of export revenues in 2014 and comprising

approximately 40% of government revenues (The Business Year, 2015). President Rafael Correa's 'Citizen Revolution' has increased government spending significantly and high oil prices supported this policy. Ecuador is now facing major economic problems as the oil price is estimated to have cut government revenues by 20-30% in about 1.5 years. The country's minister of hydrocarbons, Carlos Pareja, insists that Ecuador's OPEC colleagues cut production. Interviews with local industry experts reveal that the government might become more flexible on their restrictions of private investments, particularly through the newly approved 'Law of Public-Private Partnerships'.

Because of a lack of refining capacity compared to demand, the country needs to import refined petroleum which effectively lowers the oil revenues they otherwise would have had. The downstream sector is now undergoing substantial changes as a 2014 financing deal with China is paving the way for construction of the Pacific Refinery project. If the project is finished as expected and estimated utilisation rates stay above 90%, Ecuador will become a net exporter of refined fuels by 2019 (BMI Research, 2016). Most parts of the mid- and downstream activities are nationalised except for gas stations where the government regulates the fuel prices.

## Nationalised resources

The hydrocarbon resources in Ecuador are exclusively owned by the state. Policy changes initiated after Rafael Correa became president in 2007 have moved

profit potential from private companies to the Ecuadorian government (EIA, 2015). The trend towards nationalisation of resources does not seem to reverse in the short run, but the new 'Law of Public-Private Partnership' (PPP) of December 2015 is expected to create a more flexible business environment the coming years (Loose, 2016). In the 11th oil-licencing bidding round that finished in 2013, the Ecuadorian government sought private investments to explore large areas near the border of Peru. However only three offers were received among the 13 mature fields that were open for bidding (BMI Research, 2016).

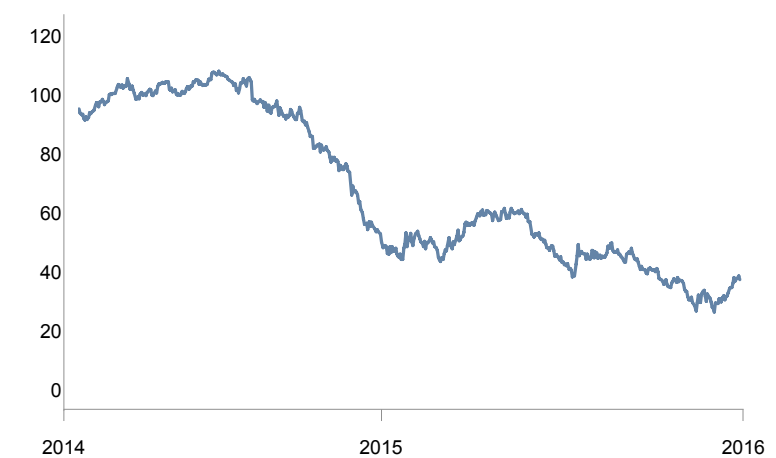
In 2010, reforms to Ecuador's legal frameworks changed policies from production-sharing agreements to flat-fee service contracts (U.S. Department of State, 2014). The latter is not very popular among international oil companies (IOCs) because they only receive a limited fee per barrel for oil delivered and thus remove a lot of the upside potential from high-risk operations (Downey, 2009). These reforms have been a top priority of president Correa in order to increase the country's revenues from oil and gas production and hence support the fiscal expansions launched by his administration. According to EIA, the move away from production-sharing agreements has lowered

the investment interest of IOCs. Both Noble Energy and Petrobras chose to terminate their contracts due to the new terms imposed by the Ecuadorian government (BMI Research, 2016). Nevertheless, because all contracts are negotiated individually with the ministry of hydrocarbons, local industry experts now believe that the low oil price might make the government more flexible in negotiations.

## Oil prices and dependency

Between July 2014 and January 2016 the price of WTI Crude Oil fell by approximately 70% and caused shocks in all oil related markets (NASDAQ, 2016). The focus of most industry players is now to adjust to the new level of the oil price by cutting costs and postponing new investments. Analysts at Rystad Energy (2015) have estimated that the oil and gas industry is responding to the low oil price by cutting new investments (CapEx) by USD 180 billion in 2015. This would be a reduction of 21% from 2014. Combined with the governments default on its international loan obligations in 2008 (see Economy section), this makes for an even harder competition to attract private investments to support future growth in Ecuadorian oil and gas.

CRUDE OIL PRICES (USD): WEST TEXAS INTERMEDIATE (WTI), JAN 2014- JAN 2016



Source: US Energy Information Administration (2016)

The fiscal budgets of Rafael Correa's administration is under pressure following the oil price drop. The estimated oil price for the 2015 fiscal budget to break-even was at USD 79.70 a barrel – way above the market price through all of 2015 (Wall Street Journal, 2014). Correa's economic reforms have made him popular in the past, but as economic growth is slowing down the people are now turning to the streets in protest of lower future spending and higher taxes. On 25th August 2015, the president revealed that Ecuador is now losing money on its oil operations by being paid USD 30 a barrel for crude oil with average costs of USD 39 a barrel (Fuelfix.com, 2015). In January 2016 the country's minister of hydrocarbons once again confirmed that the drop in oil price pose a significant problem for the Ecuadorian economy. It is estimated that approximately 90% of the current production comes from mature fields and enhancing the recovery rates to boost production requires substantial investments (BMI Research, 2016). Potential cuts in investments from state-owned Petroamazonas due to the low oil price could thus weaken future production rates as well as cap growth in reserves.

### CSR risks

In the 1960s Texaco Petroleum Company entered in an E&P venture with state-owned Petroecuador for operations in the northeast area of Ecuador near the border to Columbia (Goldhaber, 2014). The Lago Agrio oil field lies within the Amazon region of the country and was at the time inhabited by indigenous people. Over a 20-year period, the field is estimated to have produced approximately 1.7 billion barrels of oil (Goldhaber, 2014).

Since 1993, indigenous people and environmental NGOs have been fighting Texaco (now Chevron after 2001 merger) in a legal battle that has lasted over 20 years, over accusations of large-scale pollution (Goldhaber, 2014). Several multi-billion dollar lawsuits in both American and Ecuadorian courts have not yet resulted in a solution of the conflict. The Ecuadorian Supreme Court ruled in favour of the Ecuadorians in

2011, while the US court system has ruled in favour of Chevron because it found the legal team of the Ecuadorians guilty of fraud (Goldhaber, 2014). In September 2015, the Canadian Supreme Court ruled in favour of Ecuador villagers and thus the legal battle continues (Wall Street Journal, 2015).

The Chevron-Texaco pollution scandal in Ecuador has been the focus of many environmental and human rights organisations, and has been featured widely in international media such as The Guardian, The New York Times and The Economist. Activist organisations have for years been putting pressure on the Ecuadorian government to not allow drilling in the Amazon region of the Oriente Basin which is estimated to contain most of Ecuador's oil reserves (EIA, 2015). Drilling in the Amazon pose both a serious CSR and legal risk for international oil companies (IOCs) and might be one reason most IOCs have stayed clear of committing to these types of projects thus far.

### Uncertainty about oil fields

Ecuador oil production has been stagnating for many years because the majority of producing fields are mature. Development of the country's two largest oil fields, Pungarayacu and Yasuni-ITT, might change this trend and ensure production growth. However, due to financial problems and environmental issues there are uncertainty about development and production at both fields.

Pungarayacu

According to BMI Research (2016), the Pungarayacu field of the Napo Province has the largest known unexploited reserves in Ecuador, ranging between 4.3 and 12.1 billion barrels of ultra-heavy crude and is estimated to have a peak oil of 90,000-120,000 barrels a day. This would be approximately 20% of current total output in the country. The state initially awarded Canadian start-up Ivanhoe Energy a contract to develop and produce the field in 2007 as the company promised unique technology and investments of USD 5 billion in the first five years. However, in August 2014 Ecuador cancelled the contract as Ivanhoe Energy

only had raised USD 90 million and the field had not been brought to production. The government has not yet released any new information about further plans for this field and the low oil price adds further uncertainty to whether the field is financially viable (Platts, 2014).

The Yasuni-ITT field of the Oriente Basin is particularly promising with an estimated peak of 225,000 barrels a day and oil reserves of 846 million barrels, which approximately accounts 20% of all reserves in the country (BMI Research, 2016). If state-owned Petroamazonas (currently has a 100% stake in this field) manages to finance the exploration and production of the field, production is likely to grow significantly. However, the recent drop in oil price has left uncertainty about the viability of the fields. Being a part of Yasuni National Reserve and declared a biosphere reserve by the United Nations, Ecuador had initially refrained from developing this region. In return, the international community was supposed to finance a USD 3.6 billion fund to compensate the country for not drilling in biodiverse areas (The Guardian, 2013). Albeit, Rafael Correa decided to abandon the initiative when government liquidity became an issue in 2013. In 2014, environmental organisation Yasunidos presented more than 750,000 signatures and demanded a public referendum on the matter. The National Electoral Council (CNE) rejected two thirds of the signatures on claims that they were illegitimate, leading to demonstrations across the country (The Guardian, 2014).

### Final remarks

The oil field services (OFS) segment in Ecuador is composed of both private international companies as well as different state-owned companies. Enhancing recovery rates at mature fields (approximately 90% of current production) require complex technical solutions that a limited number of OFS companies are able to deliver. The Ecuadorian government has signed contracts with both Halliburton and Schlumberger to boost production. National companies such as YPT

(Argentina) and Sinopec (China) are also reported to have signed contracts with Petroamazonas to improve the recovery rates of mature fields (BMI Research, 2016). Companies signing contracts under the service contract model are also responsible for providing all services necessary for the field, according to an industry expert. This simplifies matters for the government by only having to deal with one single company.

Ninety-nine percent (99%) of production in Ecuador is onshore and there are significant technical differences between onshore and offshore operation (Rystad Energy, 2016). Norwegian OFS companies are mainly specialised in offshore operations, and these are of a different technical character than onshore operations. The negative outlook for exploration and production (E&P) activities in Ecuador translates to lower activity for OFS companies in the coming years. In combination with the current government's foreign investment policies, we believe that there are limited opportunities for Norwegian companies in the current Ecuadorian OFS market.



# AGRICULTURE

Ecuador has a geographical advantage for agriculture as its tropical climate allows for growing seasons throughout most of the year. Agricultural land accounts for 30% of the land area and keeps expanding. One of the government’s main goals is to protect and strengthen the domestic agricultural suppliers (World Bank, 2015).

According to the World Bank the agricultural sector contributed 9.4% of total GDP in 2014. Even though its contribution has been decreasing over the last 45 years, as other sectors are becoming more important, agriculture is still an important sector for Ecuador. One third of the population lives in rural areas, where almost 70% are employed in agriculture, livestock, or hunting. (FAOSTAT, 2015).

Increased productivity in the agricultural sector in the last decades is strongly related to the government’s effort to increase the producer’s opportunities to access technology, financial capital and better geographical areas for cultivating their crops. In 2008, the Ecuadorian constitution introduced a new socio-economic plan with several new reforms and investment rules to strengthen the country’s development (FAO, 2008). Through different programmes such as El Plan de Desarrollo and El Código de la Producción, the aim is to strengthen small and medium sized producers and companies so that they become a key drivers of economic development. The government’s priority is to reduce losses for the domestic suppliers by securing a floor price.

Agriculture used to be the most important GDP contributor and export good, but after discovering oil in 1967 the country’s exports changed. Ecuador went from being an agricultural-based economy, to become very dependent on oil. In order to become a more



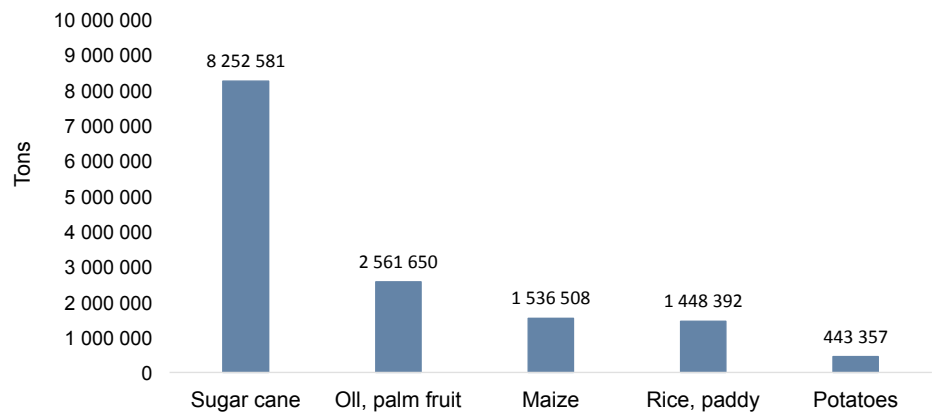
diversified economy, the Ecuadorian government aimed to modernise the agricultural sector.

Between 1999 and 2009, the government increased expenditure on agriculture by 50%. This was mainly done by strengthening institutions, encouraging technological innovation, and improving production chains (FAO, 2014). However, the technology used in the agricultural sector is still out-dated, especially for small and medium sized producers.

### Production

Varying temperature, latitude, and rainfall patterns have resulted in a diversity of tropical and temperate crops. Ecuador can be divided into three main agro-ecological zones: coastal, mountain and rainforest (Ludena, Schuschny, de Miguel, & Durán Lima, 2009). The coastal region consists mainly of hills and plains that are perfectly suited for cultivation of rice, corn and soybeans. The mountain region is a better fit for cultivation of vegetables and fruits, as well as livestock. The rainforest region represents nearly

MOST PRODUCED COMMODITIES IN ECUADOR 2014 - PRODUCTION (VOLUME IN TONS)



Source: FAOSTAT (2015)

half of the Ecuadorian landscape where tropical and subsistence crops, extensive livestock production, and foresting are the main agricultural activities. The chart shows the five most important agricultural goods produced in Ecuador in 2014.

In terms of imports, a large share consists of wheat and maize, primarily imported from Canada and the United States. In 2011, the two commodities had an import value of USD 220 million and USD 183 million respectively, which together represented 47.2% of total imports (FAOSTAT, 2015). The Ecuadorian government has raised concern regarding the high dependence on import of agricultural products (Purdy, Vega & Beillard, 2014). They have increased incentives for domestic production in order to reduce the high cost of importation and become less dependent on Canada and the United States. Domestic production has been increasing over the last decade, but the effects of the international financial crisis in 2008 slowed down the growth rate. The following sections present an overview of two of the most exported agricultural products in Ecuador, bananas and cut flowers.

### The banana industry

Banana is one of the most important agricultural products in Ecuador. Although it has been cultivated for centuries, Ecuadorian bananas were not in high demand until after World War II. Improvements in

infrastructure and the availability of cheap agricultural credit increased the incentives for production for the international market. Ecuador is the largest global exporter of bananas, and the product contributes 23.7% of total exports (Vega & Purdy, 2011). Their net export surplus of international trade of bananas was the highest positive net export registered with 28.8%. The industry added USD 2.6 billion to the GDP in 2014 and has had a positive annual growth of 3% over the last years (Workman, 2015). Ecuador exports 95% of their production to the international market, reaching 43 markets worldwide. Despite the distance, the largest importers of Ecuadorian bananas are the European Union, the United States and Russia, covering more than 80% of sales (Vega & Purdy, 2011).

The banana industry indirectly generate jobs for one million Ecuadorian families due to its influence on other industries. This represents more than two and a half million people located in nine provinces that rely on the Ecuadorian banana industry (ProEcuador, 2013a). Despite the large production of bananas, productivity in Ecuador is low (Vega & Purdy, 2011). The Philippines and Guatemala are nearly twice as productive. The high productivity in these countries is a result of the large-scale farming operations, usually owned by multinational companies or their associates. However, several important and well-known brands such as Dole, BAMA and Chiquita (just to mention a few) are present in Ecuador.





The increasing pressure on producing more environmentally friendly products and trade policies has pushed the Ecuadorian producers to upgrade their current technology. New technology innovation used in the production process is becoming very important, as it tends to reduce the amount of chemicals used in the process (ProEcuador, 2013a). It ensures the quality of the banana, and reduces the risk of environmental pollution. Going 'greener' has showed to give price premiums, with an increase up to 60% (Vega & Purdy, 2011). At the same time, there is an increase in the number of banana producers joining the Rainforest Alliance programme (International Institute for Sustainable Development, 2014). The programme certifies producers that follow a new model of sustainability and that are in line with the standards set (Rainforest Alliance, 2016). Ecuador accounted for 7% of Rainforest Alliance exports in 2012. According to Eduardo Ledesma (personal communication, January 14, 2016), the Executive Director of the Association of Banana Exporters in Ecuador (AEBE), the drastic reduction on the oil price, the appreciated dollar, and cuts in subsidies in the industry will have huge effects on the countries importing Ecuadorian bananas. In the short-term, this might lead to more

expensive agricultural exports and higher prices per box of bananas. The situation can be worsening if the damages of El Niño are more intense than in previous years. New trade agreements with the EU and the other large importing countries can benefit all parts and may improve the future of the industry.

### The floriculture industry

Ecuador's trade liberalisation in the late 1980s and early 1990s had positive effects on the macroeconomic stability of the country, which saw a rapid growth in the exportation of flowers. In the early 1980s, Colombia was well established in the international floricultural market, but increasingly restrictive economic policies and violence in the country led buyers to discover Ecuadorian floriculture. The Ecuadorian government signed the Andean Free Trade Preference Act (ATPA) in the early 1990s with Bolivia, Colombia and Peru, and the programme stimulated various industries in Ecuador, especially floriculture (Conefrey, 2015). The combination of the Colombian export restrictions of flowers and a more open trade in Ecuador gave the domestic flower industry a boost. Ecuador's greatest advantage for cultivating roses has been its geographical location with natural

sunlight during all seasons, which makes it possible to have production all year around. At altitudes between 2,800 – 3,000 meters, roses have a longer growing cycle than those growing in a lower altitude. At such high altitudes, unique roses can be found that have particularly long stems and big heads. There are 629 flower farms registered in The Ecuadorian Agency for Quality Assurance of Agro (Agrocalidad). Out of these, 85 farms are 'Flor Ecuador' certification. Flor Ecuador certifies producers and companies exporting flowers from Ecuador that are in line with social and environmental requirements. Ecuadorian flowers are exported to 110 countries around the world but the largest importers are the United States, Russia and the European Union (ProEcuador, 2015).

Ecuador is the world's third largest exporter of cut flowers, only behind the Netherlands and Colombia. Roses account for 73% of exports, followed by summer flowers (gerbera, alstroemeria, asters, etc.) accounting for 16%, and other types of flowers representing the last 11% (ExpoFlores, 2015a). The industry generated USD 808 million in 2014, lower than the year before as the price of some high-demand flowers increased.

Some producers are working on projects to offer new and unique varieties of flowers. One ongoing project is to produce flowers that lasts for three years. Another trend is edible roses; in order to be edible the fertilisers have to be organic and no chemicals can be used. Restaurants in New York, Barcelona and Quito have started serving dishes and desserts with rose petals.

Cultivation of flowers is both land- and labour-intensive, with the highest land productivity of any major crops exported from Ecuador. Since the flowers are produced in rural areas (Pichincha, Cotopaxi, and Imbabura), the industry has made a significant impact on employment and living standards on the countryside. The industry employs over 120,000 Ecuadorians, where more than half of them are women (ProEcuador, 2015). The average number of people working per hectare in Ecuador is 12 employees per hectare, while in the Netherlands the

average is 8 employees per hectare (ProEcuador, 2013b). According to Juan Francisco Pozo, Head of Information and Communication in Expoflores, the industry used to be financed by foreign investors, but over the last years there has been an increasing tendency of national investments (personal communication, January 8, 2016). The Association of Producers and Exporters of Flowers (ExpoFlores) was founded in 1984 with the goal of representing the Ecuadorian floriculture industry. Their aim is to help local flower businesses generate added value to customers. ExpoFlores also ensures that producers meet social and environmental standards. Juan Francisco Pozo (personal communication, January 8, 2016) also state that the buying process is informal in the flower industry; arrangements are based on trust and often done through videoconference. This can be a challenge for Norwegian companies that want to import Ecuadorian roses. In order to reduce risks, a good starting point is to review ExpoFlores' website and to check for FlorEcuador certified producers.

The industry experienced a revenue increase of 13% in 2013, but they fell by 1.2% in 2014 due to a crisis in the international market and the increased flower prices (ExpoFlores, 2015b). However, the floricultural industry in Ecuador seems to have overcome the challenges. Ecuador has the right environment for cultivating both luxurious and basic flowers, reaching a broader market. Ecuadorian flowers have high quality and unique features that are hard to find any other place in the world. In addition, innovation and improvements in the technology drives the creation of new varieties of flowers, which attracts new costumers. Ecuador is one of the leading countries in innovation within the production of flowers, resulting in an impressive range of products (ProEcuador, 2013b).

### Opportunities

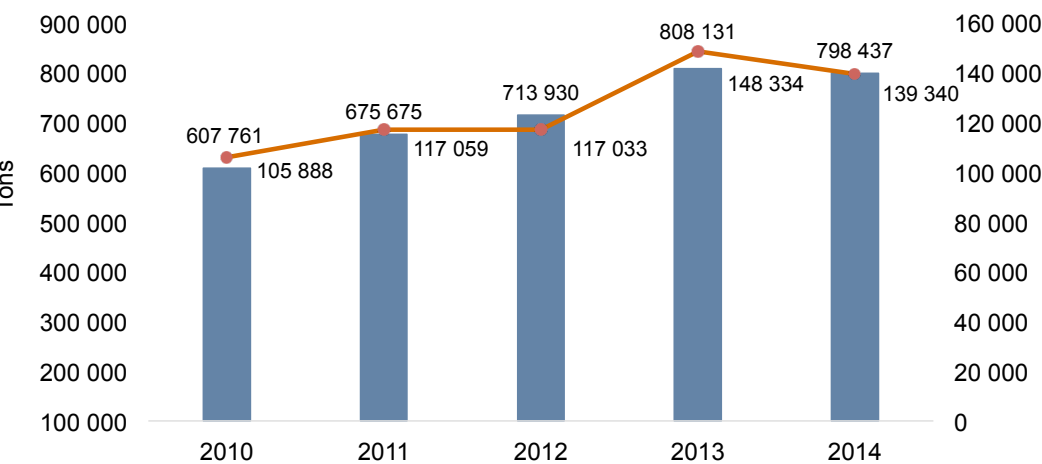
Ecuador is rich in resources and have a good environment for agricultural investments. The industry specific challenges are related to the lack of agricultural financing, insufficient infrastructure, fluctuating commodity prices, and limited access



to new technologies for small and medium sized producers. Investing in technology is a way to boost productivity and increase output. Despite these challenges there is potential in the Ecuadorian agricultural sector. The government is trying to diversify the exportation of agricultural products, as the country is struggling to cope with the decline in oil prices. This might result in better trade arrangements for importers of agricultural products from Ecuador. For companies who want to import roses from Ecuador there are zero tariffs on roses, carnations, orchids, chrysanthemums and other types of Ecuadorian flowers (ProEcuador, 2013b).



ECUADOR: TOTAL EXPORT OF FLOWERS (Q4, 2014)



Source: Expoflores (2015)

# conexus

## RELEASE KNOWLEDGE



### Release knowledge

**How can we grow capacity for the next century, if more equity and global awareness is the goal?**

Conexus has been a market and research leader in learning analytics for the educational sector in Scandinavia for the last 13 years. We have developed solutions from scratch for the past decade, in careful collaboration with school owners, school leaders and teachers. About 75 % of Norwegian schools use Conexus' solutions. We also collect data from the national student survey for the Norwegian Ministry of Education.

We have developed solutions that help educators around the world solve current and future inter-connected challenges of student learning and development. This is not something we have done on our own, but in close collaboration with educators in schools and districts, and based on research on a range of different topics:

- Professional Learning, Leadership and School Development (Louise Stoll, Andy Hargreaves, Michael Fullan, Erling Lars Dale, Viviane Robinson, Knut Roald and Peter Mortimore )
- Student Motivation and Self-Efficacy (Albert Bandura and Einar Skaalvik)
- Assessment for Learning (Paul Black and Dylan Wiliam)

A tool is only as good as the mindset using it (Fullan 2013). We have developed process models in a strong collaboration with the IMTEC-foundation ([www.imtec.no](http://www.imtec.no)) in order to strengthen implementation of our tools.

# RENEWABLE ENERGY

**Energy access is an essential part of a country's development and affects the economic growth through its impact on income-generating activities and basic services such as health care, education and food production (UN Foundation, 2013). Ecuador has come a long way in the past decade with respect to providing energy access to the population and the country is currently changing its energy matrix to include more renewable resources. This is done mostly through hydropower, but the country also have great potential for wind, solar and geothermal energy. However, one of the major challenges is to get funding for different projects, and in an effort to address this Ecuador is slowly opening up for more private and foreign investment in the sector.**

## Geographic potential

Ecuador has more than 2,000 rivers and streams, over 40 active volcanoes and a wide variety of regions which contains mountains, forest and coastline (Terry, 2007; Lloret, 2014). These natural endowments create a basis of a remarkably diverse energy generation potential, although currently only fossil fuels and hydropower are exploited at a large scale (IRENA, 2015). Solar energy is also being exploited but not to the same potential; the approximately 2,000 hours of sunlight a year was used to produce 0.08 MW in 2011 (REEGLE, 2012). 2.4 MW of wind power capacity was exploited from the mountain areas and the sea in 2011 (REEGLE, 2012).

## Supply and demand

Renewable energies together with water supply accounts for 2% of the GDP in Ecuador. The industry is growing and between 2000 and 2012 Ecuador increased its energy generation with 115% (IRENA, 2015). Most of this was due to an increase in hydropower generation and the introduction of natural gas production. According to the Agency of Energy Regulation and Control renewable energies accounted for approximately 47% of energy generation by the end of 2015 (IRENA, 2015). The transmission grid in Ecuador has interconnections with Colombia and Peru, and the country is a small net importer of electricity. However, the electricity grid still does not reach all Ecuadoreans. Those that

cannot be reached rely on solid biomass to cover their energy needs. Residential users are responsible for approximately one-third of electricity demand, similar to the industrial sector (U.S. Energy Information Administration, 2015).

## Constitutional framework

The new constitution of 2008 established that the government is committed to promote the use of clean and alternative energy sources as well as general energy efficiency. It defined a target of 60% renewable energy generation capacity by 2017, with specific emphasis on hydropower and bioenergy (IRENA 2015).

All energy sectors are defined as a strategic sector for Ecuador because of its significant economic, political, social and environmental influence (National Secretariat of Planning and Development, 2013). Article 313 of the National Development plan (National Secretariat of Planning and Development, 2013) states that "the state reserves the right to administer, regulate, oversee and manage strategic sectors, pursuant to principles of environmental sustainability, precaution, prevention and efficiency". State-owned or controlled companies therefore dominate these sectors as Ecuador aims to increase its ability to manage these resources internally and to generate the 'value-added' within the country. Policies such as import substitution, local content and

technology transfer, and large-scale governmental programs to increase the generation capacity are put in place to ensure the realisation of this goal (National Secretariat of Planning and Development, 2013). State-owned enterprises (SOEs) benefit from regulations that are more flexible, such as government guarantees and reduced taxes, as opposed to private companies (U.S. Department of State, 2015). Contrary to the general emphasis on national companies in the sector, the government has recently opened up more to private and foreign involvement, due to a lack of capital. Contracts have in large part been awarded to Chinese, Russian and Venezuelan companies as part of bilateral trade agreements, and might not be easily awarded to Norwegian companies unless there is a governmental agreement (U.S. Department of State, 2014).

## Legal framework

The Ministry of Electricity and Renewable Energy (MEER) and the Agency of Regulation and Electricity (ARCONEL) are the governmental entities in charge of planning, regulating and promoting the power sector in Ecuador. The governmental company Strategic Electrical Corporation Ecuador (CELEC EP) is responsible for the actual generation and transmission of electricity.

In 2011 a new code of production came into force. The aim of this production code was to translate the goals of the constitution into specific tax incentives and regulations. The code covers the overall policies of production, trade and investment, but does not specify tax rates. Rather, it gives a broad impression of the Ecuadorian government's objectives over time. Compared to the limited presence of private and foreign investments in strategic sectors originally set out by the constitution, the code is more moderate. Investors should however be aware that since it provides more of an overall guidelines than specific regulations, it is inferior to specific laws covering the sector (U.S. Department of State, 2015).

The code aims to encourage foreign investment that meet different criteria's with tax reductions and/ or exemptions of the corporate income tax, the anticipated income tax and the currency transfer tax. For more information about the specific taxes see the Tax section by EY Ecuador. Investment in renewable energies is likely to gain such advantages, providing interesting possibilities for Norwegian energy companies. Among the most interesting incentives is the total exemption of the corporate income tax for investments in sectors that might change the energy matrix, foster exports or develop rural development. Foreign investments can also secure exemption from the currency transfer tax for operations with external financing (The National Assembly, 2010). To qualify for these incentives the company has to send an investment proposal to the Technical Secretary of the Sectoral Council for Production. Another way of securing a beneficial tax agreement is to sign a fixed investment contract with the Council for Sector Production in order to get a customised and stable tax throughout the validity of the contract. These benefits are granted in exchange for compliance with parameters defined by the government. However, a contract does not ensure amnesty from changing state regulations or state control, and the Technical Secretary Office reserves its right to verify the compliance of the criteria that formed the basis for the tax incentive.

## Hydropower

In 2014, hydroelectricity accounted for 47% of total electricity generation in Ecuador. The sector has developed rapidly over the last three years with four large power plants going into production soon. Ecuador has over 200 existing hydroelectric plants in various sizes out of which 89 provide power to the National Interconnected System (U.S. Energy Information Administration, 2015). Most of Ecuador's hydro capacity comes from the Azuay province and in the south-central highlands. This is where Paute-Molino is situated and it is the country's single-largest hydroelectric complex at almost 1.1 GW capacity. (Ibid).





According to the government program '2020 Power Grid' hydroelectric energy's part in the energy matrix will increase from approximately 50% in 2016 to 80% by 2022 (REEGLE, 2012). This is a measure aimed at reducing the country's dependence on fossil fuels, limit the energy imports from Peru and Colombia, and address national availability shortages. Ecuador plans to build 25 hydropower projects totalling 4,200 MW of new capacity by 2022 and 8 of these will be in production before 2017 (IRENA, 2015).

In addition to large hydropower plants, the reintroduction of small hydro projects is also a part of the strategy towards increased energy generation based on renewable energy (IRENA, 2015). Small hydropower is defined as a plant with installed capacity of less than or equal to 10 MW, and if the power do not exceed 1 MW no operating license is needed. They are, however, required to get a permit from the National Water Resources Secretariat (SENAGUA), register the project with the National Electric Council (CONELEC) and get a certificate from

the Environmental Ministry verifying that the project is not taking place in a National Protected Area (Liu, Masera & Esser, 2013).

### Geothermal Power

Geological conditions provide a considerable potential for geothermal energy. The most promising areas can be found in the continental arc of the Andes, in the hot-spot trace above the Nazca Plate in Galapagos, and at the quaternary alkaline volcanos in the Amazon basin (Beate & Urquizo, 2015). The resource is currently only used in swimming pools and thermal baths. Geothermal energy is next to non-existent in the energy matrix and no deep drilling has taken place yet. However, due to the political engagement in the sector, substantial investment in research and development has taken place the last eight years; the results of this is expected to show in the next five to ten years.

In 2008 the Ministry of Electricity and Renewable Energies (MEER) initiated the first geothermal

explorations in Ecuador. The 'Geothermal Plan for Electricity Generation' was launched in 2010 to develop geothermal prospects for power generation. The plan described and prioritised eleven geothermal prospects in the country, four of which were subject to feasibility studies up to pre-drilling stage between 2011 and 2013. Based on the initial surveys the generation potential was estimated to about 4,700 GWh, equivalent to 40% of annual energy consumption in the country (REEGLE, 2012). Geothermal energy is expected to be more cost-efficient and more environmental friendly compared with hydro resources (Beate & Urquizo, 2015). The geothermal resource is currently the most promising for direct use, but energy generation by power plants is only expected to be in place in the next five to ten years (Ibid). Since geothermal energy falls under the definition of a strategic sector, exploration and development is strictly regulated by the government. The government does not grant concessions; majority joint ventures between Ecuador and another state owned company is favoured. However, according to Edgar Adrián Moreno Díaz (personal communication, January 21, 2016) recent changes in the code of production and other regulations relevant to the sector is intended to open up for private and foreign investments.

As of now, any project that aims to generate geothermal energy needs a permit from the National Electric Council, a water-use permit from the National Agency for Water Issues and an environmental permit from the Department of Environmental Affairs (Ministerio del Ambiente). However, the regulations described in this section are continuously subject to change so it is advised for companies to check which laws and regulations currently hold.

### Recommendations

Ecuador's natural wealth creates potential for the development of several different source of renewable energy. Hydropower is currently the most developed renewable resource and it is resource that accounts for the most projects under development. However,

the geothermal sector has come a long way in the last few years and is now considered a viable option for generation of electricity. Both sectors are of political interest and will therefore be subject to significant investments in the years to come. The investments will mainly be made by the government, but Ecuador is trying to open up for more private and foreign investments with their new code of production. However, the complexity of the legal framework and the risk of rapid changes currently represents the most significant challenge for companies interested in investing or trading in this sector. Companies are therefore encourages to thoroughly investigate both current and future perspectives of governmental policies and specific regulations.

Overall, the renewable energies sector offer interesting opportunities for companies looking to invest or trade with Ecuador. This is particularly true for small-scale hydropower and modular geothermal power plants as these are in general subject for fewer bureaucratic processes. In addition, smaller plants are easily constructed in rural areas which makes them eligible for tax reductions and they tend to be less prone to environmental controversies. In the last few years Ecuador has built local competence within both hydro and geothermal energy, but there is still a great potential for companies possessing technical resources as the sector is still in its infancy.

# AQUACULTURE

**Even though Ecuador is a relatively small country, it is home to the largest tuna and artisanal fisheries in the South-eastern Tropical Pacific. Ecuador is home to about 234 fishing ports and roughly 80,000 fishermen live along its coastline. It is ranked among the top 25 nations in the world for the landed value of fish and related products. This sector contributes approximately 6% to GDP (Alava, Lindop & Jacquet, 2015).**

Fishing in Ecuador is generally considered to be split into two sections. Industrial fishing, which began in the 1950s, and artisanal fishing. Artisanal fishing is defined by Ecuadorian law to be “fishers using manual gear and small boats to catch fish”. The landings are mainly for domestic consumption. This sector has experienced a tremendous growth, evident from the growth in the number of vessels; 1,900 in the late 1980s to 15,900 in 2008. Even though there has been an increase in vessels, catches peaked in 1994 (Alava et al., 2015). Average catches in the 2000s were 105,000 tons annually. Both industrial fisheries and aquaculture are dominated by many small companies and only a few companies have revenues over USD 100 million (EKOS, 2014).

### Production

For industrial fishing, tuna and shrimp are the most important landings. Ecuador is a leading producer and exporter of tuna, being the third largest producer of tuna and tuna products only behind Thailand and Spain. In 2014, Ecuador had 45% of total retained purse-seine tuna catches among American countries with 251,300 metric tons (IATTC, 2015). Tuna fishing directly employs around 25,000 people.

In 2014 Ecuador was the third largest producer in the world of white-leg shrimp. The Ecuadorian government aims to further expand shrimp production, and has invested in roughly 300 laboratories aimed at producing shrimp larvae. Fish farming or aquaculture occupies roughly 213,000 hectares, of which 207,000 are for shrimp (Vega & Beillard, 2015a). The climate in

Ecuador is optimal for onshore shrimp production, and the access to water is good. There is also potential for other crustaceans (Gonzalo Escobar, personal communication, January 14, 2016).

Ecuador also has a smaller offshore shrimp industry where shrimp is fished with large trawlers. By-catch is common in shrimp fisheries due to that the trawl nets do not discriminate between different species. Often a large portion of incidental catches are thrown overboard, and the by-catch is rarely reported. Because of the problem of by-catch, researchers disagree how large share fished shrimp has of total catch. The numbers range from 8% to 38% of total catches (Alava et al., 2015). By-catch has historically, and still is, been a problem in the Ecuadorian fishing. This is a problem both for industrial fishing and also for artisanal fishing (Alava et al., 2015). In the tuna fishing there are some problems with accidental catch of dolphins and sea turtles (FAO, 2011). One significant advantage with the onshore production of shrimp is that the problem is eliminated.

### Processed seafood

Ecuador processes 500,000 metric tons of tuna annually (Vega & Beillard, 2015a). In 2008 11.9% of the global production of canned tuna was Ecuadorian (Davutoglu, 2012). The conditions for production are favourable with good industrial facilities for cleaning, freezing and canning of fish (PwC Ecuador, 2006).

However, Ecuador’s shrimp industry struggles to compete with the lower cost of processed shrimp

products from Asia. This results in Ecuador mainly exporting frozen unprocessed shrimp with no value added from processing. Only 1% of the exports from the aquaculture and fishery sector is processed crustaceans (Alava et al., 2015).

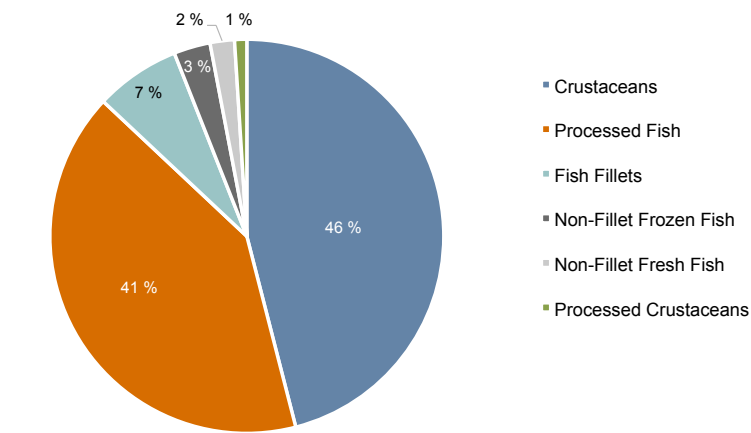
### Exports of tuna and shrimp

In 2014 tuna and shrimp accounted for 11% of all exports from Ecuador, making it the second largest export (Green, 2015). Tuna exports grew with a CAGR of 15% from 2007 from 2011 (Pro Ecuador, 2012), but have struggled with volatility and low prices the recent years. According to Villegas (2015), the tuna industry is facing lower prices due to oversupply, but Ecuador has not scaled back operations in fear of losing market share. The main importers of Ecuadorian tuna are the European Union, Venezuela and the United States. Of these, the EU and U.S. have decreased their imports from 2013 to 2014 by 17.6% and 10.6% respectively, while Venezuela has increased imports by 71.9%. The negative trend continued in 2015 as Ecuador saw exports drop further. Exports to Venezuela dropped 83.8% in the first half of 2015 compared to 2014. It is the oversupply of tuna combined with an unwillingness to sell cheaply and a strong dollar that have contributed

to the decline. A change in preferences from U.S. and European consumers along with concerns of dolphin bycatch has decreased demand (FAO, 2016; Villegas, 2015). The tuna exports have benefitted from a three percent tax reduction calculated on the freight-on-board declared values (Vega & Beillard, 2015b).

Shrimp exports have been steadily increasing over the last 14 years, with volume growing at 15.9% on average (Alava et al., 2015). According to Rabobank (2015), Ecuador is expected to keep this growth for the following years. The EU is the largest importer, followed by the United States and Vietnam. In 2014, Ecuador exported nearly 300,000 metric tons of shrimp for approximately USD 2.6 billion (Alava et al., 2015). After two years with high shrimp prices, Ecuador suffered from a sharp decline in the second half of 2015 (IndexMundi, n.d.). According to Gonzalo Escobar, Shrimp and Banana Trader in Betaservi, the price is still high enough for the shrimp producers to have a good margin (Personal communication, January 14, 2016). From his perspective, shrimp production is one of the most attractive businesses in Ecuador.

FISH AND CRUSTACEANS EXPORTS (2012)



Source: WITS- UNSD COMTRADE, n.d.)





**THE BLYSTAD GROUP**

The decline in price has been caused by several things. After Early Mortality Syndrome (EMS) broke out in parts of the world in 2012 and 2013, the prices skyrocket as supply dropped. This caused consumers to alter their preferences, which they have not turned back again when prices came back down (Seafood Source staff, 2015). The EMS did not affect Ecuador, who as a result strengthened their position as the Latin American shrimp export leader (Rabobank, 2015).

### **Foreign investment regulations**

Foreign investment in fishing in Ecuador is subject to approval by the National Fisheries Development Council. Extractive fishing by foreign companies is only permitted if the catch is processed in Ecuador (U.S. Bureau of Economic and Business Affairs, 2015).

According to FAO (2016) the establishment of aquaculture facilities in the highlands that are not exploited for farming purposes needs to be authorised by the Under Secretariat for Fishery Resources. Setting

up aquaculture facilities on beaches and in bays requires a concession from the Under Secretariat of National Defence in addition. If the facility exploits groundwater, the granting of authorisations is subject to the submission of an environment impact study to the Environmental Management Commission (FAO, 2016).

The Ecuadorian government has listed 14 prioritised sectors in their work to change the production composition in the country. These sectors have been granted several investments incentives. Fresh and processed food, including fish and crustaceans, is one of these sectors and investors in fisheries and aquaculture can therefore enjoy these incentives. One of the most important incentives is no payment of income taxes in the first five years of operation. Medium-sized companies can also deduct twice their investments in research, technical training and innovation from the tax accounts (Pro Ecuador, n.d.). To get the mentioned tax incentives, an investment

proposal must be approved by the Technical Secretary of the Sectoral Council for Production (The PRS Group, 2014).

### **Opportunities**

Although the tuna industry in Ecuador is big, it has had some troublesome years with volatile demand and price declines. The industry does not seem to show great investment opportunities at the moment. Nevertheless, if the market stabilises and the price increases, the conditions for tuna fisheries in Ecuador are good. With the re-opening of the Norwegian tuna fishery after three decades of closedown due to overfishing (Utheim, 2014), companies that develop expertise on this field can find opportunities in Ecuador in the future.

The shrimp farming industry seems to have a more positive outlook, even though the price has fallen.

The growth has been more stable and the conditions are favourable. According to Alexis Carrera at EY Ecuador, aquaculture will become more important in the next years; besides petroleum, it is one of the most developed industries in Ecuador (Personal communication, January 14, 2016). Even though Norway has strong traditions in aquaculture, Norwegian companies are not very experienced in shrimp and onshore aquaculture. Hence, this industry requires investments in knowledge and production facilities, and navigating in a complicated regulation system could be a challenge. However, with the profitable growth seen over the last years, this industry can be a good investment opportunity. As aquaculture and fisheries are part of the prioritised sectors in Ecuador, Norwegian companies can enjoy favourable tax incentives that you can read more about in the tax section of this report. These incentives strengthen the investment opportunities in this sector.



## 3 / DOING BUSINESS





# TAXATION

## Legislation and governance

Ecuadorian tax laws are proposed from the Constitutional President through Decree and under the approval from the National Assembly as the maximum governance organism on legislation matters.

The Internal Revenue Service (IRS) is the public entity in charge to act as the maximum and central administrative tax authority for national taxes. The Customs National Service is the central administrative authority regarding customs taxes. Both authorities are entitled to issue administrative resolutions or circular letters in order to improve and clarify the application of tax laws, to provide a better understanding of the rules, to establish additional regulations, or any other similar.

Under the aforementioned, the taxation system in Ecuador is governed by the following principal laws:

- Ecuadorian National Constitution
- Tax Code
- Internal Tax Regime Law, which includes:
  - Income Tax
  - Value Added Tax
  - Special Consumptions Tax
  - Environmental Taxes
- Reform Law for Tax Equity, which includes:
  - Currency Exportation Tax
  - Tax on Extraordinary Income
  - Tax on Rural Lands
  - Tax on Foreign Assets
- Code of Production, Commerce and Investment, which includes:
  - Tax benefits on production activities
  - Customs Taxes

## General considerations

The Internal Revenue Service require tax payers to pay and fill tax returns online.

Ecuador has entered into treaties to avoid double taxation (DTT) with the following countries: Andean Community (Colombia, Peru and Bolivia), Germany, Belgium, Brazil, Canada, Chile, China, Spain, France, Italy, Mexico, Romania, Singapore, South Korea, Switzerland and Uruguay. In order to apply the DTT it is necessary to receive a tax residency certificate issued by the correspondent Tax Administration. In addition, to use the expense for income tax for deductibility purposes, an external auditor's report on such payments will be required.

## Individuals tax residence criteria

The following individuals are considered as tax residents of Ecuador:

- When their stay in the country, including sporadic absences, is 183 calendar days or more, consecutive or not, within the same fiscal year.
- When their stay in the country, including sporadic absences, is 183 calendar days or more, consecutive or not, within a term of 12 months in 2 fiscal years (unless the individual can certificate its tax residency in another country or jurisdiction).
- When the main activity or economic interests are located in Ecuador, directly or indirectly.
- When they have not stay in any other country or jurisdiction for more than 183 calendar days, consecutive or not, within the fiscal year and their family relationship is in Ecuador.

Individuals are subject to income tax at a variable rate from 0% until 35% depending on the amount of the obtained income.

## Corporate income tax

Local and foreign entities, domiciled in Ecuador or not, are subject to this tax on their corporate worldwide taxable income. The standard rate of

Corporate Income Tax (CIT) is 22%.

CIT rate could be increased up to 25% if 50% or more of the corporate capital of the entitie is owned by shareholders, stockholders, beneficiaries, or similar domiciled in tax heavens or lower tax jurisdictions. In cases where the beneficiaries' participation is less than 50%, the CIT rate will be 25% only over this portion (as a proportional corporate income tax rate).

Companies that reinvest their profits in Ecuador and use them to acquire assets for productive activities in Ecuador are entitled to a reduction of 10% in the corporate income tax rate on the reinvested amount. This only applies if they retain the reinvested profits by 31 December of the tax year following the tax year in which the profits are earned.

Income tax is based on the results of financial and accounting information and must be reported under International Financial and Reporting Standards (IFRS). Current tax law requires all expenses related to royalties and technical, administrative and advisory services in transactions between related parties to be added together. The deduction amount cannot exceed 20% of the pre-deduction CIT base. A company may request a higher deduction limit through a ruling process that follows the procedures for rulings on advanced pricing (similar to an advanced pricing agreement).

## Transfer pricing regime

Transfer-pricing regulations in Ecuador are based on the Organization for Economic Co-operation Development (OECD) rules, requiring that all transactions among related parties must be conducted in accordance with Arm's Length Principles.

The Fiscal Authority has established that, in order to determine the compliance with the Arm's Length Principle by the transactions between associated parties, the taxpayer must establish the most appropriate valuation method. Taxpayers involved in transactions with related parties are exempt from the application of the transfer-pricing regime if it satisfies

the following conditions:

- Their corporate income tax is higher than 3% of taxable income.
- They do not conduct business with residents in tax havens or lower-tax jurisdictions.
- They do not have contracts with government institutions for the exploration or exploitation of nonrenewable resources.

For those taxpayers that executed operations with related parties for more than USD 3,000,000 it is mandatory to file the transfer pricing annex. If the operation amount is higher than USD 15,000,000 in addition to the Annex, the taxpayer will have to file the TP Report.

## Income tax advance payment

Tax payer's entities should be subject to determine an income tax advance payment after the fifth year of initial operation. The law understands as initial operation when start production and sells. This payment is made in two installments due in July and September. The income tax advanced payment shall be computed in accordance with the following formula:

$$A + b + c + d = \text{advance income tax}$$

**Where:**

$$a = \text{Equity} * 0.2\%$$

$$b = \text{Deductible expenses} * 0.2\%$$

$$c = \text{Gross Assets} * 0.4\%$$

$$d = \text{Income} * 0.4\%$$

(-) Withholdings performed to the entity in the previous year.

If the triggered income tax for the current fiscal year, payable in April of the following year, is lower than the income tax advanced payment, this last one shall constitute a minimum tax, and no refund is available.

## Withholding income tax

All payments made by companies to third parties, whether in Ecuador or abroad, are subject to an income tax withholding rate.

A 22% income tax withholding is generally imposed on the following cross border payments:

- Royalties and payments for technical assistance to non-domiciled companies and nonresident individuals
- Payments to nonresident individuals for services rendered
- Payments to non-domiciled companies for professional services rendered abroad or occasional services rendered in Ecuador
- Interest payments

All cross border payments shall be subject to a 22% withholding income tax, unless there is an applicable DTT. A 35% income tax withholding is imposed if the beneficial owner, or the recipient of the income, is located in a tax haven.

Internal Tax Regime Law establishes some exemptions for cross border payments made by importations, interest payments on foreign loans and credit lines, among others. These payments are neither subject to income tax nor to its withholding. The correspondent withholding is necessary so expenses can be deductible for income tax purposes.

## Value Added Tax (VAT)

VAT levies on the following transactions:

- The supply of goods or rendering of services performed in Ecuador
- The importation of goods and services from outside Ecuador
- Copyrights, industrial property and related rights

Value Added Tax rate is 12%. Nonetheless, some transfers are subject to a 0% rate. Ecuadorian legislation states that the importation of services is subject to VAT. The Ecuadorian tax payer that acquires

imported services is compelled to pay the 100% of VAT through self-assessment method and could consider this payment as Tax Credit for VAT monthly tax returns. The importer of the services will add the 12% VAT to the price of the services and withhold the VAT and pay it on behalf the Ecuadorian IRS.

VAT return shall be filed in the next month in which the levied transactions were made.

## Customs taxes

- Ad Valorem Import Duties: The duties on imports are variable between: 5%, 10%, 15% and 20% (35% for vehicles).
- Value-Added Tax (VAT): 12%, except some goods subject to a 0% VAT rate.
- Special Consumptions: applies to the import of cigarettes, beer, soda, alcoholic beverages and alcoholic products other than beer, motor vehicles for land transportation of up to 3.5 tons of load capacity, airplanes, small airplanes, helicopters, personal watercrafts, three-wheeled vehicles, four-wheeled motorcycles, yachts, and recreational vessels.
- FODINFA (Children Development Fund): 0.5% tax on the CIF value of the import earmarked for the Children Development Fund.

## Other applicable taxes

- Patent Tax: It is based on the stock capital of the company. Tax rate varies between USD 10 and USD 25,000.
- Currency Exportation Tax: All Ecuadorian taxpayers are subject to a 5% tax on currency transferred abroad, regardless of whether the transaction is made with the intervention of a financial institution.
- Real Property Tax: It is based on the value of the property.
- Gross Assets Tax: calculated by multiplying gross assets less current and contingent liabilities by 0.0015.

- Annual basis contribution on behalf the corporate authority which considers a 1 x 1000 over total assets tax rate.
- Profit Sharing is required by the Labor Code to be payable to all company's employees as the right of employees to participate in the profit of a business for an amount equivalent to the 15% over the net profit (income less costs and expenses)

## 'Public-Private Partnerships'

The public-private partnership (PPP) is a way of management by which the State entrusts to a private the provision of goods, works or services, the execution of a public project, and its financing in exchange of a compensation. The public project may consist of:

- Construction, rehabilitation or improvement, equipment when required, operation and maintenance of a new / existing public works for the provision of a service of general interest.
- Equipment when the investment is substantial, operation and maintenance of an existing public works for the provision of a service of general interest.
- Operation and maintenance of an existing public work for the provision of a service of general interest when substantial improvement through private participation is justified.
- In the construction and sale of affordable housing and urban development works, as well as the development of productive research and development, and in general where the State participates directly in competition with the private sector, if they are classified as priority by the Interagency Committee

In terms of incentives, the companies created in Ecuador for the development of projects under this procedure will have the same tax treatment as public enterprises as well as the benefits established in this Act. The benefits for these projects will last as long as the delegated management contract is in effect.

Tax incentives granted to companies in charge of the projects will remain in this mode for the duration of the contract, regardless of future changes to the legal system.

Productive financing is encouraged to develop, increase or implement investments, irrespective of where they come from foreign nationals or legal resources. In order to facilitate the process, the President of the Republic will be able to change any regulation by executive decree simplification. The same power has the highest administrative authority of the autonomous governments in relation to administrative procedures established by their level of government.

## Tax incentives

### General incentives

- Exemption on the Income Tax advance payment for 5 years counted since that the taxpayer begins its operation.
- Additional 100% depreciation and amortization deduction related with technology and equipment to: clean production, renewable energy generation, reduce environmental impact, and reduce greenhouse gas emissions. Notwithstanding, this deduction only applies if it is additional to comply local environmental rules, and could not exceed 5% in relation with the total income of the taxpayer.
- CET exemption on loan cross-border payments that comply with the following requirements: loans granted by foreign financial institutions, terms above one year, related with new investments, and interest rate should not exceed the rate stated by the Ecuadorian Central Bank.
- Payment facilities to customs duties in case of imports of capital goods to fixed assets of the direct importer.

### Sectorial incentives

According to the Organic Production Code, a new investment is the discharge of economic resources



in order to increase the national economy, improving the production and developing new work sources. Corporate Income Tax exemption for 5 years counted since the first year that the new investment generates incomes. This benefit should be considered only for entities incorporated after January 2011, outside Quito and Guayaquil.

Those investments will be related to the following industries:

- Production of fresh food, frozen and industrialized food
- Forestry and agro forestry chain and production
- Metalworking
- Petrochemical
- Pharmaceutical
- Tourism
- Bio-energy including renewable energy or biomass energy
- Logistics services of international trade
- Biotechnology and Software applied thereof
- Strategic import substitution and promotion of exports, determined by the President of the Republic.

#### **ZEDE incentives**

New legal entity incorporated within a “ZEDE” can apply the general mentioned benefits. These zones denominated as “ZEDE” are specified customs destinations (locations) delimited in the Ecuadorian territory, which purpose is to improve investment. In order to consider a location as a “ZEDE” there is a formal procedure that should be filed before the correspondent Ministry.

The President is in charge of creating ZEDes through Decree and also will be responsible for determining the specific conditions for user companies of ZEDes. In this sense, following incentives apply:

- A five-year exemption of income tax payment for new investments in sectors that contribute to change the energy system, the strategic substitution of imports, promotion of exports.
- After the fifth year, the CIT tax rate will reduce 5% in relation with the CIT in force.
- The exemption on Currency Exportation Tax over external financing operations.

- In addition, imported goods will be levied with 0% VAT rate.
- It is important to mention that the foreign companies must not have its tax domicile in a tax heaven.

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# FOREIGN TRADE

Over the past few years Ecuador has embarked upon the process of opening up its economy to attract foreign investment by liberalizing its regulations and introducing new laws. Ecuador is open to foreign investment in most sectors, but in general FDI is low in comparison to other countries in South America. The country still face challenges when it comes to regaining trust from investors, creating a stable and trustworthy business environment, and diversifying its product offering.

## Exports and imports

In 2014 Ecuador's goods exports totalled USD 25.73 billion while imported goods totalled USD 26.22 billion, resulting in a negative trade balance of USD 489 million (World Bank, 2014). Ecuador's trade deficit has been present for several years, and with unfavourable oil prices the deficit may increase in the future. The top exports of Ecuador are petroleum oils, bananas, frozen shrimps and prawns, prepared or preserved fish, and fresh cut flowers and buds. Top imports are refined petroleum, aromatic hydrocarbon mixtures, medicaments, and cars and other vehicles. Ecuador currently import refined petroleum from other countries but its goal is to be more energy independent in the future (Ibid). They aim to do his by increasing their own production of oil and gas and they have plans to construct their own national petrochemical plants and refineries (Interaffairs, 2013).

To cope with the trade deficit, mitigate the effect of oil price drop and tackle the appreciation of the dollar the government have implemented a strategy they call 'import substitution'. This strategy is part of the government policy to increase domestic production and increase value adding activities, reducing imports, creating more jobs and improve the balance of trade and payments (United States Trade Representative, 2015). As part of this strategy the Ecuadorian government decided to temporary implement import tariffs between 5% and 45% on over 2,800 products (WSJ, 2015). The tariff depends

### FOREIGN TRADE

#### Overall (in USD billions)

Export: 25.73

Import: 26.22

#### Main export goods (in USD billions)

Petroleum oils and oils obtained: 13.016

Bananas: 2.620

Frozen shrimps and prawns: 2.580

Tuna, skipjack and bonito: 1

Fresh cut flowers and buds: 0.789

#### Main import goods (in USD billions)

Refined Petroleum: 3.362

Aromatic hydrocarbon mixtures: 2.430

Medicaments: 0.8587

Cars and other vehicles: 0.7786

Source: World Bank, 2014

on the extent to which the product competes with domestically manufactured products. This measure came into force on 11 March 2015 and will remain in place for 15 months, after which it will gradually be phased out (Ibid).

The United States continue to be Ecuador's main trading partner with respect to both exports and imports. The U.S. market represented 44% of total exports in 2014 and included products such as oil and agricultural products such as banana, cocoa and flowers (World Bank, 2014.) However, out of Ecuador's imported goods and services the U.S. accounted for 28% (Ibid).

Non-oil exports totalled USD 12.43 billion, while imports totalled USD 19.86 billion. Non-oil exports have experienced a substantial growth over the last few years with an average growth rate of 12.29% from 2010 to 2014 (V.J Carriel, personal communication, January 15, 2016). This is part of Ecuador's strategy to become less oil dependent. The European Union accounts for 23.71% of Ecuador's non-oil exports, which includes products from the banana and plantain, aquaculture and fishery sectors. Exports to the EU has an average annual growth rate of 6.78% (Central Bank of Ecuador, 2015). A new trade agreement between EU and Ecuador has been signed and we therefore expect exports to the EU to increase in the future. For more information see subsection 'Bilateral investment treaties'.

## Foreign direct investment

In 2014, FDI in Ecuador amounted to USD 774 million; a 6% increase compared to 2013. This increase is an optimistic result as the rest of Latin America has on average suffered a 16% reduction in FDI (Andes Info, 2014). According to figures released by the Central Bank of Ecuador 63% of FDI were to non-renewable natural resources; investments were made in the oil sector, the trade sector and the manufacturing sector (Orozco, 2015). The country that invested the most in Ecuador in 2014 was Canada, followed by China and the Netherlands (V.J Carriel, personal communication, January 15, 2016).

Despite positive growth in FDI over the last couple of years Ecuador is still one of the countries in South America that receives the least amount of FDI (Santander Trade, 2014). FDI made up only around 0.8% of Ecuador's GDP in 2014 (World Bank, 2015). Between 2005 and 2013 the country only received USD 4.446 million in FDI, while the top FDI destination of the region, Brazil, received USD 331.5 billion. This means that during the time period 2005-2013 Ecuador only accounted for 0.73% of the regional FDI (Andes Info, 2014). Being a dollarized and oil dependent economy makes the country vulnerable to the appreciation of the dollar and low oil prices, and hence dependent of a constant inflow of dollars. Therefore, attracting foreign investment is more essential than ever for Ecuador.

In general, Ecuador's biggest struggle has been to create an attractive and stabile investment environment. Figures from the annual Doing Business Report published by the World Bank (2016) speak for themselves; Ecuador is ranked 117 of 189 countries on overall ease of doing business. The country has a reputation for its economic instability as "economic, commercial, and investment policies are often contradictory and subject to frequent changes. The legal complexity resulting from inconsistent application and interpretation of existing laws complicates enforcement of contracts and increases the risks and costs of doing business in Ecuador" (U.S. Department of State, 2015). This is just a reflection Ecuador's political scene which has been characterised by very frequent replacements of the head of state; between 1997 and 2007 the country had seven presidents (BBC, 2013). Another incident that has influenced the investment willingness of foreign companies was Ecuador's defaulted on its sovereign debt in December 2008. The debt had a total face value of approximately USD 3.2 billion. Unsurprisingly, many investors left the country and FDI dropped significantly. Furthermore, government officials and private Ecuadorian businesses have used regulatory schemes and questionable legal manoeuvres to affect foreign company operations in the country.



From 2009 to 2014, Correa's administration doubled public spending, reaching a record 44% of gross domestic product (GDP). The outsized magnitude of public spending effectively crowded out much private consumption and investment. (U.S. Department of State, 2013). However, these public investments have also laid a good foundation for future investments in the country. The government's investments in its people, infrastructure and future business environment will hopefully have a positive impact on the investment willingness of the global community.

### Trade policies

Over the past few years, Ecuador has increased their efforts to attract foreign investment by liberalising investment regulations, but it remains in a state of evolution. For example, Pro Ecuador, a company dedicated to promote Ecuador to foreign investors, was established in 2011 which is a step in the right direction. At the moment, there are 30 Pro Ecuador offices around the world. Their main responsibility is promoting and attract investments to Ecuador and they offer personal assistance to investors in identifying local investment projects (V.J. Carriel, personal communication, January 15, 2016).

Full foreign equity ownership is accepted without the need for authorization or prior screening in the sectors open to domestic private investment (U.S. Department of State, 2015). However, after Correa was first elected in 2007 Ecuador has undertaken major constitutional amendments and institutional changes that has affected the roles of trade and FDI. One of these constitutional amendments provide for greater state involvement in, and/or control of, 'strategic sectors' of the economy, through state-owned companies (Hamilton, Garcia-Bolivar & Otero, 2012). These strategic sectors includes: energy in all its forms, telecommunications, non-renewable natural resources, transportation, hydrocarbon refining, media, water, biodiversity, and genetic patrimony (U.S. Department of State, 2015).

To attract more investment from both local and foreign investors a new 'Organic Code of Production, Trade and Investment' was enacted as of 29 December 2010. This new law was passed to ensure that domestic and foreign investors have legal security and equal conditions for investment. The new Production Code gives protection to investors negotiating contracts with the state (Bustamente & Bustamente, 2016). Fundamental elements of the law includes legal security, stability in tax burdens, clear rules and benefits for foreign trade, agility in the customs regime, the creation of tax incentives that go up to the waiver of 100% of certain taxes and charges, among others. Stability is secured through the creation of 'investment contracts' that last up to 15 years. These investment contracts ensures that investors have the same conditions even if there are changes of regulations or laws (BTI, 2014).

To further spur investment initiatives in Ecuador the government introduced 'Public-Private Partnerships' (PPP). This law was introduced on 18 December 2015 and its purpose is to generate a greater number of projects that run in the form of public-private partnerships. The law will provide income and import tax incentives for foreign and domestic firms that invest in public-private partnership projects (Bustamente & Bustamente, 2016). The Inter-institutional Committee of Public-Private Associations was set up to be in charge of coordination of policies, guidelines and regulations linked to public-private associations (Andes Info, 2015). This committee will approve proposed private investment projects in the strategic sectors. While the PPP law emphasizes that the state will maintain control over strategic sectors, it also attempts to mitigate investor fears that the state will not honour contracts by granting private firms the right to bring some contract disputes to Latin American arbitration bodies. How this law is enacted is still unclear, but it is believed that it will become a very important law for Ecuador in the future.

### Bilateral investment treaties

Ecuador is a member of several regional political and economic groupings such as the Bolivarian Alliance for the Americas, the Organization of American States, the Rio Group, the Union of South American States and the Community of Andean Nations. Ecuador has made a formal request to join Mercosur, where it is currently an associate (Australian Government, 2015). According to information of the OAS Foreign Trade Information System there are 30 bilateral investment treaties (BITs) signed by Ecuador, but only 16 of them are in force (Organizacion de los estados Americanos, 2015).

One recent agreement signed with the European Union (EU) may prove very important in the years to come, considering that EU is a major importer of Ecuadorian non-oil products. On 12 December 2014 Ecuador signed a trade agreement with the European Union, which should come into full effect in late 2016, once all necessary procedures are completed (WSJ, 2015). The agreement is intended to provide expanded access to the European market for Ecuadorian exports and lower tariff duties on European imports. The products categories that is predicted to see a significant price drop are liquor, cars and clothing (European Commission, 2014). The agreement will allow Ecuador to benefit from improved access for its main exports to the EU which includes fish products, bananas, cut flowers, coffee, cocoa, fruits and nuts (Ibid). In addition to securing access to new markets the agreement will also create a more stable and predictable business environment, which will help enhance and diversify trade and investments.

A joint declaration on cooperation between Ecuador and the EFTA states Iceland, Liechtenstein, Norway and Switzerland was signed in Schaan, Liechtenstein, on 22 June 2015 (EFTA, 2015). Being a declaration it only gives some guidelines for future cooperation between the EFTA countries and Ecuador. Two-way merchandise trade between Norway and Ecuador is small, but it is gradually increasing. Between January and November 2015 Norway imported goods worth

USD 11.4 million from Ecuador, mainly bananas, representing approximately 80% of Ecuadorian export to Norway. Norway exported goods worth almost USD 15 million to Ecuador, mainly mineral or chemical fertilizers. According to Victor Jurado Carriel from Pro Ecuador (V.J. Carriel, personal communication, January 15, 2016) most export to Norway from Ecuador arrive indirectly, for example rose export that goes via the Netherlands.

### Final remarks

Ecuador has historically received little foreign direct investment. In the Latin America region it is one of the countries that received the least in 2014. This is mainly due to economic instability which is reflected in the political climate, few investment incentives, frequent changes of laws and tax codes and hostility towards foreign investors. In the coming years Ecuador will have to attract more FDI because of the current oil crisis. New laws and regulations have been introduced in an attempt to improve the situation. A new production code and the PPP which gives both local and foreign investors a number of incentives that will be very important for Ecuador's future. There are several exiting sectors in Ecuador, especially the unexplored mining sector, which could attract many investors. For Norwegian companies more export of agriculture products such as bananas, mango and coffee could be the most interesting. Whether the cooperation between EFTA and Ecuador will yield any real results is yet to be seen but it has the potential to open doors for Norwegian companies who want to trade with Ecuador and vice versa.

# CORRUPTION

Latin-America is home to many of the most corrupt countries in the world, and Ecuador is one of the countries where corruption is a challenge. It is difficult to pinpoint the cause, but organised crime and drug dealing coupled with weak institutions are highly influential. While the amount of extreme poverty has decreased substantially in the past twenty years the income inequality gap in these countries will not be closed in the near future. According to Elimpulso (2014), corruption is common and unperceived at the individual level. Many citizens have become accustomed to paying for favours to officials because of a lack of education, excessive bureaucracy and a sense of impunity (Elimpulso, 2014).

The history of Ecuador has been influenced by a significant degree of corruption; mismanagement of state resources, public contracts awarded not based on merit, and influence peddling for public positions, amongst others. Upon reaching power in January 2007, Rafael Correa announced a ‘revolution against corruption’ as one of the central themes of his new government. By introducing a new constitution and anti-corruption laws, removing corrupt judges and politicians, he has conveyed that corruption will not be tolerated. The results from these measures have reduced the corruption level, but it will take a long time to eliminate it. International assessments of corruption continue to rate Ecuador amongst bottom scorers in the region. For companies investing in Ecuador, corruption is a major issue that should not be disregarded.

### International assessments

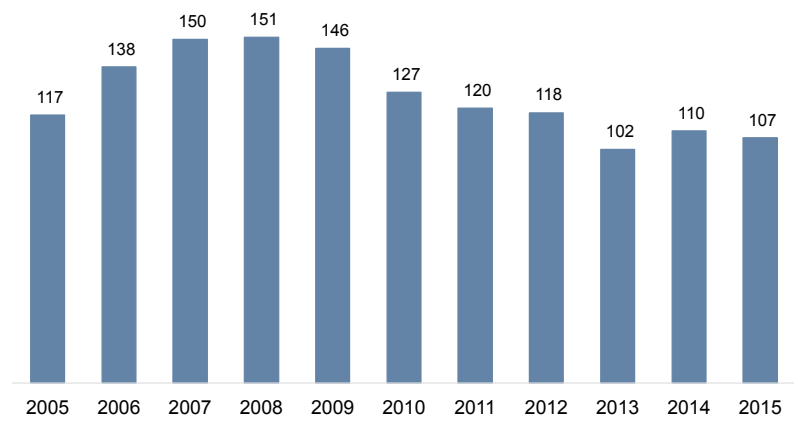
When studying the levels of corruption in a given country it is common to study the perception of corruption, due to measurement difficulties. In 2015, Ecuador ranked 107 out of 168 countries surveyed in Transparency International’s Corruption Perceptions Index, receiving a score of 32 out 100 where 0 = highly corrupt and 100 = very clean (Transparency International, 2015).

The table on the next page shows the ranking of Ecuador on the Transparency International’s Corruption Perception Index from 2005 to 2015 (Transparency International, 2016). Over the decade,

there have been some improvements in the ranking. According to Human Rights Watch (2015) this is as a result of better institutions, new regulations and laws, as well as the introduction of a minimum wage and the ‘National Plan of Prevention and Fight Against Corruption’. The four-year plan aims to create a system of institutions and rules that promotes the practice of ethics as a mechanism to end corruption (Human Rights Watch, 2015). Despite positive developments, Ecuador continues to rank in the lower half of the index. Since this is a perception index rather than a direct measurement, results from anti-corruption work may take longer before it reflects in the ranking. The Ecuadorian government and the president have criticized this ranking on several occasions, claiming that these reports do not tell the truth and distort the reality of the country (El Telegrafo, 2013).

Othersurveysecho the corruption problem in Ecuador. A survey from Americas Barometer, conducted in 28 countries in Latin America between January 2013 and February 2014 reveals that the rate of corruption victimisation in the case of Ecuador is 26%. This means that one out of four Ecuadorian citizens has been paying a bribe the last year to an official worker. This is nearly a double digit drop from the 2012 poll, indicating that the action from the government has spurred results (Vanderbilt University, 2014). On the other hand, there is still long way to go before they reach the goal of no corruption by 2017.

TRANSPARENCY INTERNATIONAL’S CORRUPTION PERCEPTION INDEX- ECUADOR RANKING



Source: Statista (2015b)

These international assessments indicate that corruption may be serious problem in Ecuador, and that investors should not overlook this when doing business there. Research indicates that Ecuador has a problem with systemic corruption, meaning that corruption has become the norm. High level of social tolerance towards corruption, among other variables, may have contributed to the widespread of corruption in the country.

### Legal and institutional framework

In the past, anti-corruption has not been on the Ecuadorian governments agenda, but this seems to have changed with the implementation of the anti-corruption law, awareness campaigns and the removal of corrupt officials. According to Josemaria Bustamente, an Ecuadorian lawyer, foreign companies are also more aware of anti-corruption and compliance work than ever before (Personal communication, January 5, 2016). For foreign investors and companies anti-corruption laws in their home country are often something that has to be taken into consideration when doing business abroad. This means that employees and executives who commit illegal acts such as payment of bribe or influence peddling to achieve business objectives, could be sentenced in their home country. These

laws are powerful mechanism that reduce some of the corruption scope in countries like Ecuador (J. Bustamente, personal communication, January 5, 2016).

The most relevant laws regarding corruption for foreign investors are implemented in the new criminal code, which was implemented in August 2014. Furthermore, the 2008 constitution directly addresses corruption and created the Transparency and Social Control branch of the government, to work with preventing and combating corruption. The offer and payment of bribes to domestic government officials are illegal by Ecuador’s criminal code and by the Ecuadorian constitution. According the criminal code it is a criminal act if domestic public servants and private individuals are involved in bribery, influence peddling, embezzlement, unlawful enrichment and extortion (Yepez & González, 2015). The problem here is that the laws are difficult to enforce, if two parts commit corruption none of these will tell, making it difficult to start an investigation (J. Bustamente, personal communication, January 5, 2016). In addition, with recent budget cuts from the government, the funds allocation to anti-corruption will probably be reduced, making corruption investigation less likely. Regardless of nationality all individuals are equally liable in





Ecuador if illegal activity is committed in Ecuadorian territory or if the activity is executed abroad but the illicitness has an effect in Ecuador (Yepez & González, 2015).

Even though the new criminal code enforces criminal liability on corporate entities and not just on individuals for some crimes, this is not the case for corruption related crimes. The anti-corruption laws in Ecuador's criminal code do not apply for corporate entities. In reality this means that if a representative of a company is involved in corruption to benefit the company, he or she is held liable and not the company. Individuals found to have violated the anti-corruption laws are subject to two types of criminal penalties: imprisonment and prohibition to exercise public office. Interestingly, the new code removed fines and money penalties from the potential consequences of violating the anti-corruption laws (Yepez & González, 2015). Norwegian companies are bound by the corruption clauses of the civil penal code, which condemns all forms of corruption,

including facilitation payments and complicit corruption (Lovdata, 2015).

### Public administration and judiciary

The current constitution defines the division of powers of the state into five branches, the traditional three are: the legislature by the National Assembly, the executive represented by the president, and the judiciary headed by the National Court of Justice. With the 2008 constitution, two new branches of government were established: The Electoral branch (National Electoral Council and the Electoral Tribunal) and the Council of Citizenship Participation and Social Control (Bustamente & Bustamente, 2016). Strong and independent control institutions are essential to prevent high-scale corruption cases in the government. With checks and balances, each of the branches of government can limit the powers of the others. In theory, these branches are independent; however, several incidents suggest that they are not as independent as they should be. According to 'The World Justice Project (2015)' Ecuador ranks 88 out of

102 countries regarding 'constraint on government powers'. This factor measure effectiveness of the institutional checks on government power by the legislature, the judiciary, and independent auditing and review agencies, as well as the effectiveness of non-governmental oversight by the media and civil society, among others (World Justice Project, 2015). Well established checks and balances can act as a catalyst against corruption and send signals to the population that corruption is not an acceptable practice or a 'normal' cost of doing business.

The legislative power has traditionally belonged to the Congress of Ecuador. However, it has been packed with corrupt officials and a poll in 2007 revealed that the congress only had 6% credibility rating (Green Left, 2014) . In 2007, a referendum was called to create a Constituent Assembly in order to draw up a new constitution. The National Assembly of Ecuador was formed with a large majority of the body belonging to the president's party, replacing the Congress of Ecuador. This strengthened the executive branch, allowed for presidential re-election for an additional four-year term, overpowered the legislative branch by placing limitations on its powers of oversight and established a system of control over civil society. With a scattered opposition and a majority in the legislative branch, Correa continued to restructure the Supreme Court in 2009 and again in 2011 (Buckman, 2014). According to Latin America Corruption Survey 2012, more than 80% of Ecuadorian respondents consider that the courts have a significant level of corruption.

Governmental checks take many forms; they do not operate solely in systems marked by a formal separation of powers. The National Assembly has been packed with members of the president's party, currently approximately 52% (El Universio, 2013). Party members in Ecuador need to vote the same as their party or else they may be suspended; this further reduces the independence of the branches. Another controversial topic is the country's freedom of speech. Correa has filed lawsuits against critical journalists in recent years. The Communications Law that was

introduced in 2013, created a superintendence that controls and regulates the media, and answers directly to the executive branch. This mechanism has nurtured an atmosphere that encourages self-censorship (Pallares, 2015). Those newspapers that have been critical to Correa has been prosecuted and shut down. This is a major problem since these newspapers are often those who reveal cases of corruption (World Justice Project, 2015). According to Fabian Loza, a former investigative reporter, "the news in Ecuador today is run by the state. He has put his cronies in charge of the judiciary, the police and security forces. You have widespread corruption on every level but what you don't have is a press free to expose it" (Graham, 2012). Without critical journalist, the people of Ecuador might not be aware of high-corruption cases and government-critical news.

The most recent controversy is the removal of term limits for presidency. The proposed amendment that removes term limits was approved by congress in December, which means that Rafael Correa may run for office indefinitely, beginning in 2021, which could further erode the few checks and balances Ecuador has left (Solano, n.d.). Given Ecuador's track record of political instability and the fact that Correa is its longest serving president, the change could improve political stability in Ecuador. However, it will also erode the already weak democratic checks and balances.

### Business and corruption

The following section describes experiences of corruption in Ecuador, including business interviews, interviews of professionals, research reports and other sources. The most common corruption risk a business may encounter when doing business in Ecuador is facilitate bribes or payments. That is, small payments to accelerate or to secure the performance of a routine government task to which a company is entitled, such as attaining permits, administering visas, utility services, customs clearance and police protection (Yepez & González, 2015). In addition, there are regular claims by the private sector that local





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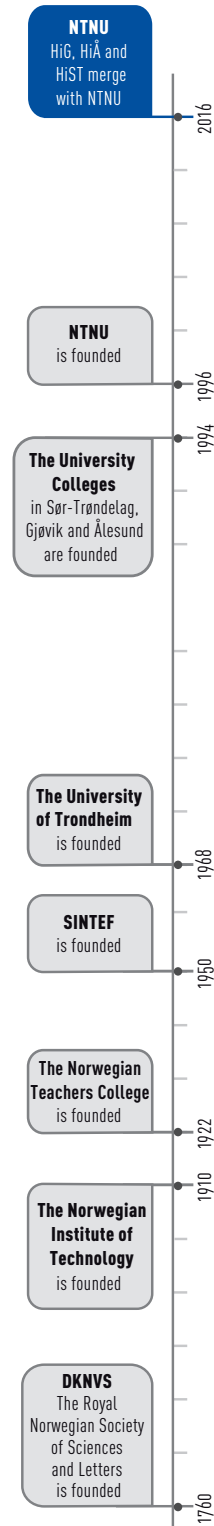
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authorities request bribes to issue necessary permits (The PRS Group, 2014).

According to Santiago Reyes, in DDL Law Office, corruption risk situations depend on sector and size of the company (Personal communication, January 6, 2016). He states that large multinationals are less vulnerable to corruption, as these have both the financial power and political influence to resist events of corruption. Being associated with corruption is not something that is beneficial for a company's value, thus there is an extra incentive to avoid it. Furthermore, these multinational companies often have clear compliance policies that prevent their employees from convicting these types of corruption crimes. Smaller companies do not have the same resources and incentive to sustain a longer period of stall in operations (S. Reyes, personal communication, January 6, 2016). The corruption risk also depends on the sector and the ones that are most often exposed to claims of corruption include natural resources, fishing, construction, real estate, and pharmaceutical industry (Yepez & González, 2015).

Corruption is still a significant problem in Ecuador, but according to Josemaria Bustamente companies can avoid it by following the laws and regulations, and reject every attempt of bribery (Personal communication, January 5, 2016).

## Final remarks

Foreign investors that consider entering Ecuador should be aware of its corruption level. For many years Ecuador has been struggling with corruption, but the work of the new government is starting to show results. It has not been reflected in international assessment of corruption yet, but this section shows that companies are noticing development in this area. In addition, new laws are to be discussed in the coming year and new measures are to be made to reduce the corruption levels even further (S. Reyes, personal communication, January 6, 2016). As mentioned earlier, there are ways to avoid corruption when doing business in Ecuador. For recommendations on how to avoid corruption when entering Ecuador see section 'Helping companies identify and fight corruption' by Albert Wolders and Ragnhild Georgsen.



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# HELPING COMPANIES IDENTIFY AND FIGHT CORRUPTION



**Albert Wolders**  
 Director ERS  
 Leader of Anticorruption  
 Deloitte Norway

Due to an increasing focus on battling corruption, both national and international legislators and organisations have implemented strict anti-corruption laws, proclaiming zero tolerance for corruption. Especially the UK Bribery Act from 2010 shows the development in the view of anticorruption. The law is extra- territorial, and can be enforced anywhere in the world. The penalties for corruption expands from fines to imprisonment and/or corporate penalties. In addition, a company associated with corruption can experience a severe loss or damage of reputation. Such reputation damage can lead to enclosure form buyers and suppliers and in some cases whole markets.

It is therefore vital that foreign companies have a clear understanding of the signs and related risks of being exposed to potential corruption in order to help reduce corruption. Companies engaged in international business should carefully examine whether they have the effective policies and procedures in place to manage fraud and corruption risks.



**Ragnhild Georgsen**  
 Consultant Legal & Forensic  
 Deloitte Norway

The following section includes a selection of red flags and considerations that companies doing business in foreign countries should be aware of.

## Environment

- The country where the transaction takes place has a low score on the Transparency International Corruption Perception index or a history of public corruption.
- Rumours circulating about unethical behaviour by agents or employees.
- Failure of company to respond adequately to issues raised by whistleblowers.
- Excessive pressure for sales without appropriate ethics messaging.
- Significant use of third-party agents.
- Lack of transparency in third-party contracts.
- Charitable or potential donation work in at risk foreign jurisdictions.
- Unusual business relationships.
- Sales to government agencies with high unit price, low frequency.
- Request for commission payments to other

countries.

- Payments to foreign countries, especially tax havens.
- Excessive payments for services rendered.
- Vague description of terms, conditions and delivery in contracts.
- Lack of bid process.
- Favourable treatment of one supplier over another.
- Losing bidders hired as subcontractors.
- Award of contract to candidate with inadequate experience.

## Agents

- Excessive reliance on agents as a means of obtaining work, such as:
  - “Networking” with foreign public officials is the agents only qualification.
  - The agent makes reference to political or charitable contributions as a way of influencing official action.
  - The agent has family or business ties to relevant foreign public officials.
- Unnecessary third parties performing services. Some examples of this include:
  - The agent proposes unusual or overly generous subcontracts.
  - Agents specifically recommended by government officials.
- Incomplete or inadequate disclosure by third parties such as:
  - The agent provides unusual or incomplete documentation of a transaction.
- Refusal to certify compliance with anti-corruption laws and regulations.
- The agent has hidden ownership with undisclosed principals, associates or subcontractors with whom fees or commissions are split.
- Lack of contract with agent or inadequate terms and monitoring.
- Unusual payment terms, such as:
  - The agent requests upfront payments.
  - The agent requests payment in cash.
  - The payment requested is more than one

would normally expect to pay for the services to be rendered.

- The agent requests an unusually high commission.
- The agent requests an unusual method of payment such as payment through a third party or payment in a third country.
- The agent provides excessive, false or vaguely described payment requests.

## Record keeping and transactions

- Thin file syndrome for agents.
- Requests for payments to third parties.
- Payments in cash.
- Political or charitable contributions tied to agents.
- Poor documentation for expense reimbursements.
- Contract payment oddities. Some examples of this include:
  - Payments to numbered accounts or to “haven” or other offshore banks.
  - Commissions or fees in abnormal amounts not flagged.
  - Advance fees paid.
  - Significant write-offs on government contracts.
  - Large termination fees.
  - Frequent undocumented change orders.
  - Use of foreign bank drafts/wire transfers with little documentation.

## Training and promotion

- Visits to vacation locations requested for “training”.
- Lack of ethics or anti-corruption training to sales people.

## Tools against corruption

To secure compliance with applicable anticorruption laws and regulations, protect your company’s reputation and create awareness amongst your employees you should consider the following tools:

1. **Tone at the Top** – management should take the lead in the fight against corruption and create awareness amongst its people.
2. **Risk Assessment** – assess the risk of corruption beforehand; what is the likelihood of corruption in that area/country and what are the consequences should it occur.
3. **Policies and procedures** – design and implement adequate policies and procedures against corruption defining situations, stating desired attitude related to facilitation payments, gifts, entertainment, charity and political contributions.
4. **3rd party integrity due diligence** – make sure you have assessed every third party you do business with before you do business with them.
5. **Contract provisions** – implement adequate anti-corruption clauses in contracts securing compliance with laws and regulations and enabling audit and/or termination in case of corruption.
6. **Training** – create awareness amongst your team of people by providing anti-corruption training including practical cases and dilemmas.
7. **Responsibility** – have a designated person responsible for compliance and available for questions.
8. **Whistle Blowing function** – implement appropriate whistle blowing procedures to be able to respond appropriately to real life cases and detect, investigate, report and prevent corruption.
9. **Financial & accounting procedures** – implement adequate control procedures, especially within the procurement and payment processes.
10. **Audit** – audit your anti-corruption program to secure compliance and adequate implementation.





# CORPORATE SOCIAL RESPONSIBILITY

**The impact of businesses on environment and social development in the areas they operate implies a responsibility beyond mere value creation. Corporate social responsibility (CSR) is concerned with how businesses manage their impact on environment and society beyond the required regulations. Such responsibility encompasses human rights, labour, environment and anti-corruption (United Nations Global Compact, n.d.). Active CSR management should be an integral part of a company's corporate governance. This means that the responsibility is integrated in the company's value system and that it is anchored within the company and followed up by the board of directors and general management on a regular basis (Norwegian Ministry of Foreign Affairs, 2009). With the growth of ethical consumption, where consumers increasingly demand ethically produced goods and services, the positive impacts of active CSR management are increasingly linked with the commercial value it generates (Ethical consumer, 2014).**

## Latin America and Ecuador

In Ecuador's reformed constitution from 2013 there are several paragraphs concerning CSR. However, according to Evangelina Gómez Durañona, CEO of CERES (Network of Socially Responsible Companies in Ecuador) these paragraphs have not enhanced CSR management in practice and most Ecuadorians are unsure of what CSR is (E. Gómez Durañona, personal communication, January 4, 2016). The majority of large businesses and multinationals operating in Ecuador are to a great extent aware of CSR and maintain socially responsible strategies in areas such as education, sustainability and environment (U.S. Department of State, 2015). However, most companies in Ecuador are small and medium size enterprises. As a result, very few pursue an active CSR policy due to lack of long-term plans or they simply lack the capacity to consider being socially responsible (E. Gómez Durañona, personal communication, January 4, 2016).

## Environment

Ecuador's Amazon jungle covers more than 50% of the national territory and is considered one of the most biodiverse places in the world with a wide range of plants and animal life (European Commission, 2007; CNN, 2010). According to Gómez Durañona, the Ecuadorian constitution is the only

one in the world that includes 'natures right' (personal communication, January 4, 2016). However, the area is under threat from the potential development of huge oil reserves. The reserves under Yasuni National Park is estimated at nearly one billion barrels of crude oil, worth a staggering USD 10 billions (CNN, 2010). One of the main problems is not the oil extraction itself, but deforestation and infrastructure built when the reserves are exploited (Gómez Durañona, E. personal communication, January 4, 2016). Ecuador is ranked number two in the region and number 53 in the world on Yales' Environmental Performance Index (EPI), with a score of 59 out of 100. In comparison, Brazil scores 53 and Norway has a score of 78. Regarding protection of biodiversity and habitats Ecuador scores 88 out of 100 (Yale Center for Environmental Law Policy, 2014).

The Ecuadorian government has pursued environmentally friendly policies with varying degrees of success. In 2007, the Ecuadorian government announced a ban on oil extraction in Yasuni based on a compensation scheme. The goal of the Yasuni ITT Initiative was to raise money from other nations that would cover the foregone revenues Ecuador would have received from extracting the oil. However, in 2013 a government commission concluded that the scheme had not raised sufficient funds and the initiative was scrapped (Wilkinson, 2015).



## Human rights

According to the European Commission's strategy report on human rights in Latin America, the legal framework defining human rights in Ecuador is satisfactory. A public advocate and several NGOs work to protect human rights. In general, the government respects the human rights of their citizens and has complied with most of the international human rights conventions. Still, national and international NGOs are concerned about certain human rights aspects due to weak institutions and limited financial resources (European Commission, 2007). Freedom House's Freedom in the world ranking 2015 measures political rights and civil liberties across 195 countries. Ecuador attains a status of 'partly free' with a score of 3.0 (1 = best, 7 = worst). Ecuador has received the same score since 2001, which is mainly due to limited freedom of speech. For example, the accessibility of online content such as blogs is being controlled by the government (Freedom House, 2015). There have been reports of excessive use of force against

demonstrations on government policies and neglect of international standards by security forces. In addition, human rights defenders are reported to face attacks and abuses for their work (Amnesty International, 2015). However, the government seeks to improve living conditions for all citizens in Ecuador through for example the National Plan for Good Living (2013-2017) which promotes social inclusion as well as cultural and environmental diversity (Dugarova, 2015).

Ecuador's indigenous people are present throughout the country, but the majority can be found in the Andean or Amazon regions (The UN Refugee Agency, 2014). Indigenous groups are increasingly being heard and there are many organisations working towards rights for underrepresented groups. The largest social organisation in Ecuador is CONAIE, the Confederation of Indigenous Nationalities of Ecuador (Norsk Folkehjelp, 2010). Rafael Correa came to power with the support of CONAIE and has introduced social reforms supporting indigenous and poor inhabitants

(Bugiel, 2015). In the Amazon, indigenous people

have worked towards limiting the development of petroleum resources in the region and to avoid forest devastation. The indigenous people are continuously working to improve their impact on the decision making process regarding the development of petroleum resources in the Amazon region. However, their voice has not been heard as the government has refused their demands and are arguing that resource development in the area is of national interest (Freedom House, 2015).

### Corruption

Ecuador is ranked 110 out of 175 countries in the world on Transparency International's Corruption Perceptions Index. Ecuador scores 33 out of 100, where 0 is highly corrupt (Transparency International, 2014). Corruption has been reduced in later years, but is still a serious problem. According to Gómez Durañona, CEO of CERES, a company operating in Ecuador is likely to encounter situations in which bribery is requested, so it is important to be careful and aware of the problem (Personal communication, January 4, 2016). For more information about this issue see Corruption section.

### Child labour

In 2014, Ecuador made substantial improvements to eliminate the worst forms of child labour as the Ministry of Labour now works to register child workers and protect their rights (United States Department of Labor, 2014). In 2012, 2.7% of children between 5 and 14 years were in work, there was a reduction from 8% in 2008 and 10% in 2004 (United States Department of Labor, 2015; CIA, 2016; United States Department of Labor, 2009). According to Gómez Durañona, Ecuador has improved a lot with respect to eliminating child labour and it is now rare to see child workers on the streets (Personal communication, January 4, 2016). The agricultural sector is the sector with the most child workers; approximately 71% of child labour happens in agriculture, 21% in industry and 8% in services. In agriculture, child labour is normally present in

the production of bananas, palm oil, flowers and fishing (United States Department of Labor, 2014). According to Gómez Durañona, children working in the agricultural sector are mainly working on family farms to learn the profession, which is considered a part of the culture in some parts of Ecuador. The government seeks to eradicate child labour through, for example, the 'Ecuador Without Child Labour' policy. This is done by strengthening awareness and inspections with respect to child labour (United States Department of Labor, 2015). For more information about this issue see the Labour Force section.

### Recommendations

Based on the information presented in this section, some general recommendations are given for how to conduct responsible business in Ecuador. We recommend companies to implement CSR as part of the company's corporate governance. The company should focus on core activities that are mutually beneficial for the company and the community and compensate for negative impacts on the society. We recommend the following:

- Ensure that your company has knowledge of the country's legal requirements for establishing a business.
- Ensure that your company has knowledge to comply with the laws and regulations for the labour market (for example minimum wages, employer legislation, ILO conventions ratified by the government).
- Establish contact with national or local unions when seeking advice in the selection of partners.
- Contact a local NGO promoting CSR to get recommendations.
- Be in a close dialogue with the local communities.
- Collaborate with people from the area that know the culture and cultural variations across the country.
- Be aware of environmental issues, particularly in the Amazon; and inequality, especially in rural areas.
- Report any attempt at corruption.



## EXAMPLE OF GOOD CSR PRACTICE

Bama Gruppen is Norway's leading distributor of fresh fruit and vegetables and in 2004 they were considered purchasing bananas from Ecuador. To get an understanding of the labour situation in the country Bama contacted the Ethical Trading Initiative in Norway, which informed Bama of extensive violations of human and labour rights in the Ecuador. In accordance with recommendations, Bama worked closely with the local trade union Fenacle who promoted Bama's code of conduct to their main suppliers. The close dialogue with the union resulted in the project 'Building Education' a cooperation between the Fenacle, the local community, the supplier Dole and Bama where they built a new school for 300 pupils, located closely to the banana plantation (Ethical trading initiative - Norway, n.d.) The decision to build a school was based on Dole's experience in the education sector and

Ecuador's need for enhancements in education and prevention of child labour (Dole Food Company, 2011). The cost of the project was shared equally between Dole and Bama, and the project was a milestone in Bama's work with unions, the right to collective bargaining and on corporate social responsibility.

### Some of the positive effects:

- Scholarships for secondary education was introduced
- Micro enterprises for women with production and sales of textiles was established
- Better cooperation and trust between local communities, the union and the government
- Greater predictability in the banana production (Bama, n.d.).



# EASE OF DOING BUSINESS

Commonly used indexes that measure the ease of doing business suggests that Ecuador has a somewhat limited business environment compared with other countries in the Southern American region. Ecuador is a more expensive country for incorporation than the Latin American average, but it is less time consuming. Much of the difficulties with setting up business is linked to the demanding processes that are required.

## Incorporation and trading

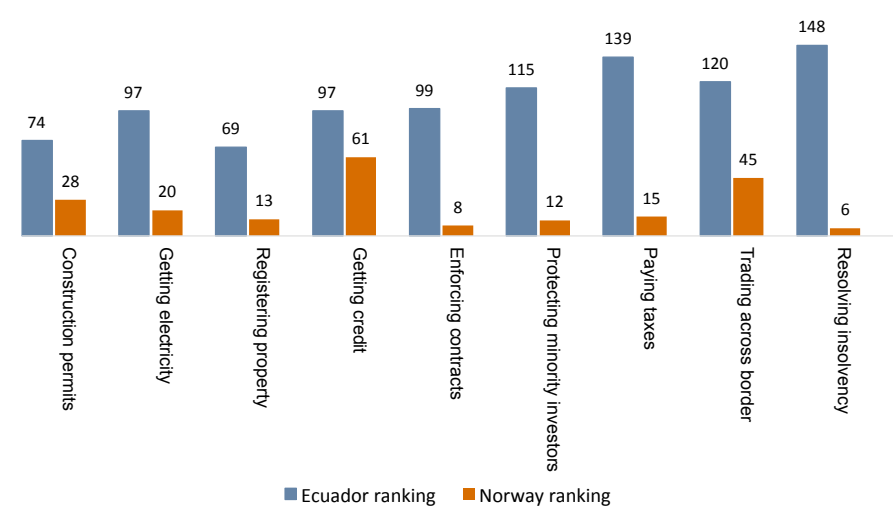
On the South American continent, the ease of doing business varies a lot between countries; in 2015 Chile was ranked 48th in terms of ease of doing business, whereas Venezuela was ranked 186th (World Bank, 2016). Ecuador is in the middle, ranked in 117th position. According to Doing Business (2016a), conditions in Ecuador has worsened between 2014 and 2015.

For incorporation of a company, Ecuador is ranked 166th out of 189 economies worldwide (Doing Business, 2016a). The low ranking is mainly due to the number of procedures needing to be completed prior to incorporation, which on average is 12 for Ecuador, 8.3 for Latin America, and 4.7 for OECD countries (Doing Business, 2016a). The time it takes to start a company in Ecuador is almost double than

the average in Latin American countries, but the cost of starting a company is lower than the average (Doing Business, 2016a). The estimated total cost of incorporation is between USD 1,045 and USD 1,245, and it takes 50.5 days (Doing Business, 2016a).

In addition to incorporation, the Doing Business ranking (2016a) looks at other processes of starting a business. Ecuador ranks better than 100th with respect to construction permits, getting electricity, registering property, getting credit, and enforcing contracts. However, the country ranks worse than 100th on protecting minority investors, paying taxes, trading across borders, and resolving insolvency (Doing Business, 2016a). As can be seen from the table below, Norway scores better than Ecuador on all these factors.

DIMENSIONS OF DOING BUSINESS- ECUADOR AND NORWAY (2015)



## PUBLIC-SECTOR PERFORMANCE RANKING

	RANK	SCORE
Wastefulness of government spending	42	3,6
Burden of government regulation	134	2,2
Efficiency of legal framework in settling disputes	109	3,1
Efficiency of legal framework in challenging regulations	139	2
Transparency of government policymaking	116	3,4
Overall public sector performance	118	2,9

Source: World Economic Forum, 2016b

The somewhat insecure business environment is something Norwegian banks are aware off and bank guarantees can be difficult to attain. According to Karen Kosberg at DNB Bank ASA (Personal communication, January 14, 2016) Ecuador is considered a high-risk country and this negatively affects the probability of Norwegian banks accepting a bank guarantee from Ecuador. DNB Bank ASA recommend their clients who want to trade with or incorporate a company in Ecuador to contact Banco Pichincha as they are the country's largest bank.

The World Economic Forum (2016a) has a ranking called the Global Competitiveness Report which assess the competitiveness of a nation based on 12 pillars. "The Global Competitiveness Report 2015-2016 assesses the competitiveness landscape of 140 economies, providing insight into the drivers of their productivity and prosperity" (World Economic Forum, 2016a). The Competitiveness Ranking score ranges from 1 to 7, where 7 is the best score. The overall score consists of many different components such as property rights, ethics and corruption, and security. On the overall index Ecuador is ranked 76th out of 140 with a score of 4.1 (the same score as Brazil and Uruguay). Norway is ranked 11th with a score of 5.4 (World Economic Forum, 2016b).

## Bureaucracy

According to Josemaría Bustamante (Personal communication, January 5, 2016) the current government has introduced many new institutions; there are currently 22 ministries and 8 secretaries in Ecuador (Presidencia, 2016). The existence of so many

institutions can cause unnecessary bureaucracy. This is one of the components that the Global Competitiveness Report (World Economic Forum, 2016a) considers for the ranking of public-sector performance. Ecuador's rank and score by category can be seen in the following table.

Each nation is judged based on wastefulness of government spending, burden of government regulation, efficiency of legal framework in settling disputes, efficiency of legal framework in challenging regulations, and transparency of government policymaking (World Economic Forum, 2016b). With respect to the overall level of public-sector performance Ecuador is ranked 118th, the South American average is 104th and Norway ranks 10th (World Economic Forum, 2016b).

## Recommendations

From the business rankings and indexes presented in this section, Ecuador might not be an obvious choice for incorporation or trade. The country tends to have mediocre scores across global business rankings when compared to other Latin American nations. However, other sections in this report have forecasted a change in the country's willingness to attract FDI. This is due to the economic slowdown caused by low oil prices and the appreciated dollar. Ecuador's need for foreign investors might change some of these rankings quickly, improving their attractiveness for trade and incorporation.







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# ACKNOWLEDGEMENTS

The IB team would like to acknowledge all the sponsors of this year’s project. IB is a student driven non-profit project, which aims to contribute to the business development of Norwegian companies into emerging markets. Their financial support was the success key of this project.

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We would also like to thank other companies and organisations for their special support throughout the project.

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This report was developed thanks to the collaboration of a diverse group professionals that provided us with their expertise in different fields. The IB Ecuador team hereby expresses its gratitude to the following professionals for their advice and commitment to the project, both in regards to the preparatory research and the fieldwork in Ecuador.

- Adrián Moreno**, Subsecretary – Ministerio de Electricidad y Energía Renovable
- Albert Wolders**, Director Forensic Services – Deloitte
- Alexis Carrera**, Senior Manager – EY
- Eduardo Góngora**, Senior – EY
- Eduardo Ledesma García**, Executive Director – Asociación de Exportadores de Banano del Ecuador
- Elsie Aguilar**, Technical Director – Consejo Nacional para la Igualdad de Género
- Esther Vásquez** – Banco D-Miro
- Evangelina Gómez-Durañona**, Executive Director – Consorcio Ecuatoriano para la Responsabilidad Social
- Fernanda Checa**, Senior Manager – EY
- Freddy Peñafiel**, Deputy Minister – Ministerio de Educación
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- 1995/1996: South Africa
- 1994/1995: Chile
- 1993/1994: Hungary
- 1992/1993: Mexico
- 1991/1992: Portugal
- 1990/1991: Russia and the Baltic States
- 1989/1990: Thailand
- 1988/1989: China
- 1987/1988: Italy
- 1986/1987: Australia
- 1985/1986: Brazil
- 1984/1985: Singapore

Next year’s project: Morocco



# conexus

RELEASE KNOWLEDGE



## Key Capacity Building

Since we don't just aim for using learning analytics as a support structure for existing educational models, we want to explore how learning analytics can restructure processes of teaching and learning. That's why we have developed edtech tools for professional development and key capacity building for most educational stakeholders: students, teachers, parents, school and district leaders.

John Dewey said that we do not learn of experience. We learn from reflecting on experience. We took him on his word and set out to develop tools that facilitate systematic reflection on individual and collective skills, capacities, capabilities and interests. By devising clear and specific evidence-based questions about what is essential and most effective for student learning and development, we give educational stakeholders the opportunity to reflect in more structured ways on their concrete experiences regarding, for instance, classroom practice and school quality.

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