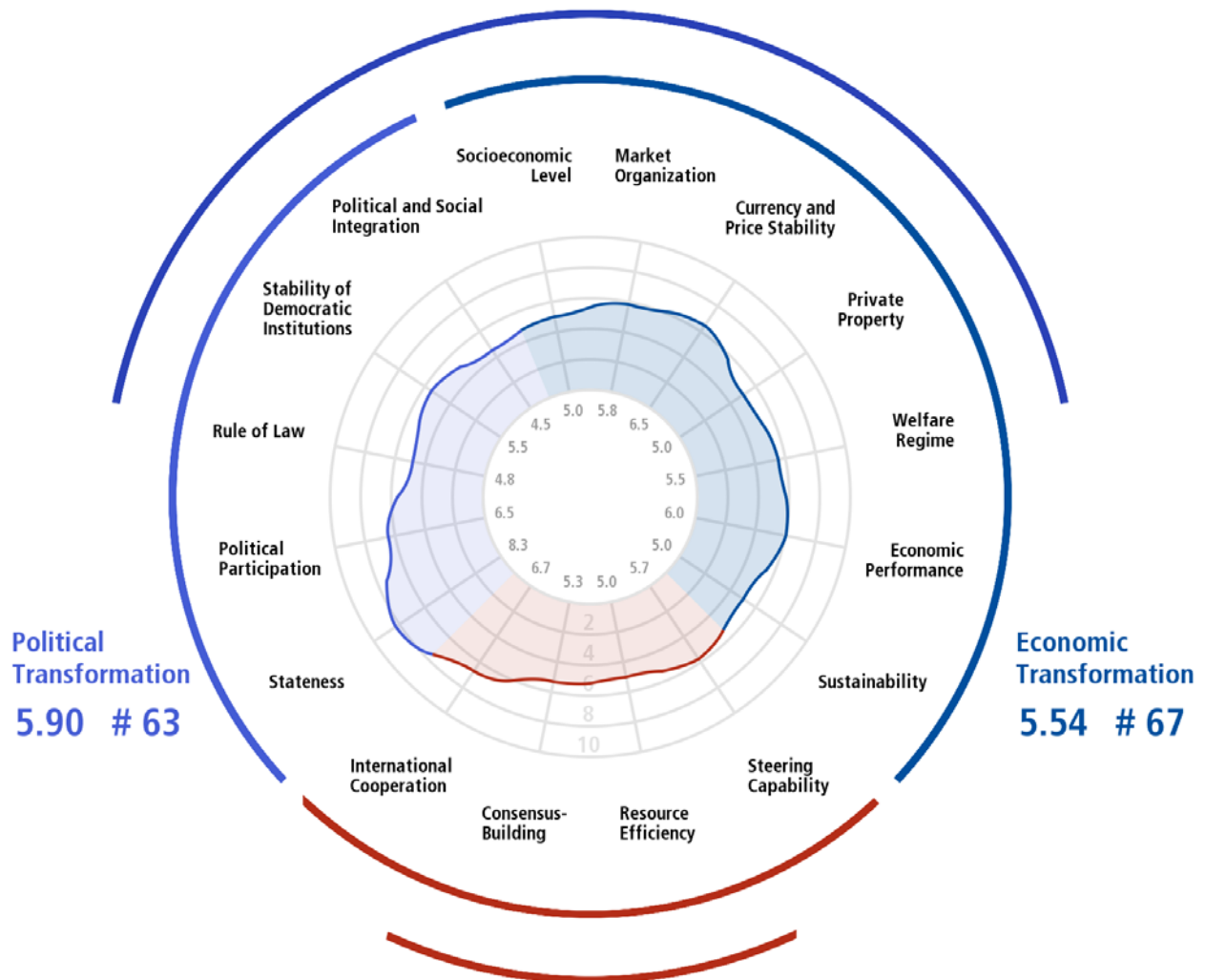


# Ecuador

## Status Index

**5.72 # 58**

on 1-10 scale out of 129



**Political Transformation**  
**5.90 # 63**

**Economic Transformation**  
**5.54 # 67**

## Governance Index

**4.99 # 65**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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### Key Indicators

Population	M	16.4	HDI	0.739	GDP p.c., PPP \$	11286
Pop. growth <sup>1</sup>	% p.a.	1.5	HDI rank of 188	89	Gini Index	46.5
Life expectancy	years	76.1	UN Education Index	0.697	Poverty <sup>3</sup>	% 11.8
Urban population	%	64.0	Gender inequality <sup>2</sup>	0.391	Aid per capita \$	19.3

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

The commodities crisis is primary event influencing political and economic developments during the review period. The average oil price produced in Ecuador was \$46 per barrel during the review period, with minimums under \$40. According to official figures, the economy shrank 1.7% in 2016 for two reasons: the drop in oil prices and consequences of the earthquake on the country's northern coast on April 2016. Data from 2016 confirms the negative growth tendency observed in 2015, when the economy grew just 0.2%. The government adjusted its economic model introducing neoliberal policies such as the Ecuador-EU treaty and a privatization program for state enterprises and infrastructure.

The latter measures have not shown results and liquidity was achieved through more credits from Chinese banks and international organizations such the IMF, with the use of social security funds, oil revenues and further revenues from extractivism. The change in the productive matrix through the investment in infrastructure and education has not worked for many reasons, particularly the weaknesses in the private sector due to its loss of leverage in the Ecuadorian economy in the last years.

The political atmosphere in the last two years has been election-focused due to attempts to reform Ecuador's constitution in order to allow presidential re-election, though President Correa himself maintained an ambiguous position. In December 2015, parliament approved a constitutional amendment allowing the president and other officials to be re-elected for an indefinite number of terms, starting with the 2021 elections (therefore Correa could not stand for immediate re-election in early 2017). On the other hand, opposition parties tried to establish alliances to come up with a single candidate for the coming election; however, only left-wing parties not aligned with Correa's regime were able to do so. National presidential and National Assembly elections took place in February 2017 (after the BTI 2018 deadline), and in April 2017 Moreno won against Guillermo Lasso and became president in May (until 2021).

Authoritarian elements such as the constant confrontation with the press and national media are still in place. Other authoritarian traits also include repressing protests for allegedly fostering violence and destabilization and the persecution of indigenous or environmental organizations.

The government has lost its strength and credibility because citizens perceive that the economic crisis has not been successfully managed. According to several surveys, at first citizens believed the official discourse centered on the endogenous causes of the crisis; however, the emergence of corruption scandals has shifted the attention to poor government management. In addition, there are clear signs of the negative economic situation, such as a growth in unemployment. “Suitable employment” (a category created by the government to hide unemployment and underemployment) decreased from 46% to 39.2% between September 2015 and September 2016. On a positive note, the government has continued programs and public policies aimed at protecting the most vulnerable sectors of the population (i.e., direct cash transfers remain in place).

## History and Characteristics of Transformation

Ecuador’s transition from a military dictatorship to a democratic system of government took place in 1979, based on an agreement between civil reformers and soft-liners within the military. Since transition, political parties held a monopoly over political participation, but failed to anchor themselves in society and therefore lost legitimacy rapidly. In addition, the Ecuadorian process of democratization took place against the background of a long and profound economic crisis that further impoverished vast sectors of the population rather than alleviating poverty. The consequence was a de-legitimization of the democratic model, as large sections of the population did not consider it capable of solving the most urgent economic problems.

A cycle of political crises began in 1997 with the resignation of President Abdalá Bucaram, whom parliament and pressure groups forced out of office. Then National Congress President Fabián Alarcón succeeded him, albeit via proceedings in which political actors ignored constitutional procedures. Political stability seemed to have returned with the adoption of a new constitution and the assumption of office of President Jamil Mahuad in August 1998. After a few months, however, the country was shaken by a financial crisis that led to measures including the introduction of the U.S. dollar as the national currency and finally a coup d’état on February 21, 2000. In order to preserve the institutional continuity of democracy to some extent, the relevant political parties and actors agreed on the nomination of Vice-President Gustavo Noboa for president; Noboa held office until Lucio Gutiérrez took over the presidency in January 2003 as leader of a leftist, anti-neoliberal alliance. Gutiérrez soon alienated his allies on the left, the unions and the indigenous movements. Protests grew after Gutiérrez dismissed the Supreme Court in December 2004. The president sought to calm protesters by dismissing the new Supreme Court in April 2005, but he was ousted that same month and Vice-President Alfredo Palacio assumed the presidency.

In 2006, charismatic former finance minister Rafael Correa won the presidential elections and soon began pressing Congress to authorize a referendum calling for a constituent assembly to write

a new constitution. After acrimonious conflicts between Correa and the legislature, a constituent assembly was elected. The new constitution was adopted in September 2008, which triggered new elections in April 2009. Correa won a new four-year term, his party PAIS (Patria Altiva y Soberana, Proud and Sovereign Fatherland) captured 59 of 124 seats in the new National Assembly. In 2013, Correa was re-elected and PAIS won even a near three-quarters majority.

As in most other South American countries, the transformation of Ecuador's market economy involved abandoning the traditional model of development that had been typical in Latin America from the 1930s onwards. The debt crisis of the early 1980s revealed the frailty of this development model. In the ten years that followed, the governments of Hurtado, Febres Cordero and Borja made a great effort to stabilize the Ecuadorian economy with varying and altogether very little success. Measures taken in economic policy were, however, increasingly determined by IMF alignment requirements, but no fundamental stability was achieved. In 1998 to 2000, these developments resulted in Ecuador's worst economic crisis of the 20th century.

However, even after this deep crisis, fundamental reforms of the market economy were not undertaken. President Mahuad's introduction of the dollar as the national currency in 2000 marked the only milestone. Although this step helped to lower inflation, it was also one of the reasons for Mahuad's removal. The political and economic crisis of the 1990s finally prepared the scene for the ascendancy of Rafael Correa. His election in 2006 evoked widespread hopes for a radical change and an end of the "long night of neoliberalism." He strengthened the state and expanded support for poor households. It is still unclear, however, if Correa brings about a real new model of development or if he simply follows the familiar patterns of traditional caudillism and economic nationalism.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

There is no permanent and systematic questioning of the state's monopoly over its territory by political, economic or social actors. The peace negotiation process in Colombia has eased tensions along the northern border – one of the most challenging zones in terms of state control– improving the situation overall.

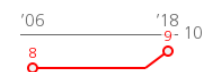
However, even though the state's hegemony over its territory is generalized and improved through public policies, the state's authority has been questioned by people living in areas where mining projects are being developed like Intag-Imbabura or Zamora in the Amazon region. A major turning point occurred on December 2016 after a policeman was killed in the southern Amazonian region – ancestral Shuar territory – and the president decided to deploy military forces. The aforementioned violent episodes occurred when the headquarters of Chinese mining company ExplorCobres SA (EXSA) was occupied by indigenous groups. As a consequence, president Correa sent police forces to the zone in an attempt to evacuate them. Residents of these areas demand the right to resist and previous consultation, both recognized by Ecuador's constitution, to be respected. The answer from the government has been firm and showed its power and authority in the affected places by claiming the legality of its actions, particularly pointing out that subsoil resources are government property. Additionally, social organizations have gradually lost their capacity to resist state authority.

Nationalism is one of the guiding principles of Correa's administration. He has aimed at strengthening the idea of Ecuador as a solid and united nation-state, worthy of its citizens' pride. The idea of sovereignty and dignity is almost always embedded in the president's rhetoric. However, the concepts of nation and citizenship do not always evoke a shared discursive framework in which consensus can be cultivated. On the contrary, the connotation of the concepts of nation and citizenship has been exclusive and the nation has become more socially and politically polarized. The problems of exclusion and marginalization are more de facto than de jure, however. That is, the

Question  
Score

Monopoly on the  
use of force

9



1

State identity

8



1

lack of recognition of equal rights is generated more by ethno-social structures and the economic dynamics of the country than by official policies that have been put in place by state institutions. The loss of mobilization capacity of indigenous organizations has also meant that positions challenging the hegemonic vision of the “national,” proposing alternative plurinational models, have lost force.

Despite the strong influence of the Catholic Church in the country and on its people, religion has not been a contentious issue. Since the beginning of the 20th century, there has been freedom of religion and the separation of church and state. The problem is that the dogmas of the Catholic Church, which are also part of society, serve as the basis for all decisions of a general nature. Though President Correa makes constant professions of his faith during public events (he defines himself as a practicing Catholic), the Catholic Church participates little in politics. In addition, the president defines himself as a supporter of “liberation theology,” and in this sense, tends to be suspicious of the church hierarchy. The president’s religious fanaticism has influenced legislation, as exemplified by the country’s abortion laws. Correa always argued that he could not authorize any type of abortion because he is a practicing Catholic and his religion opposes abortion. The close relation of President Correa with the Catholic Church was demonstrated once again when he was invited to speak at the Vatican on April 15, 2016. His talk tackled the changes in world politics since 1991 and often referenced the Catholic’s Church social doctrine.

The basic structure of Ecuador’s public administration is present everywhere in the country (with some concentration in urban areas). One weakness, however, is that many professionals in the public sector lack sufficient training, especially those from the less specialized sectors of the public administration system and, particularly, those from the less urban regions. Another problem in the government’s administration is the high turnover rate and, therefore, a lack of continuity in leadership. Even though basic administrative structures have been strengthened and equipped with more resources, corruption remains pervasive, fueled in part by the increased availability of funds.

The amount of resources available, combined with political will, has resulted in a marked improvement in the state’s role as a provider of services. There have been two major areas of investment: road construction and power generation. Nevertheless, with the reduction in income due to the drop in oil prices, public sector growth has slowed down. 87% of the population enjoys access to sanitation, slightly better than other countries in the region with higher development rates. Moreover, 85% of the total population has access to water.

Total coverage on the aforementioned indicators has not been achieved due to the difficult geographic conditions: mountain zones on which water sources are scarce or infrastructure difficult to develop. Changes to the rivers’ flow in the coastal region make sanitary infrastructure difficult to develop.

No interference of religious dogmas



1

Basic administration



1

## 2 | Political Participation

There are no major legal restrictions on electoral freedom in Ecuador. Mechanisms that tip the balance in favor of one candidate or another do not necessarily imply electoral fraud. During Correa's leadership, two mechanisms interfered with the elections' fairness: the government's permanent campaign to denounce all forms of criticism that come from public or political organizations and the lack of impartiality of the electoral authority, which almost always rules in favor of the government.

Press freedom during elections has been seriously curtailed, as the media is facing serious limitations to carrying out their work during political campaigns. The changes prohibit the media from disseminating messages, or reporting that could favor or detract from a "political thesis," candidate, or electoral preference.

Under these conditions, the ruling party has a clear advantage during political campaigns. It is able to access government funds on political advertising, making campaigning less competitive and less fair. At the same time, Ecuador has rather strict and punitive laws on election spending, which serves to limit the influence of opposition parties. There has also been an instrumental use of electoral authorities and institutions – Consejo Nacional Electoral (CNE) and Tribunal Contencioso Electoral – by the government. More concretely, some issues have been managed, in an indirect fashion, by the government according to its own views: the YASUNIDOS call for referendum to prevent drilling in the Amazon region was stopped due to the elimination of apparently valid signatures. On this and other processes, the government controlled the timing for the presentation of allegations and resources from affected groups.

Over the years, the CNE's actions have rarely been impartial. The confidence in electoral institutions is low. Combining "little" and "any" confidence answers given in the Latinobarómetro 2015, the negative responses totaled 59.7%.

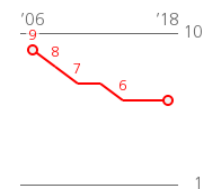
After constitutional amendments were approved by the National Assembly in December 2015, local governments were able to call for referendums if more than 5% of people enrolled to vote agreed.

In Ecuador, there are no nonelected individuals or groups able to act as veto powers contesting the power to govern of democratically elected political representatives.

However, during 2016 there have been several conflicts with sectors of the armed forces due to modifications made on the social security system that protects them. In August 2016, the situation became very tense when a group of officials led by captain Edwin Ortega were judged for charges of indiscipline toward a superior (Correa deduced that he himself was the chief of the armed forces). They were charged for stating on social media that some information was not entirely true on official mail

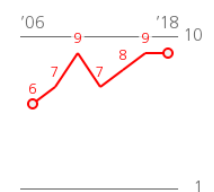
Free and fair elections

6



Effective power to govern

9





from Correa about issues regarding the armed forces. As the internal bodies of the armed forces did not sanction the officials severely, an investigation by the government was opened. As a result, the relationship between the government and the armed forces was compromised.

Generally, there are no outright prohibitions of independent political or civic groups, and demonstrations and protests can be held, but association and assembly rights have increasingly become subject to interference or government restriction.

The presidential decree 16 (according to some jurists it should have been an organic law since it deals with a constitutional right) sets strict control on the formation and activities of all civic groups that wish to be recognized as legal entities. The law grants the government discretion to determine what constitutes as lawful or unlawful participation. In addition, the regulation specifies that organizations are compelled to deliver to the competent regulatory body all the documentation and information required by the law, granting the government greater control over the activities of these groups and exposing all individuals associated with them.

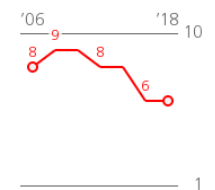
Article 26 states that civic associations can be terminated if they distance themselves from the aims and objectives of their creation or repeatedly violate the provisions of authorities and regulatory bodies. The capacity to terminate the activities of social organizations does not correspond to an independent entity, but rather to secretariats and ministries that report directly to the president. One of the most controversial provisions states that engaging in partisan political activities or interfering in public policies in such a way that threatens national security or affects public peace can lead to the dissolution of civic organizations. Apart from being rather ambiguous, the competent authority establishes this *ex officio*. Thus, this decree reduces political action to partisan electoral activity.

With these norms as legal backup, the Ministry of the Interior asked for the dissolution of Acción Ecológica, the biggest and most important environmental organization in Ecuador. Acción Ecológica was accused of distancing itself from its foundational aims and objectives, interfering in public policies, compromising the state's internal security and affecting public harmony. The charges were made after the NGO supported local communities in Morona Santiago that were violently resisting the Chinese mining company EXSA Ecuacorriente. In the end, the NGO dissolution did not take place due to international pressure and the supporting evidence presented.

In April, indigenous peoples' leaders appeared before the Inter-American Commission on Human Rights and condemned restrictions on their right to freedom of association. In September, the authorities dissolved the National Union of Teachers (UNE) on grounds that it had not registered its executive board with the authorities.

Association /  
assembly rights

6



1

Article 66, point six of the constitution guarantees the right of free opinion and expression in all forms and manifestations. The next point adds the right to rectification if unprovable or inaccurate facts are used. This article has been used to exert pressure on the mass media. Furthermore, in December 2015 an extra point was added to article 384, stating that communication is considered a public service to be provided by public, private and communitarian media. The aforementioned characteristics increase the government's capacity to regulate the content of mass media due to administrative procedures.

Freedom of expression is one right that has been weakened due to President Correa's openly combative relationship with the media. The communications law (2013) regulates media operations and seeks to democratize the press, but also set up mechanisms of indirect control with high economic sanctions that threaten the solvency of any enterprise. Moreover, authorities have excessive discretion to allot fines, refusing to compromise when it comes to the private media, but changing their standards when the public media is involved.

According to the ranking of Reporters Without Borders, Ecuador ranked 109th in 2016 and 108th in 2015 of a total of 180 countries, mainly due to the state's actions against freedom of speech and press. Rafael Correa has a constant and open confrontation with the mass media, often accusing them of aiming to destabilize his government. In the face of legal actions and the frequent use of the right to reply, national mass media has adopted an "auto-regulatory" behavior and avoids key topics.

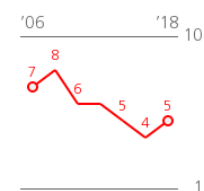
Due to the communication law and the acquiescence of its regulating mechanism (Superintendencia de la Información y Comunicación – Supercom), several judgments that shrink freedom of speech and press have been put in place. The most controversial has been an official complaint against the newspaper *Diario La Hora*, which was sanctioned and fined for not providing enough media coverage to a mayor's annual report in 2015. Besides the monetary sanction, this judgment implied a legal precedent in which public functionaries could condition content on mass media, putting into question news coverage and importance.

Persecution against mass media is not limited to the content and veracity of information and has been directed toward caricaturists as well, such as well-known Xavier Bonilla ("Bonil"). In the last two years, president Correa and his government have actively persecuted people that show opinions or share humorous information over social media. According to Correa, these people are part of an international plot to destabilize his government. On his Saturdays' TV program, the president has actively sought support, inviting his followers to "fight back" and defend his so-called revolution.

According to data from FUNDAMEDIOS, in 2015 there were 499 attacks against freedom of speech and 491 in 2016. In their registry, they count actions against formal

Freedom of  
expression

5



mass communication media, journalists and social media users. The ultimate pressure mechanism the government has used against radios and TV channels is radio frequency licensing.

### 3 | Rule of Law

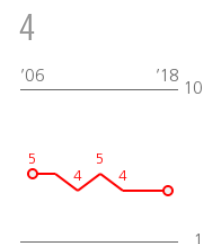
The president's control of parliament increased thanks to the near three-quarters majority won by his party in the 2013 elections. Due to the heavy control the executive exerts on the party, it can regulate the legislative process or the appointment of administrative and judiciary authorities when the approval of the National Assembly is needed. The legislative process is managed by the Secretario Jurídico of the President, Alexis Mera, who is in charge of leveraging the opinions of representatives in order to consolidate a unique block. When Alianza País representatives have a different point of view and don't agree on voting as a block, they are sanctioned and harassed (i.e., AP representatives Fernando Bustamante, Larriva and Vilema were expelled from the party after denying to vote as a block). In an attempt to delegitimize Larriva's point of view, president Correa mentioned that Larriva's positions were a result of his lack of objectivity due to leukemia. On his "Enlaces Ciudadanos," Correa dictates the political line that the AP parliamentary block should follow and shows his authority to representatives. These public demonstrations of force are sometimes humiliating.

The Council of Citizen Participation (CPCCS) was established in order to guarantee independence in the nomination of supervisory authorities. However, the power of this council has been weakened, evidenced by the nomination of pro-ruling party candidates to serve in the regulatory bodies that control the media. Through the control of the CPCCS, the president has been able to control ordinary justice, the Constitutional Court, the Prosecutor's office, the Contraloría General del Estado and the Defensoría del Pueblo.

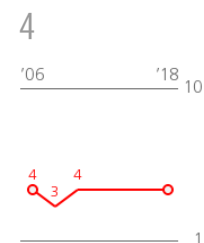
The administration of justice is chaired by the Judicial Council. Despite being a formally independent body, its nine members are people close to the government. New members were integrated most recently in 2013, proposed by the attorney general, public defender, National Assembly, the executive branch and the National Court of Justice. Each of these institutions submits three candidates, from which one is chosen. It should be noted that all instances are controlled by Alianza País, thus curtailing the judiciary's independence. The maximum and final judicial instance is the National Court, composed of 21 judges serving nine-year terms. A third of the judges are renewed every three years. The next level consists of the Provincial Courts of Justice, whose appointments also depend on the Judicial Council.

The government is constantly making efforts to institutionalize judicial authority, but there has been political pressure against judges who have ruled against the state or other authorities. In the constitution, there are references to "procedural bad faith, malicious or vexatious litigation, generating procedural obstacles or delay" that are often used to purge judges.

Separation of powers



Independent judiciary



In addition to regular legal processes, one must take into account the role of the Constitutional Court, whose members are also appointed by the Council of Citizen Participation and Social Control. This body's integration has been criticized for being composed of pro-government members.

From a formal point of view, the judicial power structure is made for assuring its independence, but there are two elements that distort it: the control of the nomination mechanisms by a single party and the direct intervention of the president, who publicly criticizes judges when sentences are not in line with his own visions.

The Global Report on Competitiveness 2016-2017 from the World Economic Forum is very pessimistic regarding the independence of justice in Ecuador: the country is ranked 134 out of 138 countries.

From a legal point of view, offering or accepting bribes is illegal and punishable by a prison sentence of up to five years. However, the delivery of bribes or kickbacks in recruitment to the public sector is widely documented. Formal complaints are rarely lodged, as people fail to recognize this practice is a real problem. The Comptroller is responsible for the supervision of public funds. There are frequent investigations and judicial proceedings as a result of mismanagement at the Comptroller's office, but it is generally only low-ranking officials who are sanctioned for misuse of funds, as they are unable to properly demonstrate how money was used. In addition, people reporting cases of corruption are persecuted (such as members of a watchdog organization who denounced irregularities in contract adjudication). Accusers have been prosecuted for false testimony, similarly to what journalists have faced.

In 2016 the "Panama Papers" scandal showed the existence of tax havens accounts belonging to the minister in charge of oil revenues and several other high-ranking officials. The first reaction from the government was denial which led to the fugue of the main suspects and the imprisonment of minor accomplices. To the latter, other irregularities are added: the prosecutor in charge of the investigation has been changed three times. The government's strategy in this case has been to deviate public attention by involving people outside the government.

A second case of corruption pertains to the scandal denounced by the U.S. Department of State regarding the Brazilian construction enterprise Odebrecht, which has several contracts in Ecuador. Odebrecht has built a web of bribery in Ecuador worth \$33.5 million in exchange for public contracts. The enterprise has contracts in Ecuador for a total of \$1.6 billion. Though these cases are not new and have been widely reported, the government has persecuted denouncers instead of conducting a proper investigation. On top of this, there have been several other corruption accusations coming from minor contractors who have reported the payment of "commissions" for obtaining contracts and payments. These accusations do not become formal due to the fear of persecution and economic marginalization.



Despite the constitutional protection of civil rights in Ecuador, they are not properly respected and protected. Though the mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place, they are not consistently effective, and they are occasionally undermined. Even though the administration of justice has improved, and attempts for reforming the national police forces have been made, there still is abuse of authority, especially when social protest needs to be contained.

Historically, indigenous and afro-descendent populations have been victims of discrimination. One of the constant demands made by Ecuador's indigenous movement is the abandonment of racism both in society and the state. The government repeatedly states that indigenous people have benefited from several public policies, but indigenous organizations consider that such policies are paternalistic, deepening the racist attitude of state and society toward them.

Women and non-heterosexual identities are often victims of sexual harassment and discrimination. The government states that women have been successfully included in public positions and that there is a high number of public policies regarding sexual diversity. Nevertheless, the public discourse is full of sexual references. For example, the Alianza Pais government put in doubt the intellectual capacities of presidential candidate Cynthia Viteri just for being a woman, constantly alluding to her femaleness. Likewise, in the case of sexual minorities, the government defends an inclusive public posture, but simultaneously supports the idea of "natural families" when equal rights for adoption or same-sex marriage are demanded.

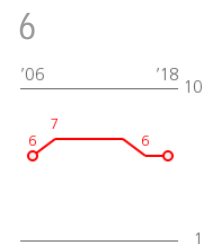
#### 4 | Stability of Democratic Institutions

While the country has formal democratic structures, they are not utilized to resolve political conflicts, nor do political actors fully respect them. The political situation in the country seems more and more like the old populist system in which the leader connects with the people (or "the fatherland," as Correa says in his speeches) and receives the constant support of the "fatherland" through ongoing elections. It is a system in which power is concentrated with the president, and where institutions of liberal democracy and the rule of law are seen as barriers for achieving national goals.

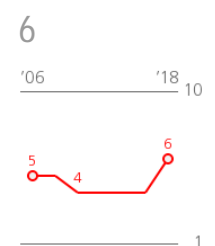
Ecuador has a long-standing tradition of elections at the local and provincial level (practically since the beginning of the republic) though there are many differences between municipalities. Cities like Quito, Guayaquil, and Cuenca have mayors who are important actors within national politics, and their municipalities are important institutions in the making of public policies. On the other hand, there are small cantons with few resources or weak institutionalization.

In the local governments there are participation and accountability mechanisms that reinforce both the opposition and citizens' capacity for control. Public policies in big and medium municipalities have gradually gained institutional and technical

#### Civil rights



#### Performance of democratic institutions



capacities that allow a better capacity to fulfill citizens' needs. The 2016 constitution amendment, by which local governments can call for referendums, clearly show their importance in the state apparatus.

In Ecuador there is a low level of commitment to democracy understood in a broad sense, not only as an electoral process that allows governments to develop public policies as representatives of the public interest. There is no data on the position of political actors, but it should be noted that none of the parties represented in parliament opposed the coups against Bucaram, Mahuad and Gutiérrez. The military and other social organizations like the indigenous movement also played an important role in these processes.

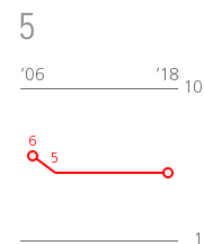
Correa and the majority of the members of the government are openly critical of liberal democracy and the market economy, and are in favor of testing out different political structures, most notably what they call “new models of democracy,” though it is not very clear what exactly that is. Governing in a populist style, the functioning of democratic institutions has been debilitated because power is personalized in a figure that believes to embody popular will and sees institutions and norms as obstructing governing. The latter is clearly shown in the constitutional amendments carried out by the government between 2014 and 2015 when the National Assembly and the Constitutional Court ratified what the executive proposed instead of using their countervailing powers.

## 5 | Political and Social Integration

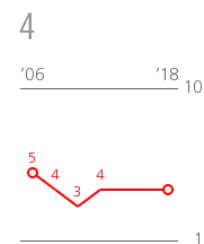
The transformations that have taken place in the party system are the best reflection of changes that have been occurring since the rise of Rafael Correa. The system of political representation that worked, albeit rudimentary, since the transition, has virtually disappeared since the 2006 elections, and a new party system has not yet consolidated. With the parliamentary elections in February 2013, the new electoral system maximized the supremacy of the ruling party, PAIS. With 52% of the electorate's vote, PAIS won 100 out of 137 seats in parliament, or a near three-quarters majority (73%). The remaining 27% of seats were distributed among seven of the remaining 11 parties, with 3 seats won by independent or regional candidates. The effective number of parties (according to the Laakso-Taagepera index) declined to a mere 1.8 ENP, down from 5.8 ENP in 2006.

Today, Ecuador's only large and structured political party is Correa's Alianza País, with a strong presence throughout the country. Nevertheless, the National Electoral Council has registered seven political parties and national political movements, 54 that can participate in provinces previously authorized, 84 that can participate in cantons and 14 in parishes. The latter is relevant because, according to Ecuadorian law, in order to participate in politics there is the need to be registered as a political

Commitment to democratic institutions



Party system



institution (other collective actors are banned from participation through presidential decree).

The political opposition is highly fragmented and lacks a strong identity and social ties. Its biggest mobilization factor is opposition to the Correa administration. Currently, the position of Movimiento Alianza PAIS is very solid as a majoritarian party. Nevertheless, its real force and power will be tested once Rafael Correa leaves office.

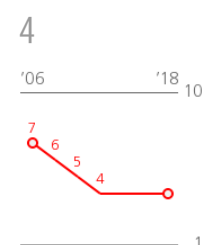
Ecuadorian politics are very personal; hence the party system is often unstable. The lack of confidence in political parties is rather high at 73.5% (Latinobarómetro 2015)

Ecuador has a moderate spectrum of interest groups, though their overall strength to mediate between society and the political system has significantly diminished over the years, as the government is somewhat hostile toward independent groups, and more inclined to polarization. Business and labor organizations are either extremely weak or controlled by the government. In addition, civic groups are regulated by norms that practically prohibit any form of political participation if the organization involved is not a political party or movement (Decree 16). The government's strategy has also been to divide social groups by building parallel organizations, as happened with workers and teachers, and to co-opt part of the indigenous groups.

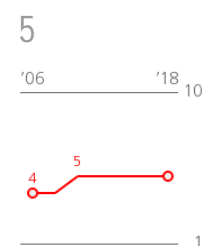
The government persistently harasses indigenous organizations such as the CONAIE, weakening them and reducing their political prominence. The influence of CONAIE has diminished during the last ten years due to the lack of economic resources as public and international funds are controlled by the government. CONAIE also endures high levels of repression on its collective action demonstrations. The last big CONAIE uprising in Quito on August 2015 was met with further repressive measures such as cancelling the visa of Manuela Picq – a French-Brazilian scholar and partner of Carlos Pérez Guartambel, president of Quechua organization Ecuarrunari – on the grounds that a foreigner cannot get involved in national politics. Such struggles are even more violent in regions with big mining projects.

According to Latinobarómetro, democracy approval in 2015 was 71% and 67% in 2016. Even though there is a decrease in the figures shown, they are still high, especially if one takes into account the rather low levels until 2006. After Correa was elected for the first time in October 2006, the approval of democracy increased from 45% in 2005 to 54% in 2006, a direct positive impact. Some studies say that the perception of democracy is linked to the approval of government performance and less an indication of high approval of democratic norms and procedures. Accordingly, the government has the best approval rating with 49.3%. On the other hand, 73.5% reveal to have little or no trust in the party system. The National Assembly, the justice system and the electoral organisms also show rather high levels of mistrust: 63.6%, 58.6% and 59.7% respectively.

Interest groups



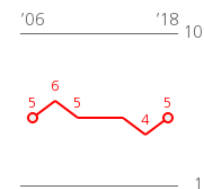
Approval of democracy



According to Latinobarómetro 2016, 21% of the Ecuadorian respondents said they “can trust most people,” which is just slightly above the regional average of 17%. These figures don’t necessarily imply that Ecuador reports high levels of interpersonal trust, but that trust in Latin America is rather low. It is well known, though, that for interpersonal trust to transfer into social capital, you need an enabling environment in which organizations and associations are inclusive and not influenced by corporate interests. In Ecuador, such social cohesion is challenged by the prevailing influence of traditional structures, which are founded in principles of exclusion and differentiation between groups. Add to this the climate of social and political polarization, typical of populist systems that, instead of increasing interpersonal trust and tolerance, generate exactly the opposite. Finally, one must also add society’s inability to generate autonomous organizations of a different type, either due to the lack of associative tradition or because of the hegemony exercised by the state.

Social capital

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## II. Economic Transformation

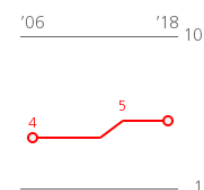
### 6 | Level of Socioeconomic Development

Though Ecuador is doing well on several indicators of human development, poverty is widespread and inequality significant. Both are, to some extent, structurally ingrained. According to data from the National Statistics Institute (INEC), poverty rose from 24.1% in March 2015 to 25.4% in March 2016, while rural poverty increased from 43.4% to 44.0%; urban poverty from 15.1% to 16.6%; and extreme poverty from 9.0% to 10.1%. In rural areas, extreme poverty was reduced from 19.7% in 2015 to 19.5% in 2016, which is not a statistically significant change. In urban zones, extreme poverty increased from 3.9% to 5.6%. For the measurement of poverty, INEC uses the poverty line (\$84.25) and extreme poverty line (\$47.48 per person and month).

The country ranked 89th in the 2014 Human Development Index (at 0.732, just above the threshold for “high human development”). The country has a high coefficient of inequality (45.4 in 2014). The UNDP’s Gender Inequality Index in 2014 was 0.407. Though a reduction in comparison to 2013 (0.429), it shows that the situation of women is quite uneven if compared with countries with the same socioeconomic features.

Question  
ScoreSocioeconomic  
barriers

5





Economic indicators		2013	2014	2015	2016
GDP	\$ M	95129.7	102292.3	100176.8	<b>97802.2</b>
GDP growth	%	4.9	4.0	0.2	<b>-1.5</b>
Inflation (CPI)	%	2.7	3.6	4.0	<b>1.7</b>
Unemployment	%	4.2	3.8	4.8	<b>5.4</b>
Foreign direct investment	% of GDP	0.8	0.8	1.3	<b>0.7</b>
Export growth	%	2.6	4.2	-0.4	<b>-0.3</b>
Import growth	%	7.0	4.3	-8.6	<b>-6.4</b>
Current account balance	\$ M	-932.1	-525.5	-2119.7	<b>1413.8</b>
Public debt	% of GDP	16.6	22.0	26.1	<b>36.2</b>
External debt	\$ M	18618.7	24158.3	27257.4	<b>34083.5</b>
Total debt service	\$ M	3124.4	3995.7	5013.0	<b>5280.6</b>
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	14.0	14.1	14.4	<b>14.3</b>
Public education spending	% of GDP	5.0	5.2	5.0	-
Public health spending	% of GDP	3.9	4.5	-	-
R&D expenditure	% of GDP	0.4	0.4	-	-
Military expenditure	% of GDP	2.9	2.7	2.4	<b>2.2</b>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market competition operates under a weak institutional framework, with uneven rules for market participants. The government has openly criticized the market economy and promoted a model that, without excluding the private sector, promotes the active intervention of a strong state in society and the economy, clearly favoring the creation and strengthening of public companies. The considerable state intervention in sectors the government regards as strategically important is clearly a case of discrimination based on ownership.

The informal sector has a strong presence, as does the “bazaar economy.” The government has created a normative framework to protect these practices. The

Market-based competition

4

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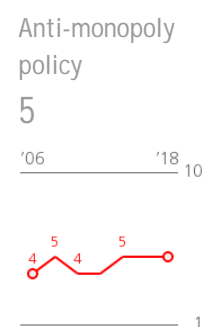
informal economy is protected by the constitution as a mechanism for guaranteeing the right to work. According to July 2015 data by INEC, of the total employed people in the country (about 7.1 million), 39.3% were considered to be informally employed. Likewise, the data shows that it's not only preferable to work aside the regulatory laws, but the job market is incapable of absorbing job supply.

In 2000, following a severe financial crisis, Ecuador adopted the U.S. dollar as its official currency. Price controls and benchmark prices are repeatedly used to intervene in the markets, especially for food items. There is freedom to launch and withdraw investments at least in the sectors open to private investment. Foreign investors are not discriminated against and may remit 100% of net profits and capital; profits have been subject to a 5% tax since 2011. However, the government has also deterred foreign investment with the repudiation of guarantees. Foreign investment in "strategic" sectors such as media is restricted. During the review period, foreign direct investment increased, but still is at a rather low level. According to Economic Commission for Latin America and the Caribbean (CEPAL), FDI increased in 2015 (\$1.06 billion) compared to 2014 (\$773 million). Chile, with a slightly higher population than Ecuador, received \$20.6 billion; in South America, only Paraguay and Bolivia received less FDI than Ecuador.

An important change regarding investment and direct access to Ecuadorian products is the recent trade treaty with the EU, signed at the end of 2016.

Until 2011, Ecuador did not have anti-monopoly legislation of its own but applied regulation of the Andean Community. In October 2011, the new anti-monopoly law entitled the "Organic Law for Regulation and Control of Market Power" entered into force. According to the Antitrust Review of the Americas 2013, the law created the Superintendence for the Control of Market Power (SCPM) to investigate and decide antitrust matters and violations concerning the abuse of market power, restrictive practices or cartelization, unfair competition and economic concentration. Industry groups have criticized the law's terminology in defining market power abuses as overly vague. The government has been very active promoting laws that encourage the diversification of mass media ownership and has also prohibited banks from owning companies which are engaged in other activities such as the financial management of foreign exchange, the stock market or investment values, leasing, etc.

Rafael Correa's government is in favor of state intervention in the economy by favoring the creation and strengthening of public companies, which generally enjoy monopolies. Due to the reduced size of the market and the concentration of business, Ecuador has tended toward oligopoly with respect to certain basic consumer products (flour, sugar, cement, etc.). In these cases, the state via SCPM makes use of price controls to regulate the lack of competition using a system of notifications and inspections.



In order to increase supply in sectors subject to private oligopoly, the government has intervened by means of greater regulation or the direct intervention of the state as an additional agent producing or marketing products, for example in the media or banking. The government has developed an active policy of concentrating economic activities under the control of the state, such as the production of electric energy or fuels.

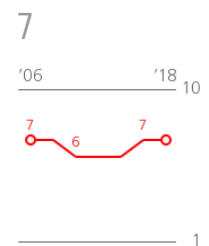
When there is not a direct intervention, there are processes to guarantee competition in the private sector. For example, during the review period two large, widely-known beer companies merged, and to guarantee competition, the SCPM dictated some small brands should be sold. The process is not closed and has several ongoing processes, including the potential selling of Club brand (20% of Ecuadorian market share).

At the end of 2016, and after a long negotiation process the trade treaty with the EU was finally signed. This treaty shows a substantive change in the government's position, especially Correa's, toward this kind of agreements. Despite this shift in Ecuador's position regarding international trade, the country has serious deficiencies, especially when oil revenues are not taken into account. According to Federación Ecuatoriana de Exportadores (Fedexpor), non-oil exports from Ecuador in 2015 reached \$11.7 billion (6.1% less than 2014), while the imports were \$17.3 billion, representing a deficit on the non-oil trade balance of \$5.6 billion. As a result of the latter, the government adopted protectionist policies by increasing tariffs on a number of imports. The government justifies this measure with the necessity to limit the rise in goods purchased abroad, which had increased with the adoption of the U.S. dollar in 2000 and the increasing amount of money in the economy resulting from rising fiscal revenues being transferred to the economy by wages and subsidies. There is a wide range of restrictions, regulations, administrative inefficiencies and lack of transparency, which hamper free trade. One must add to this a 5% tax to capital outflows.

Another indication that the government has shifted its position regarding international arbitration organizations is its acceptance of The Hague International Court judgment on the case between Chevron and Ecuador. Despite the international media campaign made by Ecuador's government in order to win the case, it complied with the court's decision and paid to prevent further sanctions regarding access to credits. As part of the policy for attracting international financing, the government announced a plan of privatization and openness to foreign investment. However, details are not available as it has not been concretized yet.

Ecuador has been a member of WTO since January 21, 1996.

Liberalization of  
foreign trade



The banking system and capital markets are differentiated, with 22 national and international private banks, four public financial institutions, nine intermediary financial societies and four banks specialized in housing. In addition to the latter, there are several regional cooperatives oriented to savings and credit. Though not explicitly following Basel standards, the system supervised by the Superintendence of Banks (SBS) has adopted measures that equal international standards, and the system is considered more or less solid.

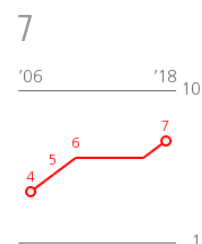
Regarding credit, according to the Coordinating Minister of Economic Politics, 3.1% of Ecuadorian citizens ask for loans at formal banking institutions. Furthermore, 48.4% receive loans from family or friends, and 19.8% from formal employers. The rate of non-performing loans is rather low with 4.4% in 2015 and 5.1% in 2016.

On September 2016, assets of the private banking system were \$33.5 billion, 8.25% higher than one year ago. Liabilities of the system were at \$30.1 billion (an increase of \$2.4 billion). Increased assets are mostly due to a rise in short term deposits (8.9%), long term deposits (12.0%) and financial obligations (14.5%). Deposits make more than 75% of total liabilities, while financial obligations only 6.0%. These figures indicate that the current system is widely trusted after a period of cash withdrawals due to the fear of abandoning the U.S. dollar as Ecuador's national currency.

The Correa government defined as one of its priorities the tighter regulation of the financial system, leading to the adoption of the 2008 Law for the Creation of a Financial Safety Net, which, among other things, (1) established a bailout fund to be financed by the banks themselves, (2) reformed the deposit insurance system, (3) and regulated interest rates and the charging of commissions. Further regulations have contributed to an ongoing reorganization of the banking sector. In order to provide for a decartelization of the economy, the anti-monopoly law prohibited combining multiple banks or different types of financial institutions and restricted corporate ownership across banking and other financial interests. Banks are also required to maintain at least 45% of their liquid reserves in Ecuador, in addition to maintaining as liquid reserves at least 1% of their deposits in securities issued by the non-financial public sector.

The last confrontation between the government and the banks occurred due to the increase in the legal banking reserve from 2% to 5%, only for those banks with more than \$1 billion in total assets. Those are seven banks that together report \$24.3 billion in deposits from the public (meaning that \$3 billion had to be deposited in the central bank). According to the banking association, this was done to gain more liquidity for the government through central bank's deposits. Bank capital to assets ratio has been among the highest in Latin America (2015: 13.0%; 2016: 12.8%).

#### Banking system



## 8 | Currency and Price Stability

The Ecuadorian economy has been dollarized, which means the government does not have much room to maneuver or intervene with monetary policy. Inflation was 3.6 % in 2015 and 1.1% in 2016. The reduction is due to the economic slowdown.

President Correa does not believe in independence for central banks, as it would limit the government's ability to set public policy. The 2008 constitution took away the full autonomy of the central bank, so that the government was able to reclaim national reserves that central bankers had stashed in overseas banks.

Ecuador faces problems regarding its overall balance of payments, showing a deficit of \$574.0 million in 2014 and of \$2,200.6 in 2015. The government has made a series of actions to balance it. Some imports have been restricted because the consumption of imported products shot up following the increase in public investment and wages. Nevertheless, a recovery is difficult due to the drop in oil prices and the increase in the prices for other exports as a consequence of the U.S. dollar appreciation.

The fiscal deficit in 2016 was 2.14% of GDP according to the Ministry of Finance. The budget outline for 2016 was \$29.8 billion, with expected incomes of \$23.2 billion. Out of this total, \$22.6 billion are permanent income, from which tax revenues are \$15.5 billion, and \$674 million are considered as non-permanent income (oil revenues). Regarding expenses, the total figure is \$25.7 billion. From this total, \$17.4 billion are permanent expenses (the biggest portion is the payment for public servants: \$8.9 billion), and \$8.3 billion in non-permanent or investment expenses.

According to Ecuador's central bank, the country's total debt is 37.9% of GDP, but if other items are included, such as earlier sale of oil or late payments, the total debt increases and reaches 44.7% of GDP. This level of debt could be properly managed, but other indicators such as the fiscal deficit or the trade balance have not fully recovered. In addition, international reserves are among the lowest in Latin America (only second after Haiti's) with \$2.1 billion in 2015. The dollarization of the country has created an anchor that has prevented implementation of many policies that would affect the macroeconomic balance.

## 9 | Private Property

The 2008 constitution guarantees a series of forms of property (private, state, mixed, public, community and cooperative) with an emphasis on the social function that each should carry out. Although there has been a certain climate of respect for property rights on the part of the state and the majority of citizens, private property has been questioned under the new political environment. The government's attitude has contributed to this as it constantly uses the threat of embargo or nationalization as a

Anti-inflation /  
forex policy

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Macrostability

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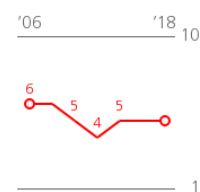


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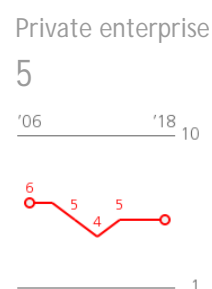
Property rights

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way to put pressure on private firms. Ecuador is currently ranked 81 out of 128 countries in the 2016 International Index of Property Rights (position 12 out of 22 countries in Latin America and the Caribbean), with political and legal factors as the most serious threats to private property. Court delays are significant, judgments are unpredictable and inconsistent, and the judicial system is severely affected by corruption. There have been numerous cases in which the judicial system has not adequately protected property owners' rights. Deficiencies also exist with regard to intellectual property because society and the government have a high tolerance for the purchase of unauthorized copies and forged products.



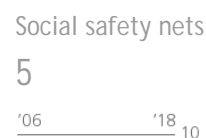
The right to engage in business is formally guaranteed, and the private sector is still the backbone of most economic activities in Ecuador. However, during Correa's terms in government, legal uncertainty and a lack of economic clarity has worried businessmen, due to certain attitudes and interventionist policies on the part of the government. While still relatively open to foreign investment in most sectors, laws and regulations limit to some extent private sector participation in so-called strategic sectors. There have been no privatizations under the Correa government. Instead, state-owned enterprises have become increasingly important since the 2009 Law of Public Enterprises above all in strategic sectors such as resource extraction, telecommunications and transportation. Despite the fact that in April 2016 a privatization plan was announced in order to increase fiscal revenues from the fall in oil prices, nothing has been sold yet.



Ecuador is ranked 159th in the Index of Economic Freedom 2016 with a score of 48.6, which is far below the world and regional averages, albeit with some improvements concerning investment freedom, trade freedom and labor freedom. According to World Bank data, starting a business in Ecuador 2016 takes 49 days and 11 procedures. The impact of these barriers is reflected in other areas such as the limited foreign direct investment received by the country.

### 10 | Welfare Regime

The Ecuadorian Institute of Social Security (IESS) mainly offers health services, pensions and loans. It has had financial problems caused by the institute's debts to the private sector and the government's use of the IESS resources to finance its projects.



One of the problems behind the struggle between IESS and the government lies in the fact that IESS is not a governmental fund but is an autonomous pension fund that depends on an administration council that represents workers, businessmen and the government (which names its director). Correa's government has tried to end IESS autonomy in order to use its funds with greater autonomy. According to the president, the pension funds should be invested in public goods and should be used on financial speculation overseas. On November 2014, IESS had about 3.12 million affiliates, of

which about 3.03 million were workers from the private or public sectors and the rest independent affiliates. Affiliates' families are entitled to receive health attention and pensions in case of orphans or widowhood.

The coverage of health services is rather centralized in large urban centers and has improved in recent years thanks to investment. The IESS primarily covers workers within the formal sector of the economy. There is also a Peasant Social Security system that deals with rural workers under a different regime. The police and armed forces have their own social security systems. During the review period, the government tried to reform the social security law of the army and police. The proposal was approved in June 2016 but has not entered into force yet. This law proposal created tensions between the government and the army, especially because the law aims at changing the jubilation periods and incorporate the military and the police affiliates into the general social security regime.

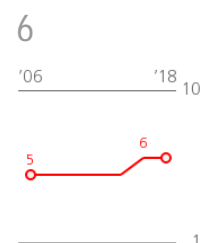
Concerning the more vulnerable sectors (the poor, the disabled, the elderly and single mothers), apart from a public health system that has serious limitations, there are indirect subsidies for products such as fuel or electricity and direct subsidies such as the so-called Human Development Bond, which consists of a monthly payment of \$50 per family. The government has set up a system of care for the disabled, a sector that was not previously accounted for.

One of the initiatives created and maintained by the Correa administration is a program for people with physical disabilities. The program, which provides specialized care and orthopedic equipment to beneficiaries, is carried out through the Manuela Espejo and Joaquín Gallegos Lara Mission. According to World Bank, health expenditure in 2014 was 9.61% of GDP. Life expectancy at birth was 75.9 years in 2014.

Despite the fiscal crisis, the government has tried to sustain social spending and salaries in the public sector, relying on debt and the virtual elimination of large investments. One of the biggest incentives for the government to refrain from social spending cuts was the 2017 general election, which was preceded by an intensive nearly two-year long campaign.

Notwithstanding, equality of opportunity is somewhat compromised in Ecuador. The government has been successful when it comes to the reduction of poverty, but in rural areas with a greater concentration of indigenous people, poverty almost doubles the national average (43.96% in rural areas were considered poor in 2016). The Ecuadorian government has increased investment in sectors such as education and health, with the aim of improving opportunities in the mid to long term. One of the main restrictions on equality of opportunity in Ecuador is the structure of exclusion that has grown up throughout its history and expresses itself in ethno-social patterns.

Equal opportunity

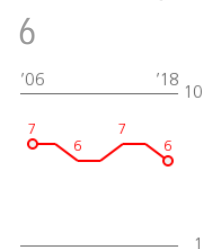


The 2008 constitution introduced gender parity (including alternation) for lists of candidates to the national parliament. According to data compiled by the Inter-Parliamentary Union, 57 (41.6%) of 137 seats in Ecuador's parliament are occupied by women. The female labor force (40.4%) meets the regional average. Literacy is about two percentage points lower among women (93.6%). There are no significant differences between male and female enrollment in primary (1.0); secondary education (1.0) or tertiary education (1.3). In the case of indigenous people, despite many legislative provisions, the situation still is unsatisfactory: There is a sizable gap between the average education level of indigenous and non-indigenous people. Being indigenous in Ecuador increases the chance of being poor.

## 11 | Economic Performance

According to World Bank figures, GDP growth reached a peak in 2011 (7.8%), but has slowed somewhat since then with 5.6% in 2012, 4.9% in 2013, 4.0% in 2014, followed by a dramatic drop to 0.16% in 2015. This is largely due to a slower world economy, mainly in the field of primary goods. UNCTAD data shows a high dependency on exports of food, agricultural and raw materials and fuels that, all together, account for 88% of exports of goods. One of the biggest problems at the macro level is the current account deficit. After a surplus during the commodities boom, Ecuador recorded a deficit of 2.3% of GDP in 2010 that decreased to -0.6% in 2014 and then rebounded to -2.2% in 2015 (according to the World Bank). According to the IMF, the fiscal deficit amounted to nearly \$5 billion (5% of GDP) in 2015. The government has tried to implement a series of measures for limiting imports – mainly from neighboring countries with lower costs – but these have not proven to be effective: net imports almost doubled from \$1.3 billion in 2014 to 2.5 in 2015. One serious challenge to imports limitation is the lack of a domestic monetary policy due to the dollarization of the economy. According to CEPAL data, unemployment increased slightly, from a historic low of 4.7% in 2013 to 5.1% in 2014 and 5.4% in 2015. However, underemployment and scarcity of jobs remain problems in the Ecuadorian labor structure, despite the efforts by the government for an improvement in formal contracts and social security inscriptions. According to the World Bank, annual inflation in 2014 was 3.4%, down from 5% in 2012 and even became negative in 2015 (-2.2%). This is partly due to the use of the U.S. dollar as currency and the slowing down of the economy. Another problem of the Ecuadorian economy is the low level of FDI. Though CEPAL data shows a huge increase from about \$165 million in 2010 to \$1.32 billion in 2015, this is still a low level given the size of the economy. According to World Bank figures, FDI inflows amounted to 1.1% of GDP in 2015.

Output strength





## 12 | Sustainability

Although there is a negative environmental impact caused by the investment in big infrastructure projects, Ecuador's government has made enormous efforts in changing its energy model through the construction of hydroelectric centers. For example, Coca Codo Sinclair, which covers 35% of the electric needs of the entire country, will reduce CO<sub>2</sub> emissions by 3.4 million tons per year. When all the hydroelectric centers work in the country, 8.2 million tons of CO<sub>2</sub> emissions will not be emitted per year.

However, the environmental policy of Correa's government is contradictory. On the one hand, the government defines itself as "bio-socialist," which is meant to connote a political model that combines environmental protection with socialism. On the other hand, the government has projects in environmentally degrading sectors such as open pit mining and oil extraction. Oil is even being extracted from environmentally sensitive areas.

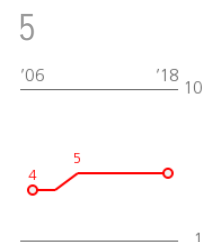
The confrontation between indigenous people from the Amazon region and the workers from Chinese mining companies that operate in southern Ecuador have intensified. In the second semester of 2016, 17 people were injured and one died. Likewise, Acción Ecológica, an emblematic environmental NGO was accused of interfering with public policies, endangering internal security and breaking the country's peace as a consequence of its public opposition toward mining projects. Due to the latter, the government tried to close it arguing that it was not fulfilling its founding objectives and aims.

Of all the countries in the world, Ecuador has one of the highest proportions of natural protected areas, with about 19% of the territory under some form of protection, including land and maritime areas. However, it is very difficult to provide adequate protection to these areas. According to the Environmental Performance Index 2016, Ecuador ranks 103 out of 180 countries.

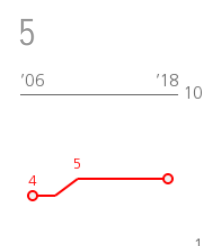
According to the World Bank, public expenditure on education in 2012 was 4.2% of GDP. The 2016 enrollment rate for primary education is 113.3%, 104.2 % for secondary and 40.5% for tertiary education. The literacy ratio is 93.3% (94.5% men; 93.6% women). R&D expenditure is rather low (0.3% of GDP in 2011).

The government is very eager to reform the education system and has substantially increased expenditure, with programs such as scholarships, free text books to primary school pupils, free education and a system of high-tech "millennium schools," which have been built in rural areas. At the same time, the drive to incentivize continuous training of primary and secondary school teachers led to a change in the hiring system, generating conflict due its malfunctions.

Environmental policy



Education policy / R&D



There is a network of institutional support for research coordinated by the Ministry of Knowledge and by the National Secretariat of Higher Education, Science, Technology and Innovation (SENESCYT). The government is developing an ambitious scholarship program so that Ecuadorian students can earn graduate degrees at prestigious universities. Higher education is a priority of Correa's administration because it believes this is crucial for the change in the country's economic and social model. For this reason, it has invested heavily in research institutions that simultaneously function as education centers, exemplified by the construction of the City of Knowledge, Yachay. In addition, the government has launched programs to recruit university professors from other countries and has offered them good terms of employment.

The Ministry of Education has a National Evaluation System and it covers all education levels. One of its main objectives is to assure that students have acquired the minimum learning results at each education level. One of the most widely-known monitoring instruments is the SER BACHILLER test, which is used to guide students when selecting a university degree. The results of this test have only national validity and is not designed for international comparisons.

## Governance

### I. Level of Difficulty

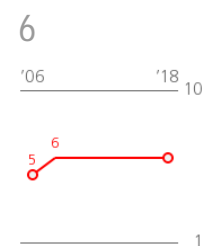
Despite being a country with major inequality, the difficulties for developing the country are not entirely structural given that the country is placed in the upper part of the Human Development Index (0.732 in 2015), improving over time. These data suggest that structural conditions in the country are not an impediment to the promotion of development processes.

Despite a notable reduction in previous years, poverty and inequality are very sticky phenomena due to reproducing mechanisms that often lie beyond immediate government influence, especially when they are structures of exclusion with ethno-social characteristics. While there are serious deficiencies in education and infrastructure, the government is making major efforts to improve those sectors. Also, Ecuador seems to be escaping the mineral curse; it is a country with natural resources that is free of major epidemics and pandemics or civil wars.

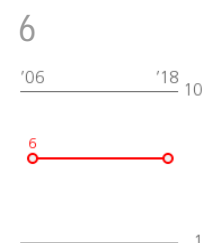
The country is located on a volcanic zone with a permanent threat of eruption. Ecuador's location on the Pacific fire ring increases its chances of experiencing earthquakes. On April 16, 2016, a major earthquake hit the country and caused economic losses of \$3 billion, according to official sources. Ecuador also suffers the climatic consequences of the el Nino phenomenon.

There is a strong culture of organization in Ecuador but practices are rather particularistic and do not contribute significantly to the formation of interpersonal trust and/or trust in institutions, or indeed to the accumulation of democratic social capital. Rather, this culture responds to the logic of indigenous social organizations, which are focused on their own communities. The state's historic weakness and incapacity has generated incentives for self-government in the solution of public problems. The Catholic Church has also acted as a promoter of trade unions and local, peasant and indigenous organizations. Despite the political parties' weakness and their resulting incapacity to represent social demands, several left-wing parties made small-scale efforts to improve local organizational conditions.

Structural constraints



Civil society traditions



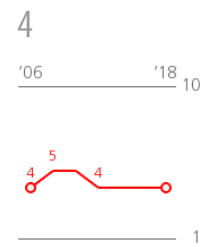
President Correa has dedicated himself to polarizing society throughout his term of office. The dividing line is between those who criticize him and those who support him. He has also heightened the ethnic and social divisions that have always been present in Ecuadorian society. Ecuadorian society today is afflicted by a dangerous black-and-white, binary logic centered on President Correa. This logic follows the populist tradition of dividing society between “the oligarchy” and “the people,” which in every case is represented by president Correa.

One of Ecuador’s latent conflicts throughout the country’s history is the ethnic conflict between the indigenous groups and white/mestizo society. The division has its origins in the colonial era, and is manifested in the entire structure of social, economic and political exclusion.

The huge inequalities and ethnic heterogeneity of the country constitute potentially dangerous cleavage-lines. Some of this potential for conflict is mobilized from time to time by actors such as CONAIE. However, these mobilizations are sporadic while social groups normally coexist without major frictions due to the traditional segmentation of society.

A new line of emerging conflicts pertains to local communities’ resisting massive mining projects promoted by the government. These conflicts have escalated quickly and there have been several killings, such as the ones reported on 2016 in the Shuar zone.

Conflict intensity



## II. Governance Performance

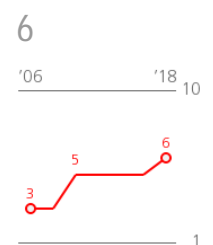
### 14 | Steering Capability

Correa’s government has maintained its priorities and lines of action, unlike previous governments which could not rely on a clear plan of government. However, its objectives do not always strengthen democracy and the market economy, or even counter them. In addition, there often seem to be competing proposals within the government, for example the case of environmental issues that are clearly at odds with the president’s economic model which is focused on the extraction of minerals and petroleum. The position of the government became increasingly monolithic as critics increasingly left government, leaving the president surrounded by a group of staunch, hardline supporters that adhere to his positions on an unconditional basis.

In general terms, the priority of the government is to strengthen the state as the central actor in all political, economic and social processes. Most notably, the government has prioritized political change focused on the “socialism of good living” and programs designed to change the production matrix. The Ecuadorian model follows

Question  
Score

Prioritization



the policy of economic development which prevailed in post-WWII Ecuador and, as such, has a planning body called the National Planning Secretariat (SENPLADES). According to the official information, SENPLADES is arm of the national government responsible for articulating public policies related to management and public investment.

The Plan Nacional del Buen Vivir 2013 – 2017 comprises 12 national strategies and 12 national goals, which are designed to facilitate change and promote the “good life” for all Ecuadorian citizens. The plan was prepared by SENPLADES, presented by President Rafael Correa, and approved by the National Planning Council. These efforts to design a comprehensive development plan have collided in several cases with authoritarian volunteerism of the president, however, and various actions and strategies have been modified or adapted because they did not seem suitable to the president (who is an economist by training and constantly attempting to demonstrate his expertise, but not always successfully).

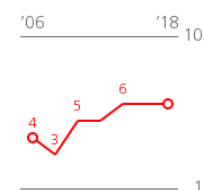
Due to the economic crisis, provoked by falling oil prices and the dollar appreciation, the government has partially lost its implementation capacity. Nevertheless, Ecuador’s government has been quite effective in articulating and implementing its political and economic reform, although certain projects have failed. Such failure has come about due to either a rush to put them in place or due to resistance from certain sectors of the administration. During the review period, changes concerning the structure and members of the cabinet have decreased, which in principle increases the capacity of the government to implement public policies. Furthermore, it is one of the few times throughout the democratic period that there has been a staff trying to put a clear political project into practice. However, it is important to remember that this reform project does not defend either the market economy or liberal democracy.

While the quality of the government’s policies might be controversial, the state’s capacity to implement them has increased substantially. The increased effectiveness can be credited to the concentration of power in the executive and the growing reach of the central government, which has worked to increase the capacity of all entities responsible for carrying out public policies, including constant surveillance and monitoring of officials and ministers to ensure they are doing their jobs.

One of the greatest achievements of the government is the improvement of the road and energy infrastructure in the country, an area in which improvements were sorely needed. In general, the government has been very effective in the construction of infrastructure of all kinds –health, education and the funding for public administration. Good examples of changes in public policies are the free-trade agreement signed with the European Union. The effectiveness of the economic measures implemented by the government as a way to improve the country’s income despite the economic crisis is yet to be seen. Among these measures, public-private partnerships are key, but there have been no major improvements in this specific area.

Implementation

6



With the lack of fiscal resources, the difficulties faced by the government to foster changes in policy become more evident. Even though the EU Treaty was signed and indicated a paradigm shift, Correa still centers his public interventions on the importance of infrastructure projects or policy measures that cannot be done due to the lack of resources. Similarly, measures toward balancing fiscal accounts such as reducing the public sector or developing new productive sectors have been rather insufficient and have the same flaw already evidenced: an excessive presence of the public sector.

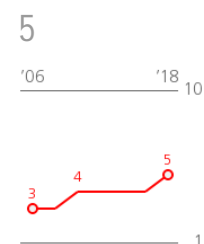
The government demonstrates little willingness or ability in policy learning. To better enable the government to effectively manage the implementation and operation of public policies, Correa's administration has set in motion a series of measures to restructure its public administration, planning processes and management systems. However, the measures have not resulted in positive results because such mechanisms are only effective in the context of strong institutionalization. In theory, the National Secretariat of Planning should take measures to fix the mistakes, but the effectiveness of the institution is limited because public policy decisions are highly influenced by the decision and will of the president. It is customary for the president to use his public appearances to put pressure on officials who are implementing various policies, and he is generally reluctant to listen to different viewpoints or to alter his objectives and procedures. Another example is the unwillingness to include the position of the National Assembly in public policy. The president has a negative view of the legislative and believes it tends to delay decision-making.

## 15 | Resource Efficiency

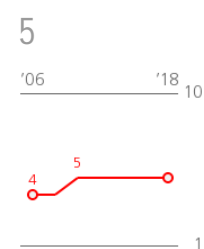
The use of public resources has strengths and weaknesses. For instance, the government has made large investments in infrastructure, for example, while funding is needed for pensions and other social expenses. The reserves of the social security system have already been spent and the country's external debt has increased; the exact figures are not easy to determine given the government's opacity. In fact, Ecuador is indebted to Chinese banks with the amount of \$13.7 billion and oil production is already sold until 2019.

Budget developments in recent years is clearly negative – currently the country runs up its biggest-ever budget deficit. As for administrative efficiency, Ecuador launched a big process of decentralization of competences from the national to sub-national governmental level, with the aim of assuring the population equal access to services and public goods and promoting a balanced territorial planning. Decentralization, however, seems to be hardly compatible with the strong tendency toward personalization and centralization of power in the hands of the president. The Comptroller General is responsible for public accounting, but not involved in deciding the quality of spending or investment.

### Policy learning



### Efficient use of assets



In contrast to previous governments, the current administration has a system of planning and coordination and a development plan: The National Plan for Good Living 2013-2017. However, a core problem with the use of human, financial and organizational resources is the concentration of functions in the president. There have been various occasions on which he publicly rejected reports drawn up by experts in his ministries because he did not agree with the conclusions or recommendations therein. Time has shown that many of these conclusions and recommendations were, in fact, correct and appropriate.

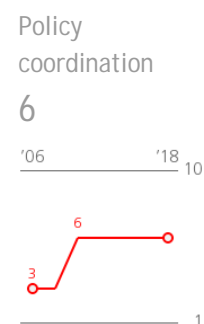
At the same time, a great effort has been made to develop infrastructure, which for the moment is being underutilized, but constitutes an improvement in the way the government functions administratively.

Salaries in the public sector are higher than those in the private sector. One of Correa's policies was to increase public-sector salaries as it is believed that in order to obtain an efficient government, its personnel should be well-paid. For this purpose, the National Institute of Meritocracy was created in order to surveil the processes of personnel hiring. In 2015, the government had 717,125 workers, an increase of 56% since 2007. In 2015, the average salary on the public sector was \$1,111 per month and in the private sector \$547 per month.

The reduction on the fiscal budget has not affected the coordination mechanisms inside the government as these are systems that President Correa has centralized and personally controls. The functioning political mechanisms in the government have not changed throughout the years. The external financing mechanisms are also controlled by Correa. In fact, some of the financing deals including oil pre-selling agreements are considered confidential state information.

In order to facilitate coordination within the executive branch, the government has launched a series of systems, such as regular meetings between the members of the executive. Likewise, the government has adopted a mechanism for coordination between different ministries and secretariats with the appointment of coordinating ministers. But Correa's role in the decision-making process can and does supersede the state's coordination mechanisms, undermining their legitimacy.

The budget deficit is a clear indicator for the growing financing needs of the government. To meet these needs the expansion of oil extraction plays an important role, putting into question the commitment to environmental concerns. The contradictory policy pursued in the petroleum and mining cases shows that economic and environmental goals are not sufficiently balanced.



Although the constitution establishes several control mechanisms, all of them are managed by the government. The legislative power doesn't prosecute; the CPCCS doesn't investigate corruption scandals; and the Contraloría, the Prosecutor's Office and the judiciary are dependent of the executive. The opposition and members of the public have questioned the work of these bodies, alleging they have carried out weak investigations and have failed to take an in-depth look at the facts in many cases. Groups from the civil society that denounce corruption scandals are often harassed. Several operations to dismantle corrupt activities have been performed, but these have been directed toward sectors of the administration with no capacity of blurring the government's honest image.

The impartiality of the Attorney General, who is tasked with investigating government mismanagement, was always under suspicion because before taking office in July 2011, he had served as both a minister and an ambassador in Correa's government. In early 2017, new appointments were assessed. A personal adviser of president Correa is very likely to become Attorney General, while Alexis Mera –legal secretary of the Presidency– is strongly positioned to be Comptroller.

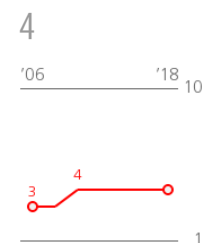
The Technical Transparency Secretariat was suppressed through Executive Decree No. 985 in April 2016, due to the need of cutting public spending as a consequence of the economic crisis, further hampering, instead of increasing, transparency on large public works contracts. Government officials have excessive discretion to influence public tenders or procurements that are not very competitive and have unclear allocation criteria. This is evident in studies, evaluations of public policy, and consulting, areas where the government is investing a lot of money. A significant portion of public service contracts were made after the state of emergency was declared, making contract procedures and controlling mechanisms more flexible.

Political Parties receive compensation for campaign expenditures and party activities that are disbursed after elections and amounts are calculated on the basis of the election results. During campaigns, the maximum contribution that can be given by a donor is 10% of the expenses allowed (the ceiling of campaign expenditures is at about \$900,000). There is no limit between elections. Anonymous and foreign contributions to party financing are prohibited. The electoral authority (Consejo Nacional Electoral, CNE) is in charge of monitoring and overseeing the financial transactions of political parties.

In an environment of confrontation between the government and the press, the media have serious limitations when reporting the news. This has resulted in fewer cases of corruption being reported than when the media was stronger.

According to a survey from Quantum in early 2017, almost two-thirds of surveyed people in Quito and Guayaquil consider the current government more corrupt than previous governments (19%) or as corrupt as previous governments (43%).

#### Anti-corruption policy





## 16 | Consensus-Building

The government openly questions liberal democracy and proposes a number of mechanisms which, according to members of the government, improve it and make it more participatory and direct, an opinion that is not shared by all political sectors in the country. The processes that the government qualifies as participatory and inclusive are mechanisms that serve as a mobilizing factor for organizations close to the regime. The largest barrier to the creation of consensus is the inability of the government and the opposition to reach agreements on major conditions of political competition and rule of law. The lack of consensus-building is typical of majority governments like President Correa's. The president has a vision of government office in which he has been granted the right – by obtaining the majority of the vote – to govern without accountability mechanisms.

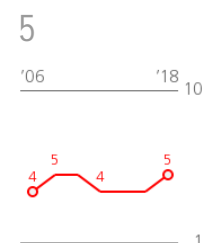
There is no consensus on the economic order in Ecuador. The government has a critical opinion of the market economy, though permitting a kind of mixed economy. The commitment to market economy is somewhat ambiguous on the part of a range of actors, including the government, who frequently refers to socialism as an economic ideal. The economic sectors are poorly organized. Since PAIS came to power, its leaders have spoken little about political issues. However, they have made some statements against authoritarian attitudes and in favor of more market economy when the president made interventionist decisions.

There are no open anti-democratic actors in Ecuador. However, democratic rules and procedures are fragile and extra-constitutional forms of political action are common. Infrastructural or economic projects frequently meet this kind of resistance, limiting the government's capacity for reform. Among political actors in Ecuador, there is a kind of formal compromise with democracy. Nevertheless, there seems to be a fundamental disagreement on what form of regime democracy should entail and what the rules of the game should be. One of the peculiarities of Ecuador is that the government is headed by actors who do not believe in liberal democracy or the market economy. Among Latin American countries, Ecuador has had the greatest number of interruptions in the institutional order leading to presidents leaving office (Bucaram, Mahuad, Gutiérrez), which would seem to confirm the lack of a democratic vocation among the relevant political and social actors.

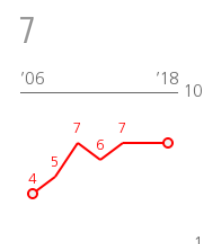
The most significant cleavage in the country is ethnic and it divides society between a white/mixed group and the indigenous peoples. It is a confrontation with a long history that has laid the foundations for a social structure based on a discriminatory system that transcends the social and economic spheres.

The government tends to exacerbate conflicts in general (not simply ethnic ones) instead of handling them, especially the social conflict between poorer sectors and the sectors with higher economic income. Correa's style of leadership falls within the

Consensus on goals



Anti-democratic actors



Cleavage / conflict management

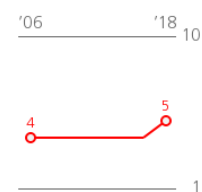
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tradition of classic Latin American populism, centered on a charismatic leader, a Manichean vision (people vs. oligarchy) and moralistic politics. The strategy for dealing with conflicts consists of marginalizing, obstructing or discriminating against actors who do not share the government's position.

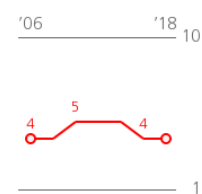
There is also a difference between the various regions of the country, which used to translate into a confrontation between the coast (the tropical region bordering the Pacific) and the mountains (the Andean zone), but tensions have decreased recently. This is one of the conflicts that the president has handled successfully, employing a narrative of national unity and integrating the cultural practices of the various regions. As a native of Guayaquileño and having built his political career in Quito, he is adept at invoking effective symbolism.

Despite the government's discourse of encouraging participation in public affairs, this participation is minimal because the regime does not accept demands that are not in line with its own position; indeed, the government openly confronts its opponents and delegitimizes their demands. Obviously, as power is understood as to be centralized in the figure of the president, the participation of other actors in the process of agenda setting, policy formulation, deliberation and decision-making, policy implementation and performance monitoring is practically zero. What are presented as mechanisms of participation operate almost vertically and without feedback mechanisms and are, in fact, very closely related to paternalistic and clientelistic practices. Furthermore, so-called participation by civil society is used as a mechanism for legitimizing decisions that have already been taken by the political actors. Last, the governing party has the majority in the National Assembly and in other powerful entities. Limits to the participation of civil society were increased with the signing of Presidential Decree Number 16, which establishes strict control on the formation and activities of all citizens' associations, reducing political action to partisan electoral action.

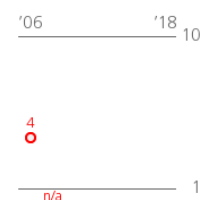
Given the particular character of Ecuador's pre-1978 authoritarian rule, reconciliation as understood by transition research is not really an issue.



Civil society participation  
4



Reconciliation  
n/a



## 17 | International Cooperation

From its beginning, the government seemed to have a clear development plan and policies. Its strategies, laid down in the “Plan Nacional del Buen Vivir 2013-2017,” are inconsistent, however, and suffer from ad-hoc decision-making in response to changing circumstances. Notwithstanding, the government tries to use international cooperation for its own development agenda and is rather pragmatic concerning its partners, which range from the European Union to China. According to the OECD, in 2015 Ecuador received \$311 million in official development assistance (ODA), which is 0.3% of GNI. Bilateral aid reached \$161 million, of which 23% was focused on economic infrastructure and 28% on social infrastructure. For that purpose, the government has a particular agency (Secretaria Técnica de Cooperación Internacional) that establishes the areas where Ecuador requires international cooperation and assistance, and coordinates support.

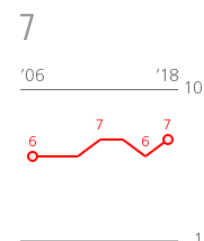
Ecuador’s need for economic resources through financing mechanisms has made it adopt less belligerent positions in international forums. This has afforded the country more benefits from international actors and organizations. For example, there has been financial assistance from traditional lending bodies such as the IMF and from emergent actors such as Thailand, which has granted Ecuador a credit of \$500 million. The free-trade agreement signed with the EU also represents a notable change in Ecuador’s international strategy.

As far as partners are concerned, China is a special case, as Ecuador has obtained funding for large infrastructure works, hydroelectric plants and investments in the oil and mining industry from China. As a result, China has become the government’s preferred economic partner. This partnership was strengthened by president Xi Jinping during his official visit in Ecuador in November 2016, when Correa obtained financial support to sustain the budget and relieve a national economy threatened by the reduction in international oil prices.

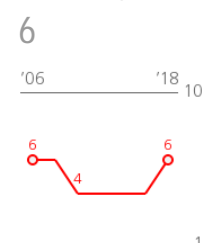
Ecuador’s cooperation with multilateral organizations and the need faced by the government to improve its presence in diverse international forums has recovered the country’s international credibility. Ever though the revolutionary and anti-imperialist narrative is still used by President Correa, the economic crisis and the loss of strategic partners such as Venezuela, Argentina or Brazil have pushed the country to more pragmatism and to diversify its foreign relations. Among the most relevant is the free-trade agreement signed with the EU, a treaty that showed that although Ecuador is rhetorically belligerent (i.e., it is discursively opposed to free-trade agreements as they are considered neoliberal policies), in practice it is able to give in and negotiate.

Another controversial issue is the government’s acceptance of the sanctions imposed by The Hague International Court in the case between Ecuador and Chevron. The government conducted an intensive media campaign in order to win the case, but

Effective use of support



Credibility



once the court established the final judgment, it decided to comply in order to prevent further sanctions that could affect future access to credit.

As a consequence of the April 2016 earthquake, Ecuador received several credits from the IMF, an organization that had been widely criticized by the government. The need for economic relief due to the tragedy experienced made the government change its radical opposition to financing from “neoliberal” organizations. The government has also made great efforts to pay its international debt, mainly because it has an already weak position in the international financial market that should not be deteriorated.

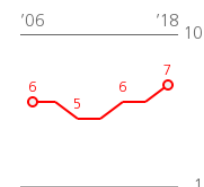
Besides the economic realm, the country’s credibility improved due to its commitment to the peace process in Colombia. Ecuador hosted the negotiations between the Colombian government and the ELN rebel group. Furthermore, its belligerent position with OAS diminished after the Bolivarian Alliance for the Peoples of our America’s (ALBA) attempt of reform failed. However, the country still faces an open confrontation with the Inter-American Human Rights Court as there are ongoing investigations of human rights violations in Ecuador.

Ecuador’s big shift in regional politics is seen by its commitment and support for Colombia’s peace process. The country hosted the negotiations between ELN and the Colombian government once the peace accords with the Revolutionary Armed Forces of Colombia (FARC) were signed. President Correa has bolstered Ecuador’s status in international relations through mechanisms of direct diplomacy like official country visits and participation in multilateral meetings. Ecuador’s government has a position of clear support for all projects that express the need for Latin American integration and cooperation. As the political block led by Venezuela started to lose leverage, Ecuador’s government became less confrontational toward the Organization of American States. Nevertheless, it still maintains open opposition to the United States. Ecuador has lost a series of economic and trade agreements with the United States because of the lack of political harmony between the two countries. Another area of disagreement between the United States and Ecuador is related to the fight against drug trafficking.

Correa has worked intensely at the international level to promote the Comunidad de Estados Latinoamericanos y Caribeños (CELAC), becoming its pro-tempore president between January 2015 and January 2016, and, above all, the Union of South American Nations (UNASUR). Funded by the government of Ecuador, the headquarters of UNASUR are now located near Quito.

Regional  
cooperation

7



## Strategic Outlook

Ecuador's immediate future will be characterized by a changed political environment due to the end of Rafael Correa's presidential term. This will happen not only because a ten-year period of strong leadership style and personality has ended, but also because the public policy model developed under his government cannot continue due to the lack of economic resources.

In May 2017, Correa's successor Lenin Moreno (PAIS) entered office after defeating opposition candidate Guillermo Lasso. Moreno is Correa's ex vice-president, and represents a more conciliatory side of the government's party. It might be the case that Moreno tries to replicate Correa's model, but this will be very difficult: populist governments depend vastly on the charismatic figure of their leaders, and Moreno is not likely to resemble Correa's leadership style. In addition, internal disputes within the monolithic government's block could emerge; up to now, internal debates were controlled by Correa. Still, even though Alianza PAIS again won the absolute majority in the National Assembly, the economic crisis necessitates a change in the government's model.

All this may imply that Lenin Moreno could pursue a more pragmatic and less populist and polarizing style of governing, but it remains to be seen what role Correa will play in the background and whether he has re-election ambitions for 2021. If Moreno indeed engages in a more pragmatic and responsive manner, political transformation might particularly help strengthen the rule of law, which is still the weakest cornerstone of Ecuador's democracy.

In the economic sphere, the crisis and economic slowdown will be present in the short and medium terms, mainly because the actions taken for reducing the country's dependence on oil revenues will not have immediate results. This situation will be exacerbated by the disadvantages of Ecuadorian exports, above all the strong U.S. dollar (Ecuador's currency), which affects the trade balance with Colombia and Peru, neighboring countries and major trading partners.

Trade with other regions faces negative and positive scenarios: on the one hand, there is uncertainty concerning the U.S. market (one of the country's biggest trade partners), while on the other hand the treaty with the EU could push the economy forward. However, the weaknesses of the private sector pose a handicap for improving trade relations. Again, if Moreno engages in more pragmatic and responsive policies, this would be a major point of reform. Another important issue to consider is the country's indebtedness capacity. Until now, debt has been covered with credit, which will decrease if payments are not made on time.