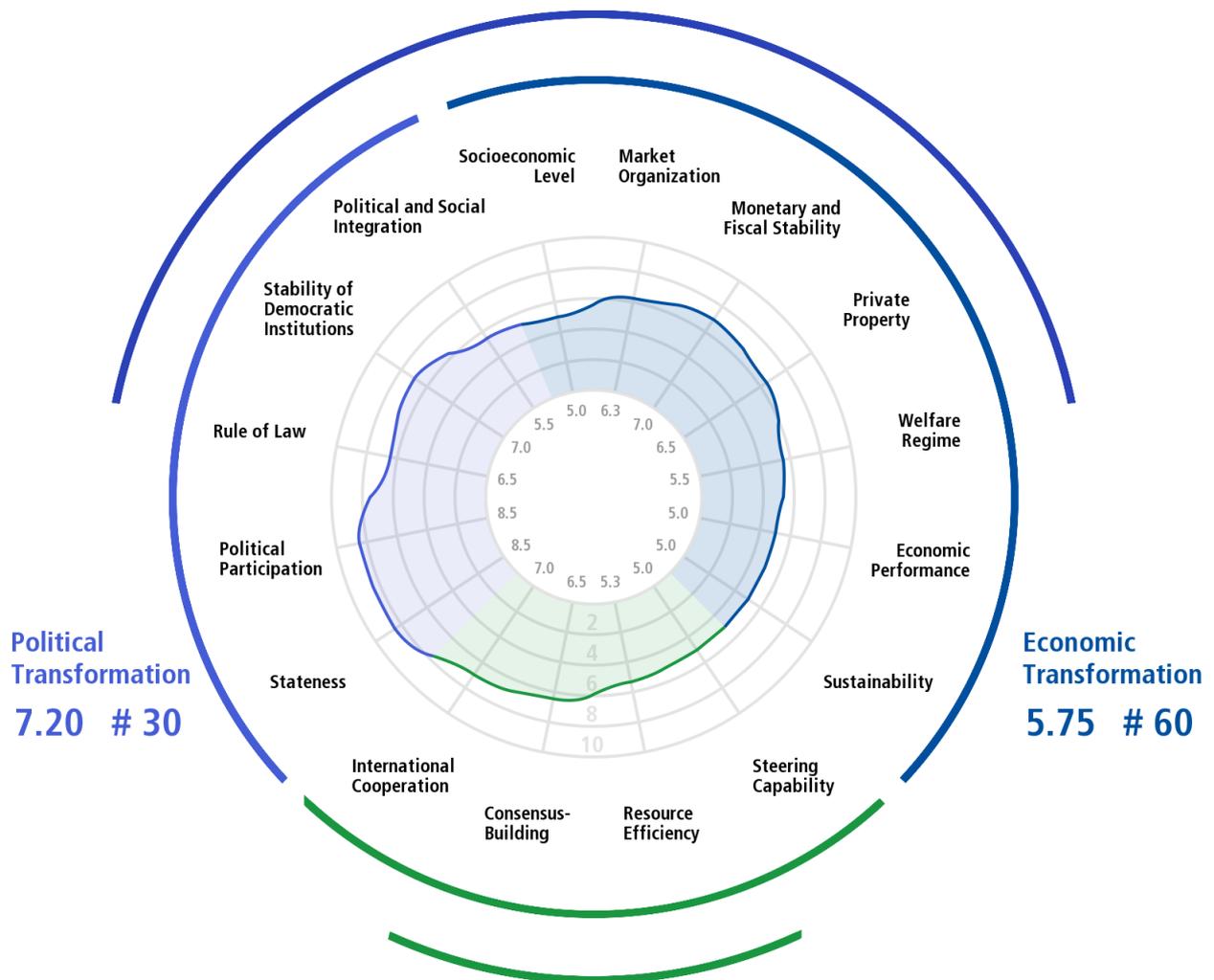


Ecuador

Status Index

6.48 # 40

on 1-10 scale out of 137



Governance Index

5.22 # 59

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	17.1	HDI	0.758	GDP p.c., PPP \$	11714
Pop. growth ¹	% p.a.	1.8	HDI rank of 189	85	Gini Index	44.7
Life expectancy	years	76.6	UN Education Index	0.714	Poverty ³	% 8.7
Urban population	%	63.8	Gender inequality ²	0.389	Aid per capita \$	12.1

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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

Three key elements characterize this BTI period: change in the political axis, an economic crisis and a fight against corruption. Clearly, these three elements are closely linked. Since President Moreno took office in May 2017, he has tried to distance himself from his predecessor, primarily due to bribery allegations in the Odebrecht case, which implicated the highest levels of government, including Vice President Jorge Glas, who also served in that position under Rafael Correa. Moreno's autonomy and support for the corruption investigations, which affected various former ministers and high officials implied a rupture with his political mentor and main supporter during the electoral campaign; this rupture was not only with the former president, but with a great number of his party's deputies. A turning point in this process was the popular consultation held in February 2018 in which two measures were included to keep Correa out of Ecuadorian politics: the prohibition of re-election and the loss of political rights when facing corruption charges. Among the positive elements, it is worth highlighting President Moreno's effort to reduce polarization and to improve social cohesion after 10 years of populism and authoritarian attitudes.

The second conflict arose from a government assessment of the economic situation in the country, revealing the mismanagement of the economy during the Citizen Revolution (2007-2017), which became evident when the state secret status of debt to China was eliminated and it was possible to calculate the fiscal deficit, the total general debt and the lack of liquidity and international reserves. The type of economic measures adopted by the government set the definitive distance between Moreno and the group that brought him to power. These are measures described by the opponents as "neoliberal" because they seek to re-establish fiscal balances, reduce public spending, reduce the intervention of business sector economy and, in addition, eliminate subsidies, such as fuel.

This summary cannot fail to mention the change of the international position of the country, which abandoned the "Bolivarian" axis of UNASUR and ALBA to work within the Organization of American States and the Pacific Alliance.

History and Characteristics of Transformation

Ecuador's transition from a military dictatorship to a democratic system of government took place in 1979. Ecuador was one of the countries gripped by the third large wave of democratization in Latin America in the late 1970s. The Ecuadorian process of transition took place on the basis of an agreement between civil reformers and elements within the military intent on more openness. Transition suffered because powerful conservative, liberal and other sectors of society opposed it and were therefore excluded from influencing future policies.

The political elite generally lacked widespread appreciation for the democratization process and the rules of the game, which some political actors did not regard as their own. Transition therefore failed to reach a consensus on the mechanisms for allocating and distributing political power; this in turn restricted the consolidation, legitimacy and durability of the democratic model.

The Ecuadorian process of democratization took place against the background of a long and profound economic crisis, which further impoverished vast sectors of the population. The consequence was a delegitimization of the democratic model, as large sections of the population did not consider it capable of solving the most urgent economic problems. The economic crisis led to a considerable overall reduction in material, human and power resources, while the state increasingly lost control over the assets that remained. The debt crisis of the early 1980s revealed the frailty of this development model. In the 10 years that followed, the governments of Osvaldo Hurtado, León Febres Cordero and Rodrigo Borja made great efforts to stabilize the Ecuadorian economy with varying levels of, and altogether very little, success. However, economic policy measures were increasingly determined by IMF alignment requirements. Under the somewhat chaotic governments of the 1990s, no fundamental stability was achieved.

The cycle of political crises that have dominated the past eight years began in February 1997, with the resignation of President Abdalá Bucaram, who was forced out of office by parliament and pressure groups. National Congress President Fabián Alarcón succeeded him, albeit as a result of only marginally constitutional proceedings in which political actors ignored official procedure. Political stability seemed to return with the adoption of a new constitution and the presidency of Jamil Mahuad in August 1998. However, after a few months, the government and society as a whole were shaken by a financial crisis that led to measures including the introduction of the U.S. dollar as the national currency (January 2000), ultimately followed by a “coup d'état” on January 21, 2000. From 1998 to 2000, these developments resulted in Ecuador's worst economic crisis of the 20th century. Triggered by a combination of factors, the Ecuadorian economy was already crisis-prone by the mid-1990s. Poor economic policy decisions and various negative external influences exacerbated the difficult situation. The liberalization of the Ecuadorian financial market also led to a prolonged financial crisis that began in the mid-1990s. Mahuad was replaced by Vice-President Gustavo Noboa.

Lucio Gutiérrez, a key figure in the military-backed coup, took over the presidency in January 2003. After losing support in parliament and society, Gutiérrez was removed from office in April 2005 and replaced by Vice-President Alfredo Palacio. Winning 57% in a runoff election, Rafael Correa won the elections against Álvaro Noboa and assumed the presidency in January 2007. Correa government launched a political and economic project called “21st century socialism” that openly criticized the market economy, which, without excluding the private sector, promotes the active intervention of a strong state in society and the economy.

Correa was in office during the 10 years of the greatest economic prosperity in the recent history of Ecuador, showing his willingness to transform the country through social-oriented public policies and infrastructure investment. However, his performance was tarnished and lost its efficiency due to authoritarian tendencies and large-scale corruption.

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 are few threats to the state monopoly on the use of force in Ecuador. The state has a presence throughout the country, albeit an uneven one, and there are few groups, if any, that challenge the state monopoly of force over its territory in a permanent, systematic and organized manner. After the signing of the Colombia peace agreement, some dissident FARC groups attempted to maintain control over drug trafficking in the border area with Ecuador near the Pacific Ocean. As Ecuador increased control and police pressure, these groups made some demonstration of force, such as the car bomb attack on January 27, 2018, which destroyed the police building in the border city of San Lorenzo and injured 23 people; the murder of three journalists working for the newspaper El Comercio de Quito who were taken hostage to negotiate with the government; or the murder of an Ecuadorian couple traveling in the area controlled by this group. The Ecuadorian state reacted by increasing police and military pressure in the area and cooperating with Colombian security forces.

No relevant group in society questions the legitimacy of the nation-state, and legally, all citizens maintain the same rights. On the other hand, the identity claims of the indigenous movement have lost strength due to the attack suffered during Correa's government. President Moreno's style of governing is less polarizing and different actors are more confident in expressing their opinions. However, exclusion and marginalization are structural problems. Meaning, the lack of recognition of equal rights is created by the ethno-social structures and the country's economic dynamics rather than by official policies put in place by state institutions.

Question
Score

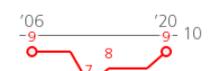
Monopoly on the
use of force

9



State identity

9



Essentially, legal issues or excessive pressure from the Catholic Church does not directly affect secular governance. Despite the strong influence of the Catholic Church in the country and its population, religion has not been a contentious issue. Since the beginning of the 20th century, there has been freedom of religion and separation between church and state.

However, the dogmas of the Catholic Church, which are also part of society, serve as the basis for decisions concerning abortion. The lobbying capacity of Catholic organizations was connected to the removal of some sections from a legislative project on gender education, minority rights and recognition of sexual orientations. Demonstrations organized in the main cities in July and October 2018 were the largest since the return to democracy in 1979. At the end of 2018, a debate began on allowing abortion in case of rape. At the moment, abortion is only allowed when the raped woman suffers from dementia or is mentally disabled. Catholic groups immediately initiated a campaign to maintain the current prohibition.

Ecuador's administrative structures provide most basic public services throughout the country, with some concentration in urban areas, but their operation remains deficient. The presence of public administration and infrastructure in Ecuador increased due to investments made during the commodity boom, although these improvements were not enough to correct the deficits accumulated in the previous years. As a result, access to water source (87% in 2015) and access to sanitation (85% in 2015) have most likely not improved. The current economic crisis (since 2013) has had an impact in this indicator, since it brought infrastructure investments practically to a standstill and led to the dismissal of public sector employees, both in the administration and public companies, by means of not renewing temporary contracts. Until May 2018, 42,000 temporary positions were not renewed and, according to official sources, the goal is a total of 76,000. This large number of temporary employees reveals how the administration is not completely professionalized and how, in certain situations, it can be used as a clientelism mechanism.

In addition, corruption in public administration increased over the past decade. Reports from the Office of the General Comptroller of the State and the Citizen Participation Council reveal several cases of corruption observed in the executive, judicial and parliamentary functions during the Correa administration (2007-2017).

No interference of religious dogmas

9



1

Basic administration

7



1

2 | Political Participation

General, multiparty elections are regularly held and accepted as the means of filling political posts. There are no major legal restrictions on electoral freedom in Ecuador. The most recent national elections were the presidential runoff in April 2017, which Lenin Moreno from the governing PAIS alliance won with 51% of the votes against opposition candidate Guillermo Lasso (49%). The elections were largely considered free and fair by international observers, although some expressed concern about the use of state resources in Moreno's favor. Lasso in turn demanded a full recount of the votes, but the National Electoral Council (CNE) granted only a partial recount, and eventually confirmed the results.

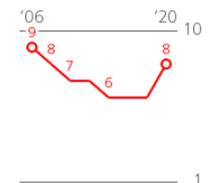
Changes in the National Electoral Council (CNE, Consejo Nacional Electoral) are part of the Moreno government's reform process seeking to end the power structure inherited from Correa's government. A Transitory National Electoral Council was appointed that set the stage for the 2019 local authorities' elections. There is no clear evidence of this transitory council directly favoring or undermining any party or candidate, nor using practices such as the disqualification of parties or candidates because of questionable formal defects. Despite the fact that a definitive CNE has already been appointed, its legitimacy is challenged because it was designated by the Council of Citizen Participation and Social Control, which is also exercising its duties provisionally. The most important restrictions in electoral issues come from the communications law, which limits campaign options for the candidates, but the government has initiated a process of amendments to the law and it has stopped using the sanctioning capacity of the Superintendence of Communications to put pressure against political opposition.

Currently, there is a certain hybrid situation in Ecuador, as there are no "classical" veto actors able to operate outside of institutions, but rather there is an alliance between private or corporate interests and parties with democratic representation. These parties take advantage of their parliamentary capacity to place like-minded people in constitutional and justice courts and control bodies so, if necessary, they can favor those private or corporate interests in the event of a conflict or if they require access to public goods. This practice, which was already present in the country, lost strength with the government of Correa because it had a sufficient parliamentary majority and did not need to negotiate parliamentary support. Now, president Moreno has negotiated with different parties including the Social Cristiano or the group associated with former President Correa. Sometimes these actors operate circumventing legality and the institutions.

President Moreno's government is relatively weak, in part due to his leadership based on participation of different economic and political groups. In addition, he came to power as Correa's choice, who chose him as the presidential candidate for his party

Free and fair elections

8



Effective power to govern

9



and placed at his service all the mobilization capacity accumulated during 10 years of iron-fisted control of the country. Later on, Moreno broke ties with President Correa due to the prosecution of corruption cases perpetrated during Correa's government.

This area is experiencing a substantial change compared to the previous BTI. The government that began its term in May 2017 repealed decrees 16 and 739, issued by Correa's government, which, despite their unconstitutionality, served to prosecute and dissolve social organizations critical of his government. Although economic restrictions have led to an increase in social conflict, the response of the government in this case has been less repressive than that of the previous one, and the use of anti-terrorist laws to judge protestors has been avoided. A symbol of the change and the break with the previous model of government control of social organizations was the signing of pardons for those imprisoned for taking part in social protests and the return of the Confederation of Indigenous Nationalities of Ecuador (CONAIE, Confederación de Nacionalidades Indígenas del Ecuador) to its headquarters, a public-owned building that the previous government asked to evict on the grounds that it was being used for political purposes.

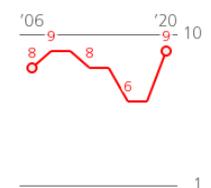
The country has undergone substantial transformations in the field of freedom of expression, since the media are no longer prosecuted by the government as they were during the previous executive, either by the use of coercive mechanisms and threats, or through the Superintendence of Communications, which worked as a mechanism of control and censorship of the news. Carlos Ochoa, Superintendent of Communications in office since the previous government, was removed by the National Assembly. In December 2018, parliament introduced changes to the communications law, abolishing SUPERCOM and a provision allowing criminalization of investigative reporting.

In addition, by eliminating government pressure on judicial bodies, these have been able to protect media rights. There are two relevant sentences in this regard: the first was the protection afforded to Teleamazonas in the face of an action in which Superintendent Ochoa requested his right of reply, telling the television to broadcast the video he sent them instead of being interviewed to clarify his point of view. The second was a resolution that canceled the fine imposed by SUPERCOM against seven media organizations for not having replicated the information published by the Argentinian newspaper Página 12 in which it reported on the accounts in tax havens of the former presidential candidate Guillermo Lasso. As this report is being presented, the reform of the communications law is being processed and, among other controversial aspects of the text, the government has expressed the need to eliminate the communications superintendence.

A turning point with regard to freedom of expression was the assassination of a journalist, a photographer and the driver of the newspaper El Comercio de Quito in March 2017 while they were reporting from an area in the northern part of the country

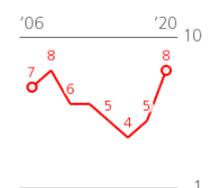
Association /
assembly rights

9



Freedom of
expression

8



with the presence of a group of dissident FARC narco-guerrilla. It is worth noting that, despite the violence and the prosecution against journalists and media, assassination as a means of intimidation had not been used before.

FUNDAMEDIOS, a private organization tracking the state of freedom of expression in Ecuador, has noted a significant decrease in the amount of attacks against journalists and media; however, aggressions and threats against journalists are still registered, mainly from private individuals and irregular groups, especially through social media.

3 | Rule of Law

The separation of powers for a typical presidential system is in place, sufficiently differentiated and functioning, though it had historically been weak and suffered from interference during the Correa period. The new government has made efforts to improve the separation of powers, removing people appointed by the previous government in the fields of justice and government who showed an obvious lack of independence in the exercise of their office, which is reflected, for example, in the absence of investigation of the corruption allegations made at that time, that were dismissed, and yet are proving to be real. The problem is that the mechanism used for the renewal of these positions may be questionable, since it was done by adding a question in a popular consultation in February 2018 and the procedure was called into question because of the lack of previous reports from the Constitutional Court (Corte Constitucional). Through this procedure a new Transitory Council of Citizen Participation and Social Control was appointed with the task of designating new judicial and government control authorities who will hold office until the competitions for the new appointments are held.

Regarding justice, a transitory Judicial Council (CJT, Consejo de la Judicatura Transitorio) was appointed with the purpose of strengthening the judicial system. However, the performance of the CJT was questioned, mainly by the actions of spokespeople such as Aquiles Rigail, who sent letters to judges requesting the acceleration of some trials, and threatened other CJT spokespeople, who tried to prevent maneuvers developed so that the political groups involved in the pending judicial proceedings could control the courts, as happened with Correa's and previous governments. By January 2018, the appointment of new justice and control authorities has been in its final stage.

The new conformation of the National Assembly and the breakdown of the majority bloc of the political party Alianza País, composed of Correa and Moreno supporters, has pushed the government to seek new alliances and negotiate support from different political parties, thus having less control over the agenda. Thus, despite Moreno's lack of an active strategy of control and enforcement of his agenda over the rest of the state powers, suspicions about their independence remain.

Separation of powers

7



1

The independence of the judiciary has improved, but is still somewhat compromised and plagued by functional flaws. The new executive has stopped pressuring judges and attorneys, increasing judicial independence and allowing them to make more autonomous decisions, particularly when it comes to cases of corruption and litigation between the state and particular individuals. Furthermore, the government has refused to use the judiciary as a mechanism to pressure opponents and media. In this sense, amnesties granted to those convicted of participation in protests against the government were a tacit recognition of the instrumentalization of the justice system made by the previous government to prosecute opponents.

A good example of judicial independence can be observed in the procedures against corruption that led to the imprisonment of Vice-President Jorge Glas while still in office, together with other former government officials. Despite the fact that the opposition, headed by former President Correa, insist these procedures are an instrumentalization of justice, enough information has been published to show how, for example, bribes from Odebrecht or thousands of dollars found hidden in the home of the ex-manager of the state oil company. In addition, the judicial authorities and attorneys who initiated the proceedings were appointed by and held positions of trust in the previous government.

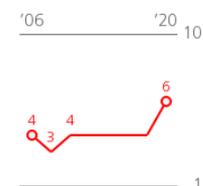
However, the willingness to improve the independence of the judiciary is hindered by the actions of a sector of the Transitional Council of the Judiciary (see section 3.1), which is maneuvering to allow political groups with pending proceedings to control the courts.

The Judicial Council is the governing, administrative and disciplinary body of the Ecuadorian judiciary, which consists of the National Court of Justice (the final judicial instance in the country), the provincial courts and the courts of peace; the latter deal with individual, community, neighborhood conflicts and violations and, among other things, cannot impose prison sentences. Those interested in accessing the judiciary or in being promoted must enter the public examinations regulated and supervised by the Judicial Council and the Council of Citizen Participation and Social Control.

According to Latinobarómetro 2018, 59% of those interviewed believe that judges and magistrates are involved in corruption cases. This percent is the highest among all the institutions about which they are asked, higher than that of the police or public employees, both with 54% negative perception.

Independent
judiciary

6



This area presents a very different picture from the previous report, because the government promoted investigations of major corruption cases that were not investigated during the previous government, even though they were persistently denounced. As an example of this change, it is worth noting that these investigations were conducted at the highest political and administrative level. Two lines of investigation stand out. The first one is the Odebrecht case, which affects several countries in Latin America and, in Ecuador, led to the trial and conviction of the two time Vice-President Jorge Glas (with the governments of Correa and Moreno) and of a series of medium- and high-level officials, as well as particular individuals who took part in the plot. A second vice-president, María Alejandra Vicuña, resigned in December 2018 after the denunciation of corruption practices. A sign of the generalization of corruption is that another official judged in this cause is the former State Comptroller Carlos Polit, who was in charge of ensuring that public resources were not misused.

The second focus is contracts in the oil sector, in which the former Vice-President Glas was also involved. Carlos Pareja Yannuzzi, minister of hydrocarbons and former director of Petroecuador (the state oil company), as well as the former managers of Petroecuador Alex Bravo and Marco Calvopiña, are another of the main sentenced in these cases, which are mainly related to overpricing the contracting of infrastructure for the production of oil and oil derivatives. Alecksey Mosquera, ex-minister of Electricity, has also been judged.

There were also corruption plots in institutions such as the Ecuadorian Institute of Social Security (IESS, Instituto Ecuatoriano de Seguridad Social), which is in charge of the retirement pensions and the workers' health care. An ex-minister who was also the president of the IESS and its executive director were judged.

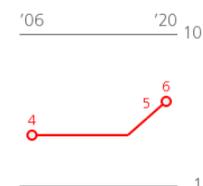
Despite the efforts made by the government, there are still many areas awaiting judgment, as corruption was favored by the concentration of power during the 10 years of Correa's government, which avoided investigations, and by the use of "declaratorias de emergencia," a legal contracting instrument that eases control procedures and tender periods by assuming the urgency of contracting.

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 due to a slow and overburdened judiciary. Discrimination on the basis of ethnicity or sexual identity persists and has to do with racism and the structural patriarchy in society rather than the existence of laws providing for explicit systems of discrimination.

After the change in government, police and judicial pressure on people who protest against or oppose the government has practically disappeared, since one of the efforts and aims of Moreno's government is to re-establish the freedoms affected by the

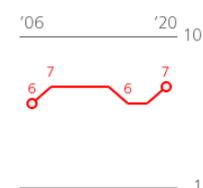
Prosecution of office abuse

6



Civil rights

7



previous government. Toward this end, pardons have been granted and decrees restricting political liberties have been eliminated. However, political opposition associated with former President Correa argue that the corruption investigations and other cases against Correa himself, and against other former high officials in his government, are a political prosecution that violate their civil rights.

In Ecuador, there is no history of massive human rights violations such as those that have occurred in other Latin American countries.

4 | Stability of Democratic Institutions

Ecuador counts on formal democratic institutions whose functioning has improved during the studied period, mainly because the executive allows other powers of the state, fundamentally the legislative, to fulfill their role as a space of co-legislation, control and plural representation. The changes in the judiciary have been noted in previous sections pointing out that, despite difficulties and limitations, its autonomy increased.

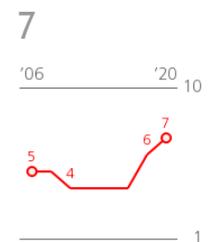
However, institutions as spaces where the conflict is processed face a problem. This is partially because some opposition actors believe President Moreno betrayed the party he was elected for by prosecuting the previous government's high officials, who were members of his own party, and, on the other hand, because Moreno changed his programmatic positions.

In this regard, extra-institutional initiatives have been set in motion (albeit with little success) seeking not only to modify public policies such as the increase in the price of oil, but also to remove the president.

One symptom of the weakness of democratic institutions is that, within the last two years, the country had three vice-presidents. After the resignation of Jorge Glas when he was tried for corruption, Alejandra Vicuña was first appointed; militant, minister, former National Assembly member for the ruling party with a mediocre career in politics, she resigned when it was probed that she required her advisers to give her part of their wages. The subsequent proposal for vice-president submitted to the president of the Congress was that of Otto Sonnenholzner, a young businessman with no political experience who, despite obtaining the votes needed at the Congress, continued to be questioned by some opposition sectors.

Ecuador has a long-standing tradition of elections at the local and provincial level (practically since the beginning of the republic). One must take into account that there are many differences between municipalities due to the size of cities. 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.

Performance of democratic institutions



In contrast to the previous review period, the change in government was accompanied by a stronger acceptance of democratic institutions as legitimate by most relevant actors. The current government started its term with a message of strengthening democratic institutions and integrating relevant actors marginalized due to the Manichean logic of the previous government, though it has not yet been possible to completely overcome the 10 years of polarization and of understanding politics as an excluding logic of friend-enemy. The latter is evidenced by the split of the PAIS party and recurring attempts of former President Correa to re-polarize political discourse. However, up to now, the remaining actors acknowledge that democratic institutions are no longer instrumentalized but offer a level playing field for political competition.

As a caveat, it is worth remembering that none of the parties with representation in parliament opposed the coups against Bucaram, Mahuad and Gutiérrez between 1997 and 2003. Though this is almost history, it remains unclear if similar patterns of conduct have completely been eliminated.

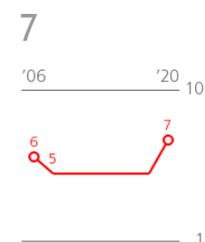
5 | Political and Social Integration

Ecuador does not have a strong party system, but polarization has significantly decreased with the end of the Correa government. Most parties are electoral organizations without strong social roots and local and personal organizations, such as those that abundantly exist in municipal elections. According to Latinobarómetro 2018, only 18% of the Ecuadorian population has “a lot of confidence” or “some confidence” in political parties.

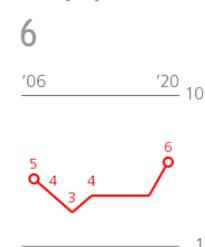
During the last 10 years, “Alianza País” gradually consolidated itself as a hegemonic party, while the government and public opinion harshly criticized the so-called “partocracy” as the cause of the economic and social crisis experienced by the country at the beginning of the 21st century. Only the Partido Social Cristiano, a right-wing party that currently has about 15% of the National Assembly members, has had representation in parliament since the 1979 transition to democracy. Because of the populist tints of the previous government, support for “Alianza País” was mixed with what was actually support for the figure of Correa as its leader.

The exhaustion of the “correísmo” entailed the exhaustion of Alianza País as a party. In the 2013 elections, at the peak of the president’s popularity and highest concentration of power, “Alianza País” obtained 100 deputies out of 137, resulting in an effective number of parties (ENP) of 1.83. During the same period, new parties emerged, such as CREO (Movimiento Creo, Creando Oportunidades) and SUMA (Movimiento Sociedad Unida Más Acción), which had as their main feature the opposition to Correa’s government; this is the reason why the change of political cycle has weakened them. In the 2017 elections, the ENP increased to 2.72, and the group of deputies from “Alianza País” dropped to 74, leaving CREO the second political force. Other political parties also obtained representatives: Pachakutik,

Commitment to democratic institutions



Party system



which has been standing in the elections since 1994 and has a strong link with indigenous movements; the social-democratic Izquierda Democrática, which had to be re-founded; the Sociedad Patriótica of former president Lucio Gutiérrez; and the populism of former president Abdalá Bucaram, now using the brand name “Fuerza Ecuador” (Ecuador Force).

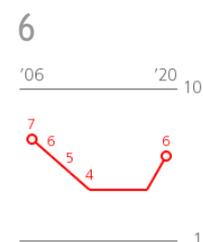
The rupture of President Moreno and Correa also meant the end of “Alianza País.” Moreno is the formal leader of the party and he controls a majority of 40 deputies, while the “correístas” group gathers under the name Movimiento Revolución Ciudadana (Citizen Revolution Movement). One sign of the crisis in the strongest political party of the last decade is that neither “Alianza País” nor the Citizen Revolution Movement have strong candidates able to compete for the main municipalities in the 2019 municipal elections.

Another consequence of the previous government’s authoritarian tendency is the weakness of interest groups. The authoritarianism was such that the government explicitly prohibited the participation of interest groups in political activities through Presidential Decree Number 16. Now, with the change of government, this decree was repealed and interest groups such as the indigenous organization CONAIE have begun to participate again in politics, although without the strength that they exhibited during the 90s. Other traditional groups, such as the chambers of production and the unions also lost relevance and political positions; within this sector, the Association of Private Banks stands out, although they seek for a moderate political profile.

The associations of Catholic and Evangelical parents and families, acting together with the Ecuadorian Episcopal Conference form the strongest interest group during the period of study. The seed of this group is in the parents’ associations of catholic and evangelic schools, as well as in parish groups. Its main objective is to avoid the introduction in the educational programs of what they call “gender ideology,” as well as to prevent the amendment of the abortion law that would allow it in cases of rape and incest.

By the end of the review period, the unions of state-owned companies were again gaining momentum; they oppose the privatization and the deregulation of the sectors of energy and telecommunication, as well as the sale or liquidation of the large number of state-owned companies created during the previous government.

Interest groups



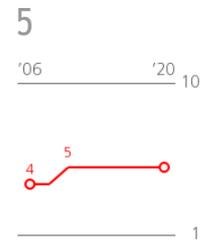
According to Latinobarómetro 2018, Ecuador's approval of democracy increased from 52% to 69% between 1996 and 2017. The peak of this indicator, 71% in 2015, happened in a moment of higher authoritarianism in Ecuador. Therefore, it is even more surprising that the approval of democracy has dropped to 50% in 2018, clearly coinciding with the change of government, and even lower is the satisfaction with the functioning of democracy in the country, only 36%.

These fluctuations in the support of democracy, could be explained by considering at least two elements. First, citizens might confound their view and support for the political regime (democracy) with the performance of the government. There is no doubt that Correa's government had a high level of citizen support (73% in 2013, for example), unlike Moreno's government, with a rather mediocre trajectory (46% in 2018). In addition, Correa's executive counted on resources for the implementation of public policies. Second, the increase in the approval of democracy may be the result of the previous government's propaganda, since Correa portrayed his administration as one turning the country into a real democracy and referred to previous regimes as non-democracies. The evaluation of the "citizen's approval of democratic norms and procedures" in a country such as Ecuador is complex, since the data does not always show clear trends; thus, when asked whether democracy is the best system of government despite its problems, according to 2018 data, 68% "strongly agree" and "agree" that it is, which is above the regional average of 65%. However, 19% prefer an authoritarian government, which is again above the regional average of 15%. When asked if they prefer to have a democratic or a non-democratic regime, it does not matter for 26% of the Ecuadorian respondents.

At this point, the question is: Can democracy work if a quarter of the population does not care about living in an authoritarian regime? Regarding Ecuador, the answer would be "no," because a very large percentage of the population is not committed to the basic conventions and values of democracy, which implies non-compliance with norms or lack of respects for freedoms. It is worth noting that populism has a fundamental role in the history of the country, the last experience in this sense is Correa's administration. Populism has an illiberal character, which affects norms, rights and freedoms; on the other hand, its inherent Manichaeism does not ease the building of social capital, which, according to its definition, is essential to build a democracy.

According to Latinobarómetro, trust in specific institutions is also rather low, though mostly situated on the average of the Latin American countries surveyed: government 25% (LAC: 22%); election authority 25% (LAC: 28%); parliament 25% (LAC: 21%); judiciary 23% (LAC: 24%); political parties 18% (LAC: 13%). The most-trusted institutions are the church with 62% (LAC 63%) and the military with 61% (LAC 44%) – somewhat in-between are the police (46%) and the media (42%).

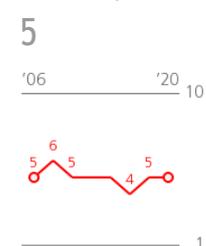
Approval of democracy



In order to assess the level of interpersonal trust – one of the basis to build social capital – the next Latinobarómetro question is used: “Generally speaking, would you say that you can trust most people, or that one can never be too careful when dealing with others?” Only 14% of Ecuadorians trust in others. This percentage shows a significant drop compared to data from the same survey in 2011, when 24% of the respondents answered, “you can trust in most people.” But, for interpersonal trust to transfer into social capital, an enabling environment is needed in which organizations and associations are inclusive and not influenced by corporate interests and, at the same time, where they have a certain level of independence from the state. This is difficult to achieve in a society with a ubiquitous state presence that also possesses the main companies of the country on which the provision of goods and services depends on to a large extent. Furthermore, there are racist imaginaries of the indigenous and Afro-descendant population, which are denigrated as being untrustworthy to legitimize their exclusion and discrimination.

Nevertheless, important levels of primary solidarity can be observed within traditional groups and structures.

Social capital



II. Economic Transformation

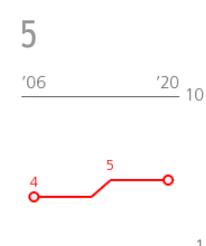
6 | Level of Socioeconomic Development

Ecuador is an upper middle-income country. According to the IMF, income per capita in 2018 was \$6,199, which is below the Latin America average that exceeds \$9,000. In the Human Development Index, Ecuador ranked 86th in 2017 with a score of 0.752 (high human development, according to UNDP). When adjusted for inequality levels, Ecuador’s HDI value is 0.549, which implies a slight loss of position. Using the Gini coefficient, it is observed that Ecuador has a high inequality coefficient (45.0 in 2016), although it is not one of the highest in Latin America (e.g., Brazil, Colombia and Panama have a Gini above 50.0). Social welfare spending and investments made during the commodity boom contributed to poverty reduction, although 9.4% of the population is still living on less than \$3.20 (2011 PPP) a day.

Poverty is concentrated in rural areas, accounting for 36.7% of the total population and most seriously impacting women and the indigenous population. The UNDP’s Gender Inequality Index (0.385) shows that the situation of Ecuadorian women is quite uneven when compared with countries with the same socioeconomic features and with bordering countries. However, it is worth noting that the situation has slightly improved compared to the previous report.

Question Score

Socioeconomic barriers



In addition to these objective indicators, it may be pointed out that in countries such as Ecuador, or in Latin America in general, there are subjective elements contributing to perpetuating inequality and poverty. For example, poverty affects indigenous people and Afro-descendants more than any other group; they have more difficulties to overcome poverty because of racial prejudices of societies, which contribute to making poverty a structural problem.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	99290.4	99937.7	104295.9	108398.1
GDP growth	%	0.1	-1.2	2.4	1.4
Inflation (CPI)	%	4.0	1.7	0.4	-0.2
Unemployment	%	3.6	4.6	3.8	3.9
Foreign direct investment	% of GDP	1.3	0.8	0.6	1.3
Export growth	%	-0.6	1.4	0.7	0.9
Import growth	%	-8.2	-9.6	12.2	5.8
Current account balance	\$ M	-2221.1	1321.0	-490.4	-1486.7
Public debt	% of GDP	33.8	43.2	44.6	45.8
External debt	\$ M	28389.0	35373.8	41105.5	45018.6
Total debt service	\$ M	5097.2	5378.9	6601.3	9126.4
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	14.4	14.6	14.6	14.6
Public education spending	% of GDP	5.0	-	-	-
Public health spending	% of GDP	4.2	4.3	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.6	2.5	2.4	2.4

Sources (as of December 2019): 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

Despite improvements under the Moreno government, market competition still operates under a weak institutional framework, with uneven rules for participants. Indicators in this area did not experience an important change with regard to previous years, but it can be affirmed that there is a substantial change when compared to the previous report, since the government of Lenin Moreno has proved supportive of free trade and is developing measures to favor it. This is in contrast to the previous government, which had a political and economic project that openly criticized market economy and promoted a model (“21st century socialism”) that, without excluding the private sector, advocated for an active intervention of a strong state in society and economy through the creation of public companies.

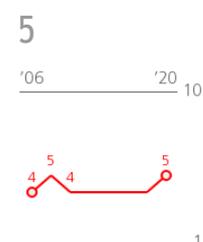
One sign of this change is the announced privatization or closing of many non-profitable public companies, or of those whose ownership by the state is difficult to justify, such as media and clothing companies. Furthermore, negotiations have started to join free trade zones or to attract investments. So far, it is not possible to show the results of these negotiations, but the willingness to open the economy is evident.

The unfavorable business climate is reflected by indicators such as the Starting a Business (Doing Business 2019): in Ecuador it takes 11 procedures, 48.5 days and a cost of 21.2% of income per capita to do so, ranking it 168 out of 190 countries. In contrast, neighboring Peru requires eight procedures, 24.5 days and 9% of income (ranked 123), and Colombia, eight procedures, 11 days and 14% of income (ranked 100). With a score 57.94, Ecuador was ranked 123 out of 190 economies in the overall ranking of the Doing Business 2019 report. In addition, the Ecuadorian market is relatively small (16.6 million inhabitants with 1.5% growth), in which there are firmly consolidated companies with dominant positions in different sectors.

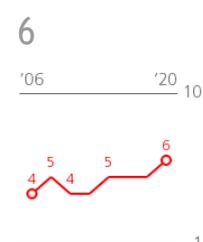
The informal sector has a strong presence, as well as the so-called “bazaar economy.” Ecuador has a normative framework to protect these practices, even at a constitutional level, as a mechanism to safeguard the right to work. According to ILO statistics, total informal employment has been constantly high at about 70% throughout the decade, reaching 72.4% in 2017 and 72.7% in 2018. Nonetheless, this is significantly lower than the 2000s average of more than 80%.

After two years of application of the Andean Community Decision 608 on Competition, Ecuador finally enacted its first domestic competition law in October 2011 when the new Organic Law for Regulation and Control of Market Power came into force. This law created the Superintendencia for the Control of Market Power, which investigates and decides on antitrust matters and legal violations regarding the abuse of market power, restrictive practices or cartelization, unfair competition and economic concentration. Throughout 2018 (until September), the Superintendencia for the Control of Market Power (Superintendencia de Control del Poder de Mercado)

Market organization



Competition policy



made 94 interventions focused on avoiding monopolistic practices. The interventions were distributed as follows: abuse of power and restrictive agreements and practices (26), unfair practices (19), economic concentrations (20) and analysis of market structure (29).

On the other hand, Ecuador counts on laws promoting the diversification of mass media ownership and prohibiting banks from owning companies that are engaged in other activities such as the financial management of foreign exchange, the stock market or investment values, leasing, etc.

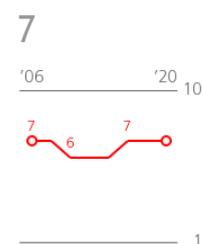
Due to the shrinkage of the market and the concentration of businesses, Ecuador has tended toward oligopoly in the markets of certain basic consumer goods (e.g., flour, sugar, cement, etc.). In these cases, the state uses price controls to regulate the lack of competition. Lenin Moreno's government announced a plan for private participation and diversification in sectors in which the State is quasi-monopolistic, such as electrical energy. These actions have not yet been put in place.

Ecuador has been a member of WTO since 1996 and seeks to comply with its standards. In response to the economic crisis caused by the drop in oil prices starting in mid-2014 in its dollarized economy and the appreciation of the dollar, which affected its balance of payments, Ecuador adopted tariff measures that have been dismantled during the period analyzed, concretely between January 2016 and January 1, 2017. The simple average MFN applied in 2017 was 12.2%. With the complete removal of tariff surcharges, imports experienced a significant increase of 72% when comparing the first fortnight of June 2017 to the same period in 2016.

The surcharge established in March 2015 affected 32% of Ecuador's imports and varied between 5% to 45%, depending on the impact of purchases on the local productive system. Between March 2015 and February 2017, safeguard revenue was approximately \$1,537 million, according to the Ministry of Finance. The measure mainly impacted consumer goods and was harshly criticized by several countries in the region and by local businessmen. One of the problems with the liberalization of foreign trade is the precarious equilibrium of Ecuador's trade balance, since its exports are little diversified and they depend excessively on oil. The current account balance deteriorated to \$-255.4 million in 2017 after a surplus of \$1,442 million in 2016.

One of the current government's projects is the opening of the markets, to such a degree that it has approached the Pacific Alliance, a trade integration project in which it already has observer status. However, recourse to the opening of the markets as a mechanism to mitigate the commodity crisis was a decision taken in the final period of the previous government in which Ecuador negotiated and signed a trade agreement with the European Union.

Liberalization of foreign trade



It is important to note that Ecuador's main export product is oil, and its trade is strongly influenced by political considerations. However, a series of restrictions, regulations, administrative inefficiencies and lack of transparency in customs that make free trade difficult still persist. In addition, there is a 5% tax on capital outflows.

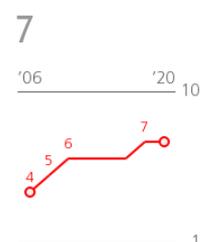
The monetary and financial code regulates the financial system, which is integrated by private financial institutions (banks, financial societies, cooperatives and mutual societies), public financial institutions, financial services institutions, insurance companies and auxiliary companies of the financial system. Banks are the largest and the most important participant in the market, with more than 90% of operations. The Monetary and Financial Policy and Regulation Board is responsible for the development of public policies, and the regulation and supervision of monetary, credit, exchange, financial, insurance and security policies. The supervisory and control bodies are: The Superintendence of Banks (banks, mutual societies and financial societies), the Superintendence of Popular and Solidarity Economy (savings cooperatives and mutual banks and housing credit), and the Superintendence of Companies, Securities and Insurances (insurance companies). Although Basel standards are not explicitly followed, the system supervised by the Superintendence of Banks (SBS) adopted measures that equal international standards, and the system is considered fairly robust. The bank capital to assets ratio stood at 12.3% in 2017 after 11.9% in 2016, while bank non-performing loans remained at a similar level (3.9% after 4.0% in 2016).

Among the regulations impacting the banking system is the 2008 law for the creation of a financial safety net, which, among other actions, established a bailout fund financed by the banks themselves, reformed the deposit insurance system, and regulated interest rates and the charging of commissions. Other regulations have contributed to the current reorganization of the banking sector. In order to provide for a decartelization of the economy, the anti-monopoly law prohibited the combination of multiple banks or different kind of financial institutions, and restricted corporate ownership across banking and other financial interests. Banks must also maintain at least 45% of their liquid reserves in Ecuador, in addition to holding as liquid reserves at least 1% of their deposits in securities issued by the non-financial public sector.

The stress tests conducted by the Superintendence of Banks determined that the solvency of banks of all sizes is above the minimum level of solvency (9%) required by law. Liquidity stress tests determine that banks have a three-months resistance, that is, they have a sufficient level of high-quality liquid assets that can be transformed into cash in order to face extraordinary liquidity necessities during the mentioned period.

Total assets at the end of 2017 reached an accumulated balance of \$38,975 million, compared to \$35,599 million in 2016. Between 2015 and 2016, assets experienced a 15% increase (\$4,734 million), while between 2016 and 2017, they grew by 9% (\$3,377 million). Default rate is low, only 2.96% in December 2017.

Banking system



8 | Monetary and fiscal stability

Since 2000, the U.S. dollar is the legal tender in Ecuador, which means that the government has little room to maneuver or intervene in monetary policy. Inflation was 1.7% in 2016 and 0.4% in 2017. The 2008 constitution eliminated the full autonomy of the central bank but, unlike the previous government, the current president has not intervened in the tasks of the bank. Monetary stability is largely based on the lack of monetary autonomy originated by dollarization, but it has other consequences such as the impossibility of devaluing the currency in order to improve conditions of international competition, for example.

The Moreno government introduced fiscal discipline measures in order to restore macroeconomic balances. Evident proof of the fiscal problems of Ecuador are its almost nonexistent international reserves; in 2017, according to the World Bank, Ecuador only had \$1,678 million in total reserves, being the country with the fewest reserves in Latin America and the Caribbean. Another indicator of the bad situation of the country was the decrease of its sovereign debt rating from B- to B by S&P in June 2017. According to CEPAL, the primary fiscal balance remained negative with -3.6% of GDP in 2017 and a preliminary -2.0% in 2018 (after deficits of 2.1% in 2015 and 3.7% in 2016). According to the minister of economy, the fiscal deficit for 2019 will be 4% of GDP, which is about \$4,000 million that will be covered mainly by debt. Between 2012 and 2017, public debt has more than doubled, accounting for 15.5% of GDP in 2012 and 39% of GDP in 2017. All this in a scenario where the government consumption in 2017 was 14.4% of GDP.

Ecuador also has a structural problem balancing exports and imports. In 2017, the country had a negative trade balance of \$255.4 million, a more difficult problem to manage due to the dollarization of the country.

Together with the poor macroeconomic management of President Correa, the problems of the country are due to the drop in oil prices, one of the main sources of revenue for the government. Despite the cuts made since the beginning of the crisis, the Moreno government presented a budget of \$34.8 billion for 2018, 2 billion less than in 2017; the cuts for the 2019 budget will represent another 2.8%.

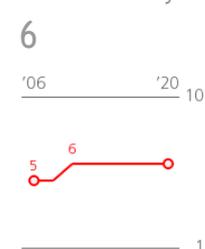
Mechanisms to capture resources have improved through the optimization of the tax-collection system, both direct and indirect taxes to people and businesses. Collection in 2018 was \$15.1 billion.

In February 2019, Ecuador and the IMF reached an arrangement under the IMF's Extended Fund Facility (EFF). Ecuador will receive financial support of about \$10 billion over the next three years, including financing from the Development Bank of Latin America (CAF), the Inter-American Development Bank (IDB), the Latin American Reserve Fund (FLAR) and the World Bank.

Monetary stability



Fiscal stability



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” – similar to the German constitutional provision, though perhaps with more far-reaching consequences concerning, for example, land tenure – that each should carry out.

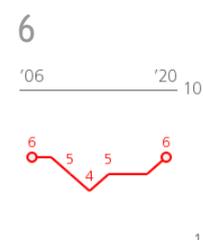
More recently, there is a more confidential climate of respect for property rights, protected by the corresponding legal body on behalf of the state. They are also respected by the majority of citizens, although they show less respect for state property, as becomes evident when observing the theft of urban and administrative equipment. Furthermore, intellectual property is not properly protected, since counterfeiting of clothing and accessories or unauthorized editions of books and films are not prosecuted.

Ecuador currently ranks 96 out of 125 countries in the 2018 International Property Rights Index. This shows a decrease compared to previous years; for example, it ranked 59th in 2014. This loss of position is not mainly due to structural factors, but rather to actions of the previous government, which questioned private property and made several confiscations. Property rights not only suffer from political action, but also from failures and delays in the judicial system called upon to guarantee property rights, with the aggravating factor of permanent suspicions of corruption.

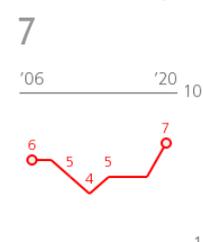
Since the change of government, Ecuador offers a safer environment for private property, since the government is committed to protect it. The government adopted concrete actions such as the amendment of the capital gains law. This turn marks a substantial difference with the previous government, which carried out confiscatory acts. For example, the BIESS Law (Banco del Instituto Ecuatoriano de Seguridad Social) placed all pension funds of existing public employees under the control of the government’s social security system. The conflict arose because contributions to these funds were made as mandatory private savings.

This is another point on which the country has changed compared to the previous report. The current government is pursuing a clear policy of support for business and the private sector. While this is reflected in the reduction of the climate of uncertainty for political reasons, some uncertainty has increased due to the economic slowdown. The government is making efforts to resize the amount of state-owned businesses created during the previous government, as well as to reduce state intervention in the private sector, legal uncertainty and lack of definition of economic measures. It should be noted that in 2017, for every 100 employees in the private sector, there were 31.6 in the public sector.

Property rights



Private enterprise



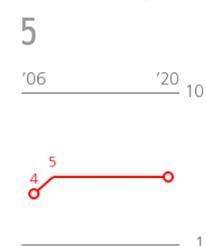
The right to engage in business is formally guaranteed, and the private sector is still the backbone of most economic activities in Ecuador. The effects of the 10 years of Correa government are still evident, such as the limited foreign direct investment in the country, which in 2017 only represented 0.6% of GDP. President Moreno and his economic team hold a clear message of respect for property. Together with the announcement of economic measures in August 2017, he pointed out that “I instructed the Minister of Finance to communicate with absolute clarity to all those who have invested in Ecuador, to all those who trusted in our country, that their rights will always be respected and that our word will always be honored.” In the same speech, Moreno announced the sale of all real estate under control of the Public Sector Real Estate Management Service (INMOBILIAR) not used for administrative or service functions. These actions show a difference with the previous government, that made some arbitrary actions, such as applying its right to declare some goods a public utility or seize them, or refusing to pay international debts after unilaterally declaring them illegitimate. The government works on a plan to cede to private corporations the operation of the now state-owned telephony, communication and hydroelectric companies. The firms in charge of preparing balances sheets and information for investors are already hired. Santiago Cuesta, the president’s adviser in this regard, pointed out that the main problem in this process is the lack of reliable economic, administrative and accounting information about these state-owned companies.

10 | Welfare Regime

With the new constitution, social security coverage was de jure extended to the entire population, but some necessary mechanisms, infrastructure and resources have not yet been implemented. In this regard, the new National Development Plan abandons the notion of “Good Living” (Buen Vivir) to focus on the concept “For a Lifetime;” the new plan proposes a system promoting the guarantee of rights over the whole life.

The Ecuadorian Institute of Social Security (IESS) primarily covers workers within the formal sector of the economy. Affiliation is compulsory for every worker and is funded by workers’ contributions. In 2017, the IESS covered 40.8% of the economically active population (PEA). The IESS offers health services, retirement, orphanage and widowhood pensions, while functioning as a credit institution for housing and consumer loans. Due to its elevated liquidity, the government used the IESS as a borrower at the cost of jeopardizing its financial viability, the most extreme case being the de-capitalization suffered during the administration of Rafael Correa. Measures are currently being evaluated to guarantee its functioning. In addition, there are acts of corruption committed by its former president, former minister Ramiro González (fugitive), and the former general director of the IESS, now in prison. There is also a Peasant Social Security system that deals with rural workers under a different regime. In 2017, it covered 6.2% of the PEA.

Social safety nets



There is a health care system that depends on the ministry of public health. During the commodity boom, investments were made in medical equipment and infrastructure, thus improving health care services, but there are still deficits, primarily because it was difficult to mitigate the abandonment and poor condition of facilities accumulated over the time. Between 2007 and 2016, the number of doctors virtually doubled, from 11.5 to 21.5 every 10,000 inhabitants. Health service coverage is quite focused on large urban centers and it has improved in recent years thanks to investment.

As vice-president, now President Moreno led the establishment of a care system for physically disabled people that provides specialized care and orthopedic equipment to beneficiaries. According to official data from the government, the accrued budget allocated to health as a percentage of GDP was 3.2% in 2017. Life expectancy at birth was 76.3 years in 2016.

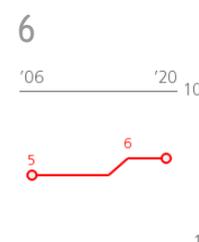
Ecuador has a conditional monthly cash transfer program of \$50 targeted at families living in the most vulnerable conditions (in extreme poverty and in the poverty range determined for protection). The transfer is conditioned to the fulfillment of objectives on the part of the families (in health, education, housing, eradication of child labor, and family assistance). In addition, there was a system of indirect subsidies for electricity and fuel that the government began to eliminate at the end of 2018.

There is not a legal structure of exclusion affecting equal opportunities; on the contrary, the main restrictions arise from the structure of exclusion that has developed over the history of the country and that is expressed in ethno-social patterns that also include patriarchal elements. In the case of indigenous people, their situation remains unsatisfactory. There is a sizable gap in the average level of education between the indigenous and non-indigenous population. Being indigenous in Ecuador increases the chance of being poor. As evidence, it is enough to look at data on the income of heads of household: while the general average is \$545, the figure is only of \$327 for indigenous heads of household. Furthermore, inequality in education shows that functional illiteracy among indigenous people is 27.3%, compared to 9% for white and mestizo population.

Social conditions make great differences in the quality of education, which in turn make differences in income; thus, functional illiteracy affects poor population twice, which is later reflected in income. Poor heads of household have an income of \$183.40, compared to \$614 for non-poor heads of household.

The difference between urban and rural areas and between men and women represent another inequality that, while not specific to Ecuador, is worth noting because of its intensity. Literacy rate in 2016 was 94.4%, being slightly higher for men (95.4%) than for women (93.3%). Although functional illiteracy among women is only 2%, female heads of household earn \$167 less on average; income inequality is also pronounced in rural areas, where the income of heads of household is on average \$213 lower than those of urban areas.

Equal opportunity



There is almost parity concerning the ratio of female to male enrollment (GPI), with a slight advantage for women concerning tertiary education (1.2). The female labor force as percentage of total labor force is about 40% since years, reaching 41% in 2017, a level similar to Argentina (40.9%) and Bolivia (41.2%). The 2008 constitution introduced a gender parity (50-50, including alternation) for lists of candidates to the national parliament. However, because of some effects of the electoral system, of 137 seats, only 52 (38%) are occupied by women in the parliament of Ecuador, a high percentage from a comparative perspective.

Ecuador ceased to be a country of origin of immigration and became a host country, either as a destination or as a transit country. However, efficient systems of immigration reception, regulation and services have not been developed, forcing foreigners to live in situations of marginality and informality. Although the number of immigrants is not very high (approx. 400,000 in 2017), in the second semester of 2018 more than 700,000 Venezuelans arrived in Ecuador (transit and final destination), which led to a humanitarian crisis, xenophobic outbreaks and violence.

11 | Economic Performance

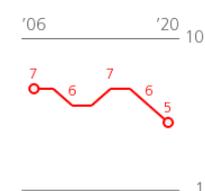
Ecuador's economic problems remain the same since the beginning of the commodities crisis. The situation can be summarized as follows: it is a country with an excessive dependence on oil exports with poor fiscal management during the commodity boom, which were the years of the government of Rafael Correa. In addition, the dollarization of the economy, while certainly contributing to the stability of the country, is an obstacle to reduce production costs and to promote exports by devaluing the currency. Furthermore, Ecuador is little attractive for foreign investment, amounting to only 0.6% of GDP. According to CEPAL data, growth of per capita GDP was -2.7% in 2016, 0.9% in 2017 and -0.4% in 2018. Public debt rose from 26.1% in 2015 to 36.2% in 2016 and 39.0% in 2017, while according to CEPAL data, primary fiscal balance remained negative with -3.6% of GDP in 2017 and a preliminary -2.0% in 2018.

All this occurred in spite of the slight rise in the international price of oil. The price per barrel was estimated in \$42 for the 2018 budget. The strong impact of the price of oil is due to the fact that it represents 50% of total exports, with a negative balance of \$255.4 million in 2017. However, the slowdown of the economy is also related to the drastic reduction of public investment that during the boom years was the driving force of economy. In 2018, public investment was only \$4.85 billion, while in the boom period, it reached about \$8 billion annually for several years.

According to World Bank data, inflation diminished from 1.7% in 2016 to 0.4% in 2017 (reaching 0.3% in 2018 according to CEPAL, after -0.2% in 2017 and 1.1% in 2016). The unemployment rate is 3.4% (2017) according to the World Bank.

Output strength

5



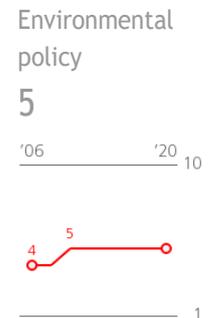
12 | Sustainability

The ministry of the environment (MAE) is responsible for environmental policy and programs for the protection of ecosystems and the sustainable use of natural resources. The MAE is subdivided into several secretaries and departments (such as Biodiversity, Wildlife; Forestry, Climate Change, or Pollution Prevention) and works as a decentralized agency with offices throughout the country. In line with the 2008 constitution, the Correa administration introduced several measures to avoid contamination or to protect environment, such as the environmental tax on vehicle pollution, a reimbursable tax on non-returnable plastic bottles, incentives for forestation and reforestation for commercial purposes, and investment projects to change the country's energy matrix. However, environmental policies are not consistently designed nor enforced and often subordinated to growth efforts.

Although the government of Lenín Moreno was more open to dialog, distancing itself from its predecessor Rafael Correa, its environmental policies varied little. Environmental policy still evidences the lack of definition and agenda in various public policy issues of the Moreno government. Although he initially approached environmental activists who confronted the previous government, and he included in the referendum in February 2018 a question regarding oil extraction and mining in protected areas, the course of time has revealed that these actions were rather a distancing strategy with his predecessor (Rafael Correa), which promoted these types of actions in protected areas. Contrary to what some social actors expected, majority support to the ban did not mean the paralysis of the controversial Yasuní project, because it was argued that it was already in progress and was not possible to stop because of signed contracts. At the same time, the scope of the ban was relativized with the incorporation of the concept "intangible areas," which de facto makes the area covered by the ban smaller.

Ecuador's energy mix is still largely dependent on oil, which represents about 75% of the total energy consumption. The Correa government started efforts in changing this matrix through the construction of hydroelectric centers. The country has 29 hydroelectric plants that account for about 20% of all energy produced, and about 60% of the electricity generation. When all the hydroelectric centers work in the country, 8.2 million tons of CO2 emissions will not be emitted per year. However, their construction also went along with environmental damages.

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 2018, Ecuador ranks 87 out of 180 countries.



One indicator of President Moreno’s education policy shortcomings is the several changes of minister and state secretaries in the education and university area within a short period of time. The ministry of education, a centralized body for the design and management of the education policy, from kindergarten to high school, from teachers to educational institutions, 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-know monitoring instruments is the “Ser Bachiller” test, which is used to guide students when selecting a university degree.

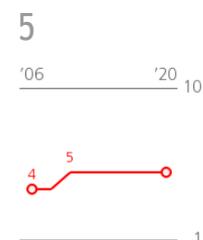
According to the World Bank, public expenditure on education in 2015 was 5% of GDP. The 2017 enrollment rate for primary education is 104.2%, 107.1 % for secondary and 45.5% for tertiary education, showing an improvement compared to the previous report. The literacy ratio in 2016 was 93.3%. R&D expenditure is rather low (0.4% of GDP in 2014).

The previous government had substantially increased expenditure, with programs such as scholarships, free textbooks to primary school pupils, free education and a system of high-tech “millennium schools,” with the purpose of reforming the education system. According to data from the ministry of education, between 2013 and 2016, 4,964 primary schools were closed, while around 70 millennium schools were built. This policy was reflected in the desertion of around 100,000 children. In February 2019, Milton Luna, minister of education, offered to reopen the closed schools. These programs are now being reviewed in order to correct mistakes in their design. Nevertheless, some good results were obtained, such as the increase in enrollments in kindergarten level. In 2006, 55.7% of children who had not enrolled did so for economic reasons, while in 2014 only 33.4% did so.

In the U.N. Education Index Ecuador is ranked 47 out of 133 BTI countries considered with a score of 0.697, showing greater improvements since 2010 than neighboring countries such as Bolivia, Colombia or Peru.

Education, especially universities, is one of the areas that suffered the biggest cutbacks because of the fiscal deficit. For example, the budget for universities in 2019 may be between 21.6% and 11.5% inferior compared to 2018. This reduction is made within the framework of a change in the university and science policy, once the malfunctioning of the university system was evident.

Education policy /
R&D



Governance

I. Level of Difficulty

Structural constraints on governance are moderately high. Ecuador is an upper-middle income country that during the 10 years of the oil boom received \$400,000 million according to some estimates. Some difficulties are mainly political in nature and, depending on the economy cycles, there can be income difficulties.

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. Ecuador also suffers the climatic consequences of "El Niño" phenomenon.

Despite being a country with inequality (Gini coefficient of 45.0 in 2016), the difficulties for developing the country are not entirely structural given that Ecuador is placed in the upper part of the Human Development Index (0.752 in 2017), improving over time. This data suggests that structural conditions in the country are not an impediment to the promotion of development processes.

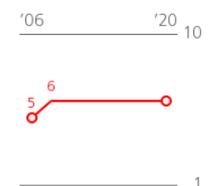
Despite a notable reduction in previous years, poverty and inequality are very sticky phenomena due to reproducing mechanisms that often lie beyond immediate government influence, especially when they are structures of exclusion with ethno-social and patriarchal characteristics. There are serious deficiencies in education and infrastructure. Also, it is a country with natural resources that is free of major epidemics and pandemics or civil wars.

The 10 years of the previous government contributed to demobilizing civil society due to the state control and the prosecution by the government of civil society organizations. In addition, a regulation was passed prohibiting these organizations from participating in politics. Despite the repeal by President Moreno of these norms and the invitation to these groups to take part in political life, it will take time for the civil society to recover from the damage suffered in the previous government.

There is a 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 and on the commons. The state's historic weakness and incapacity has generated incentives for self-government in the solution of public

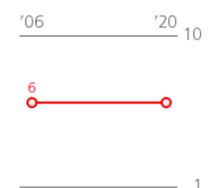
Structural constraints

6



Civil society traditions

6



problems. The Catholic Church has also acted as a promoter of trade unions and local, peasant and indigenous organizations.

With the change of government, the intensity of political conflict has decreased, although not disappeared, as a new collective action protest cycle is being initiated by those affected by the government's fiscal problems and the concurrent loss of resources by the state. The latter has led to dismissals in the public sector, elimination of fuel subsidies and the imminent loss of jobs by possible privatizations.

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. Actors such as CONAIE mobilize some of this potential for conflict from time to time. However, these mobilizations are sporadic while social groups normally coexist without major frictions due to the traditional segmentation of society. A latent conflict, still with little public presence, is that of insecurity and the lack of state capacity to control crime, especially in marginalized urban areas. According to official data, in 2017, 14 out of every 100 deaths were caused by accident and violence. While these are low figures compared to other countries in the region, the problem is the concentration of these type of deaths in certain areas.

Conflict intensity

3

'06 '20 10



II. Governance Performance

14 | Steering Capability

There has been a substantial change regarding the priorities set by the government as state policy. The first months of the new government were devoted to reviewing and reorienting public policies. Unfortunately, while in principle corresponding with the normative framework of the BTI in terms of striving for democracy and a market economy, those revisions have not become new public policy proposals due to various reasons: the president's lack of initiative and capacity to build a new political project; his changing team; and, above all, the lack of economic resources due to the drop in commodity prices and the macroeconomic mismanagement of the previous president.

The new government shows a clear and unequivocal position of support for the democratic system and the market economy, as can be observed in the changes made in economic issues, or the amendment to the communication law, which previously had limited some freedoms. Furthermore, the state started a process of divestment in order to improve the conditions for economic competition. Although the previous

Question

Score

Prioritization

5

'06 '20 10



government (Rafael Correa) had a much more clearly defined agenda for change, with a plan and economic resources to improve the government's capacity to implement public policies, the system was inefficient because of the personalized nature of the president as such and corruption.

Economic measures to correct macroeconomic imbalances generated by the previous government are imprecise; for example, the elimination of fuel subsidies was announced, but the decision was changed on the spot based on the protests of affected sectors. Another example of this lack of definition can be noted in the appointment of cabinet members, with people at opposite ends of the political spectrum have been designed for the same ministry.

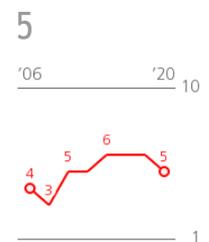
The new government abandoned the notion of “good living” (Buen Vivir) as a purpose for political planification and replaced it with that of “For a Lifetime.” The 2017 to 2021 National Development Plan is articulated in three main – though rather generic – points: 1) full guarantee of personal rights throughout life; 2) economy serving society; 3) more society; a better state. These ideas, in turn, contain three national development objectives that break with the sectoral dynamic and reflect the country priorities. This vision is also framed in the international commitments for global development, such as 2030 Agenda and the Sustainable Development Goals. However, the objectives set out are unspecific and tend to be more declaratory.

The Moreno government's capacity to act with a long-term plan, or to define state policies, is quite limited, since its activity until now has been characterized by ad hoc measures or actions seeking to address urgent problems with short-term solutions. For example, more debt has been contracted in order to mitigate the deficit. Or, as noted before, there were attempts to eliminate fuel subsidies (the price was four times below international price) and, once the measure was adopted, it was tempered not to affect certain groups such as taxi drivers and transporters.

This low capacity for implementation is mainly due to leadership issues and the lack of experience of the government team. A clear example was the appointment of the new vice-president, who was proposed by the president, and was a young (35) radio businessman with no political or partisan experience, and whose closest experience with public administration was to have been the provincial president of the corporate group of radio broadcasters.

Furthermore, since the agenda defined by former President Correa was abandoned after he appointed Moreno as the presidential candidate for Alianza País, no political and economic program has been put forward. Finally, the interests of the legislative coalition supporting Moreno are varied, so it is very difficult to reach agreements on the implementation of a set of political and economic reforms.

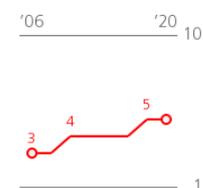
Implementation



If any, policy learning happens coincidentally, and there are no institutionalized mechanisms that facilitate innovation and flexibility in policy-making. Due to the technocratic aspirations of the previous government, a comprehensive system of data and indicators was put in place with the purpose of making better public policy decisions. Unfortunately, this information was not always used. First, this was due to the authoritarian tendencies of Correa's government, and now, with President Moreno, due to his government's lack of capacity to generate new proposals on some issues. Since public policies that were being implemented can no longer be executed in the same way because of the lack of economic resources, the efforts of the government are focused on recovering macroeconomic equilibrium, and in recovering democracy levels. However, the similar mistakes of those made in previous periods of economic crisis are being made, for example, not opening dialog tables with the aim of reducing social conflict and the potential rejection of the measures.

Policy learning

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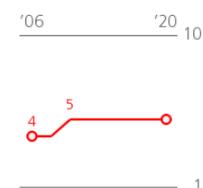


15 | Resource Efficiency

Since President Moreno took office, there has been a constant change of ministers (up to three in the same ministry in less than two years) that directly affects the efficient use of resources. In addition, the efforts made by the previous government to create institutions in order to strengthen the administration and the state are not being used properly because of the lack of economic resources or because the restructuring of the state apparatus left the administration empty of content.

Efficient use of assets

5



At the same time, a great effort has been made to develop infrastructure, which for the moment is being under-utilized; the government tries to make better use of it, but it is constrained by the lack of resources. The government points out that most of the 43,000 new labor contracts signed by the state were for employees in education and health care employees.

In addition to the over-dimensioning of infrastructures (many overpriced, like most of the buildings of the Courts of Justice), there is also the poor qualification of civil servants, especially outside large urban centers.

Regarding the budget, the president does not have much room to maneuver, since the country has a very serious problem with fiscal deficit that has to be solved by contracting public debt. The current priority of the government is to try to re-establish macroeconomic balances, unsuccessful so far. It must be taken into account that in order to develop the infrastructure, to expand the administration and the state, as described above, the previous government used almost all its revenue, which was abundant. In 2017, Ecuador's total reserves were only \$1.7 billion, the lowest in Latin America and the Caribbean. The comptroller general is responsible for public accounting, and he is also involved in deciding on the quality of expenditure or the efficacy of investments.

In order to facilitate coordination within the executive branch, the previous government launched a series of systems, such as regular meetings between the members of the executive. In addition, the government adopted a mechanism for coordination between different ministries and secretariats with the appointment of coordinating ministries. But, because of the restructuring of the administration in order to reduce public expenditure, many of these structures have lost their “raison d’être” or have disappeared and have not been replaced by any other mechanism. After these reforms, the administration is not clearly structured and its configuration does not enable efficient management in accordance with professional rationality criteria, since strategic positions are filled without the selection criteria being clear in most cases, because they are not people from the president’s party or leading figures in the management of their areas. After the rupture with the “correísta” wing, the government party lost much of its technocratic and political capital. Policy coordination implies having a government plan and, at the moment, it is not clear whether the government has one.

One of the great merits of Moreno’s government is to have promoted and facilitated the tasks of the Attorney General Office to investigate and prosecute irregularities and crimes perpetrated by high officials of the previous government. The investigations even reached former President Correa (investigated and with trials in process) and the former Vice-President Glas (in prison), as well as a series of ministers and lower level members of the executive. These actions have been tarnished by the constant accusations of those under investigation, who claim to be victims of political prosecution. There is a Technical Secretariat of Transparency and Fight against Corruption, whose secretary appointed by the Council of Citizen Participation and Social Control, which is responsible for processing allegations of corruption in the public sector that are subsequently judged by the justice system.

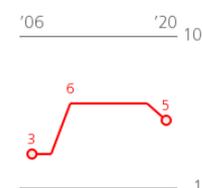
During the period under review, the transitory Judicial Council formed an anti-corruption bureau to detect and investigate alleged irregularities perpetrated by judicial bodies, both autonomous and auxiliary, in judicial proceedings.

Other bodies of control, such as the Comptroller or the Attorney General (in theory, independent from the executive) are in charge of supervising and controlling the use of public resources. However, despite their investigations against high officials of the previous government, the opposition and some social actors have questioned their work on the grounds that they carried out weak investigations and in many cases, they did not analyze the facts in depth.

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). However, there is no limit between elections. Anonymous and foreign contributions to party financing are prohibited. The electoral authority

Policy coordination

5



Anti-corruption policy

6



(Consejo Nacional Electoral, CNE) is in charge of monitoring and overseeing the financial transactions of political parties. However, this institution needs to be made stronger with respect to their jurisdiction and their resources, particularly regarding their power to review reports submitted by political parties. A provision is still lacking to make candidates and donors more accountable.

Due to the change of disposition in the new government and the end of prosecution against media, journalists are once again fulfilling their duty to investigate and report on cases of corruption.

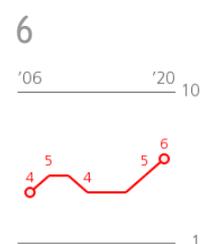
16 | Consensus-Building

Among political actors in Ecuador, there is a kind of formal compromise with democracy. Nevertheless, there seems to be a certain disagreement on what form of regime democracy should entail and what the rules of the game should be. One of the few clear objectives of the government of Lenin Moreno is to reduce the levels of political confrontation and authoritarianism of the previous government; it is precisely on this point where it is having its best successes. The president does not generate consensus or gain support, because he lacks his own political capital and became president thanks to the explicit support of the former president and his party. In the light of the struggle against corruption and the separation from his mentor, he has the opposition of a relevant sector of Ecuadorian society and a group of 30 deputies, which makes it difficult for him to achieve major agreements and set goals. In addition, there are sectors of the country still functioning with a Manichean and polarized logic encouraged fostered during the previous 10 years.

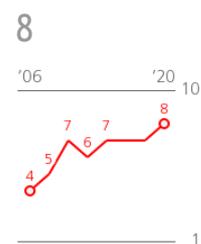
In spite of a series of changes in his economic messages, it seems that the president is firmly committed to promoting and strengthening the market economy; the initial doubts regarding Moreno's intentions were due to the fact that he ran for the presidency with an economic program that was a continuation of the interventionism and the criticism of capitalism of the previous government, and that reflects the position of some social sectors. In February 2019, Ecuador and the International Monetary Fund reached an arrangement under the IMF's Extended Fund Facility (EFF). Ecuador will receive financial support of about \$10 billion over the next three years.

There are no relevant actors openly anti-democratic or promoting an authoritarian regime. However, there are relevant sectors of society that are willing to give up freedoms in the name of government efficiency or order, as already seen with the high levels of acceptance of Correa's government despite his authoritarianism. In Ecuador, democratic rules and procedures are fragile and forms of political action that do not follow the rule of law are common. This can be observed in the high number of interruptions in the institutional order leading to former presidents Bucaram, Mahuad and Gutiérrez leaving office, which would seem to confirm the lack of a democratic vocation among the relevant political and social actors.

Consensus on goals

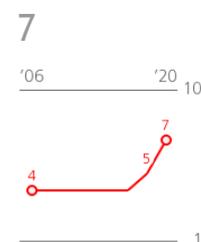


Anti-democratic actors



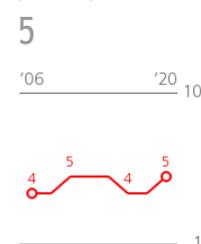
The most significant cleavage in the country is ethnic and it divides society between a white/mixed-race group and the indigenous peoples, a confrontation with a long history that has laid the foundations for a social structure based on a discriminatory system that transcends the social and economic spheres. There is also a difference between the various regions of the country, which translate into a confrontation between the coast (the tropical region bordering the Pacific) and the mountains (the Andean zone), but tensions have recently eased to a large extent due to a nationalizing discourse of the previous government. The government of Moreno eased tensions with the indigenous movement, but lately distance has grown due to the economic reforms adopted by the executive.

Cleavage / conflict management



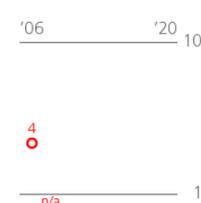
Participation of civil society is very limited. After a long period of de-mobilization, social organizations are strengthening again as a resistance to the adjustment measures that the president is taking or could take in the economic field. Indigenous organizations and public sector unions began to mobilize but their influence remains limited. Despite this situation, there is only limited dialog between civil society and political leaders, especially from the government. The difficulty lies above all in the president's limited room to negotiate his measures. Furthermore, many sectors of civil society employ an anti-system and anti-politics discourse.

Civil society participation



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

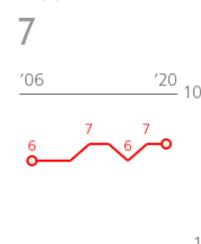
Reconciliation
n/a



17 | International Cooperation

The Moreno government intends to use international assistance for its own development agenda, but implementation tends to be hampered by a vaguely defined development agenda (see section 14.1). The government is in a period of transition and experience a changing of international allies, moving away from the Correa government's cooperation scheme built on the axis of UNASUR and ALBA, and from other powers challenging U.S. hegemony, such as China, Russia and Iran. The best sign of this is the rapprochement to the Pacific Alliance. The previous government broke ties with the multilateral credit agencies and distanced itself from the United States in order to get closer to China, the latter being a relationship maintained and fostered by Moreno's government. China is one of Ecuador's main lenders and creditors. Ecuador is an upper-middle income country and that is why it stopped receiving international development aid. According to the OECD, between 2016 and 2017 the country only received \$203 million. The scarce presence of

Effective use of support



multilateral credit organizations in Ecuador is reflected in the fact that, of the total, only \$5.8 million correspond to the IDB. This data shows that the U.N. Refugee Agency (UNHCR) is a primary contributor for international aid, because Ecuador is receiving more Colombian refugees, as well as Venezuelans who emigrate to Ecuador or use it as a transit country, although in a different way and to a lesser extent.

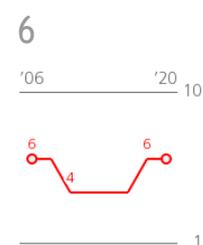
Moreno's government reestablished relations with the International Monetary Fund and other international organizations in which Ecuador seeks support and funding to implement a plan of macroeconomic reforms, mainly aiming at debt reduction and fiscal reforms. In February 2019 an agreement was signed with the IMF.

For the most part, the government acts as a credible and reliable partner. Ecuador has left aside its previous allies, such as the ALBA countries or the Bolivarian countries, to now act with a certain degree of independence, defending majoritarian positions within international organisms, as can be seen with respect to Ecuador's new position regarding Maduro's government in Venezuela. Ecuador has worked to create a crisis group for Venezuela and participates in the Lima Group that holds a very critical position against Maduro. Ecuador was part of the group of countries that first recognized the opposition government in Venezuela.

On the other hand, S&P lowered the sovereign debt rating from B to B- in June 2017. Despite the debt's low rating, the country's effort to pay the bonds interest within terms was rewarded with the sale of ten-year bonds for \$3,000 million at a rate of 7.87% in January 2018. According to the ministry of economy and finance, there was a demand of up to \$10,000 million for those bonds.

Another example of the change regarding international organizations is the observance of the September 2018 decision of the Permanent Court of Arbitration in The Hague, which ruled in favor of the oil company Chevron in its lawsuit against Ecuador. The Court declared Ecuador responsible for violating the Bilateral Investment Treaty when justice and fair and equal treatment was denied to the oil company because, during the lawsuit for contamination brought by indigenous communities in Ecuador, due process was not respected, and the 1995 Release of Liability Agreement was violated. According to that agreement, Ecuador assumed responsibility for possible environmental issues in oil fields through the state oil company Petroecuador. The decision implies that the Ecuadorian state takes charge of the \$9,500 million sanction imposed by the Ecuadorian Justice to the oil company, but the sentence does not establish the amount of the reparation to Chevron, which is still being negotiated.

Credibility



Relationships between the Ecuadorian government and its neighbors has improved greatly with the change of government, particularly with Colombia, a country with which relations were more tense due to ideological differences between Colombian presidents and the former President Correa and because of the unconditional support of the latter to Venezuela in its confrontation with Colombia. Furthermore, the confrontations between President Correa and the Organizations of American States because of the trials against him in the IACHR were overcome, and his desire to play a leading role in certain international scenarios disappeared with the end of his presidency. Ecuador's international relations have changed so much that now the country seeks to join the Pacific Alliance, an institution in which it already has observer status.

Relationships with neighbor countries face two main challenges. On the one hand, Ecuador is the largest host country of Colombian citizens displaced by the different conflicts in their country. When the return programs for displaced people are implemented, it is hoped that collaboration between the two countries will be close. The relationship with Colombia is fully in tune as was shown by the two governments' collaboration regarding the assassination of Ecuadorian journalists by dissidents of the FARC. The second challenge is the Venezuelan immigrants expelled by the political and economic crisis in their country. Ecuador is mainly a transit country to Peru and Chile, but many immigrants who run out of money stay in the country attracted by the possibility of obtaining income in dollars. This is a migratory process with tensions with the local population that cannot be dealt with properly between governments because the relations between the two countries are strained and because Maduro's government does not recognize the departure of population from the country as an effect of his measures.

Regional cooperation



Strategic Outlook

The future scenario for Ecuador is very uncertain, both in the economic and political spheres. Regarding the former, the waste of revenues obtained during the commodity boom left the country without resources for the crisis period, since the former president thought that keeping reserves was, above all, a mechanism to favor financial capital. However, the problem worsened due to the fact that the previous government left a very inflated public expenditure structure and accounts to be paid (international credits and debts by lawsuits) that jeopardize the future of the country. The government is making efforts to improve the macroeconomy, but it has no real alternatives to improve the capacity to generate revenues due to dependence on oil and dollarization. An added pressure is the need of resources to meet foreign debt payments. A point that goes beyond any technical proposal to be adopted has to do with the difficulties of President Moreno in making decisions. It has been seen that he immediately retracts his decisions when they are not very popular. This behavior is very harmful in front of economic actors, because it generates uncertainty and nervousness. It should be noted that measures such as the elimination of fuel subsidies are already generating social conflict.

In order to understand the political situation, it will be necessary to wait until the municipal elections in March 2019, because it will be possible to measure the strength of *correísmo* and its capacity to mobilize society against a president they consider a traitor. They will also draw the scenario of political forces for the next presidential elections. It is a very open and unforeseen scenario whose explicative variable will be the number of votes obtained by the *correísmo*, since that would measure the real impact and rejection generated among voters by the corruption cases.

There are two extreme scenarios that have to be considered, which would completely change the political scenario and would generate a lot of uncertainty in the country. One would be the resignation of the president if his physical problems worsen; in this case, the vice-president would be appointed, a person with no experience in politics or management and who has problems of legitimacy because he is the third vice-president in two years. The first, Jorge Glas, is in prison. The second one resigned when it became public how she required his collaborators to give her part of their wages. The second scenario would be an electoral advance applying the institutional mechanism contemplated by the constitution that can be activated by both the president and the Congress with qualified majority. It is a scenario to consider if the confrontation between powers increases.

However, it is more likely that this is a transitional government and, during the next two years, it will devote itself to weathering the storm and implementing economic policies in the best way possible, but no major transformations are to be expected.