

BTI 2014 | Ecuador Country Report

	scale	score	rank	trend
Status Index	1-10	5.62	# 65 of 129	
Political Transformation	1-10	5.70	# 66 of 129	➔
Economic Transformation	1-10	5.54	# 65 of 129	➔
Management Index	1-10	4.57	# 79 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	15.5	HDI	0.724	GDP p.c.	\$	9796.0
Pop. growth ¹	% p.a.	1.6	HDI rank of 187	89	Gini Index		49.3
Life expectancy	years	75.9	UN Education Index	0.679	Poverty ³	%	10.6
Urban population	%	68.0	Gender inequality ²	0.442	Aid per capita	\$	10.4

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Over the last two years, President Rafael Correa continued with the transformation of Ecuador's political and economic landscape. In power since 2007, and re-elected with about 75% of the votes in February 2013, Correa has put in place a series of radical institutional reforms involving both the political and economic structure of the country. These changes have occurred alongside a shift in both the ideology of the political class and the nation's system of political representation. Notably, the ideology of those in power is now marked by a challenge to both liberal democracy and the market economy.

Correa's style of leadership falls within the tradition of classic Latin American populism, centered on a charismatic leader, a Manichean vision and moralistic politics. While he has been in power for many years now – and he has arguably consolidated more power in his hands than any leader in Ecuador's history – Correa's approval ratings are relatively high. In the 2013 elections, his party Movimiento Alianza PAIS won 100 out of 137 seats in parliament obtaining a near three-quarters majority with 73%. This will give the president considerable leeway to continue with his reform policies.

Since 2007 when Correa took office for the first time, democratic quality declined somewhat, above all concerning political rights and specifically freedom of expression – a trend continued during the period under review. Nevertheless, Ecuador is still classified as a (highly defective) democracy. Concerning economic transformation, the country continues to generate significant revenue from oil exports, which has allowed the government to make large investments in infrastructure and to redistribute wealth through increased public sector wages and subsidies. One of the merits of the government is its reliance on a series of public policy strategies – some more successful than others – and its concern for social issues such as education and health. Indeed, during the period under review, Ecuador saw some progress concerning its socioeconomic development with regard to improvements in inequality. These relative successes are – perhaps somewhat surprisingly at first glance – also reflected in a slightly improved transformation

management since the BTI 2012. Overall, Correa's administration has managed to usher in considerable improvements in comparison to his predecessors.

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 upon the basis of an agreement between civil reformers and sectors within the military intent on more openness. Transition suffered because powerful conservative, liberal and other sectors of society were opposed to transition and were therefore excluded from influencing future policies.

The political alliances that subsequently formed civil governments also proved too weak to integrate the opponents of transition into the new political order. This group, which excluded itself from the process of democratization, nevertheless continued to be influential and even won the presidency five years after the transition process had begun. From this position they attempted to undermine one of the essential agreements of the transition, that is, political participation through parties, by anchoring political participation through so-called Independientes (independents) in the constitution.

The political elite generally lacked widespread appreciation for the democratization process and its rules of the game, which some political actors did not regard as their own. Transition therefore failed to reach a consensus on the mechanisms of the allocation and distribution of political power; this in turn restricted the consolidation, legitimacy and durability of the democratic model. Since transition, inconsistencies have developed between political participation and representation: while the parties held a monopoly over political participation, they failed to anchor themselves in society in a manner that would have enabled them to fulfill the function of representation. They therefore lost legitimacy rapidly.

The Ecuadorian process of democratization took place against the background of a long and profound economic crisis that further impoverished vast sectors of the population rather than alleviating poverty. The consequence was a de-legitimization of the democratic model which thus lost legitimacy 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 reduction in material resources, human and power resources, while the state increasingly lost control over these assets.

Furthermore, the economic crisis brought international financial organizations onto the national political scene in the form of political actors participating in political events in accordance with specific preconditions; there was practically no space for discussing or questioning their conditions or decisions. This by no means fortified the legitimacy of the democratic model. Twenty five years after the formal transition to democracy, the population's illusions have given way to mistrust toward the democratic system.

The cycle of political crises in the past eight years began in February 1997, with the resignation of President Abdalá Bucaram, whom parliament and pressure groups forced out of office. Then National Congress President Fabián Alarcón succeeded him, albeit via marginally constitutional proceedings in which political actors ignored official procedure. Political stability seemed to have returned with the adoption of a new constitution and the assumption of office of President Jamil Mahuad in August 1998. After a few months, however, the 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 and finally a coup d'état on 21 February 2000. In order to preserve the institutional continuity of democracy to some extent, the relevant political parties and actors agreed on the nomination of Vice-President Gustavo Noboa for the office of president; Noboa held office until Lucio Gutiérrez took over the presidency in January 2003 as leader of a leftist, anti-neoliberal alliance. Gutiérrez had played a central role in the coup against his predecessor Mahuad. After assuming the presidency, he soon alienated his allies from the left, the unions and the indigenous movements. Protests grew after Gutierrez dismissed the Supreme Court in December 2004. The president sought to calm protesters by dismissing the new Supreme Court in April 2005, but he was ousted that same month and Vice President Alfredo Palacio assumed the presidency. In 2006, charismatic former finance minister Rafael Correa won the presidential elections and soon began pressing Congress to authorize a referendum calling for a constituent assembly to write a new constitution. After acrimonious conflicts between Correa and the legislature, a constituent assembly was elected. The new constitution was adopted in September 2008, which triggered new elections in April 2009. Correa won a new four-year term, his party PAIS captured 59 of 124 seats in the new National Assembly.

As in most other South American countries, the transformation of Ecuador's market economy involved abandoning the traditional model of development that had been so typical in Latin America from the 1930s onwards. This model consisted of industrialization by substituting imports. This meant that market-based structures did exist during the transition to democracy, but the domestic market was relatively isolated and over-regulated with a wide-reaching public sector. In Ecuador, this was partly a result of the early 1970s oil boom under military rule that was not channeled into a consistent and sustainable economic policy. Instead, the military's outdated development plans not only brought about increasing macroeconomic imbalance within Ecuador; they also resulted in growing budgetary deficits and an explosion in state and private debt.

The debt crisis of the early 1980s revealed the frailty of this development model. In the ten years that followed, the governments of Hurtado, Febres, Cordero and Borja made a great effort to stabilize the Ecuadorian economy with varying and altogether very little success. Measures taken in economic policy were, however, increasingly determined by IMF alignment requirements. Even under the somewhat chaotic governments of the 1990s, no fundamental stability was achieved.

In 1998-2000, these developments resulted in Ecuador's worst economic crisis of the 20th century. Although triggered by a combination of factors, the Ecuadorian economy was already crisis-prone by the mid-1990s. Poor decisions in economic policy-making and various negative external influences (e.g., El Niño floods in late 1997 that affected the agriculture of coastal regions in particular; the retreat of investors and creditors from Ecuador during the crises in Asia, Russia and

Brazil in 1998/1999; a severe drop in oil prices on the international market in 1998, which led to a drop in export revenue) exacerbated the difficult situation.

The liberalization of the Ecuadorian financial market also led to a prolonged financial crisis that began in the mid-1990s. The dependency on the export of primary goods and on few price volatile products in particular makes Ecuador more prone to external influences. Until late 1999, the Ecuadorian economy recorded a 7% reduction in GDP but was able to recover in the years that followed. However, even after this deep crisis, fundamental reforms of the market economy were not undertaken. President Mahuad's introduction of the dollar as the national currency in 2000 marked the only milestone. Although this step helped to lower inflation, it was also one of the reasons for Mahuad's removal.

The political and economic crisis of the 1990s finally prepared the scene for the ascendancy of Rafael Correa. His election in 2006 evoked widespread hopes for a radical change and an end of the "long night of neoliberalism." He strengthened the state and expanded support for poor households. It is still unclear, however, if Correa brings about a real new model of development or if he simply follows the familiar patterns of traditional caudillism and economic nationalism.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

In Ecuador, there are few threats to the state's monopoly on the use of force. The state has a presence throughout the country, albeit an uneven one, and there are few, if any, groups that challenge the state's monopoly over its territory in a permanent, systemic and organized manner. Separatist/pro-independence groups, guerillas, terrorist groups or large-scale organized crime are virtually non-existent. Rafael Correa's government has been making a systemic effort to increase the presence of the state and its institutions throughout the entire country. In keeping with the growth of state power, the government is not very forgiving of violent protests or attempts at "vigilante justice" – acts that were formerly more common. The most contentious area is the country's northern border because it borders a conflict zone in Colombia, where there are problems with drug trafficking and guerrilla activity.

Monopoly on the
use of force
8

At the beginning of the review period, some organizations with radical approaches to indigenous rights, an approach known as "multi-nationalism," remained active. These groups advocated for different indigenous groups to be allowed full autonomy from the government. With the passage of time, however, these groups have lost almost all of their social and political influence.

State identity
8

Nationalism is one of the guiding principles of Correa's administration and he has aimed at strengthening the idea of Ecuador as a solid and united nation-state, worthy of its citizens' pride. However, the concepts of nation and citizenship do not always evoke a shared discursive framework in which consensus can be cultivated. On the contrary, the connotation of the concepts of nation and citizenship has been exclusive and the nation has become more socially and politically polarized. The problems of exclusion and marginalization are more de facto than de jure, however. That is, the lack of recognition of equal rights is generated more by ethno-social structures and the economic dynamics of the country than by official policies that have been put in place by state institutions.

Despite the strong influence of the Catholic Church in the country and on its people, religion has not been a contentious issue. Since the beginning of the 20th century, there has been freedom of religion and the separation of church and state. Though President Correa makes constant professions of his faith during public events (he defines himself as a practicing Catholic), the Catholic Church participates little in politics. In addition, the president defines himself as a supporter of “liberation theology,” and in this sense, tends to be suspicious of the church hierarchy. Essentially, the secularity of the state is not affected directly by legal issues or excessive pressure from the Catholic Church. The problem is that the dogmas of the Catholic Church, which are also part of society, serve as the basis for all decisions of a general nature.

No interference of religious dogmas
9

Public administration is one of the areas in which the PAIS government has been quite successful, thanks to an increase in the size of the public sector. The growth of the public sector has been made possible by higher oil prices, which has translated into an increase in government revenue. The amount of resources available, combined with political will, has resulted in a marked improvement in the state’s role as a provider of services. There have been two major areas of investment: road construction and power generation. The Coca Coda Sinclair Hydroelectric Project stands out as a highlight of government’s infrastructure projects.

Basic administration
7

The basic structure of Ecuador’s public administration is present everywhere in the country (with some concentration in urban areas). One weakness, however, is that the majority of professionals in the public sector lack sufficient training. The government is making efforts to improve training, though, and is also incorporating more merit-based criteria into its recruitment process. Another problem in the government’s administration is the high turnover rate and, therefore, a lack of continuity in leadership. Corruption also continues to plague the public sector and the government has not established effective measures to stem the problem.

2 | Political Participation

There are no major legal restrictions on electoral freedom in Ecuador. In accordance with a provision in the 2008 constitution, the electoral authorities began a process of re-registration of political parties and movements to create a register of organizations accredited to participate in the 2013 elections. According to the provision, political parties must have a certain number of signatures, the number of which depends on the type of election (national, local or provincial) in which the movement or party wants to participate. For example, participation in national elections requires approximately 158,000 signatures. Twelve political organizations obtained the signatures, which allowed them to present candidates in all types of elections.

Free and fair elections
6

The current members of the National Electoral Council (NEC), the highest body of electoral administration, have been challenged since their appointments. During the meeting in which the members took office, the opposition walked out of the National Assembly and left the room without quorum. They were questioning the neutrality of the president of the council because of his involvement in partisan actions, as he was known to pay homage to certain prominent politicians from the ruling party.

The NEC also became controversial while it was in the process of recognizing new political parties and movements. Not only did the electronic system used to recognize signatures malfunction, but when complaints were issued to the council that falsification of signatures had occurred on a massive scale, the council appeared unable to manage and address the complaints. The council also failed to efficiently and independently manage public funds. In fact, funds were even used for partisan purposes, including, for example, to spread propaganda and to attack the ruling party's political opponents. If a media source offers any kind of critical opinion, it can face fines.

Following changes to electoral legislation in 2012, press freedom during elections has been seriously curtailed, as the media is facing serious limitations to carrying out their work during political campaigns. The changes prohibit the media from disseminating messages or reporting that could favor or detract from a "political thesis," candidate, or electoral preference.

According to the 2013 World Report by Human Rights Watch, the 2012 reforms of electoral laws, which were driven by Correa, have undercut freedom of the press "by subjecting journalists and media figures to public denunciation and retaliatory litigation." The report notes that electoral authorities are given disciplinary powers to censor any media that violates the prohibition. The report also notes that the Constitutional Court supported the ban on media "directly or indirectly" promoting a candidate or party.

Also, it should be mentioned that the reforms included a process of redistricting and a change in the way parliamentary seats are allocated that clearly benefits the ruling party, which now has a majority in all the districts.

Taking the above into account, the ruling party has a clear advantage during political campaigns. The party is able to access government funds on political advertising, making campaigning less competitive and less fair. At the same time, Ecuador has rather strict and punitive laws on election spending, which serves to limit the influence of opposition parties. On the February 17 general elections took place and the campaigns were carried out without major problems, in large part due to the enormous advantage of President Correa and of other PAIS candidates.

In Ecuador there are no non-elected individuals or groups that oversee elected authorities, allowing President Correa to consolidate more and more power. Over the past few years, power has become increasingly concentrated in the executive, that is, with President Correa, while other elected authorities, such as members of the National Assembly and local government officials, are restricted from fully carrying out their roles when the position they defend is not the same as the president's. The president has shown his clear disapproval of actions of the legislature, even going so far as to send letters of complaint to the president of the National Assembly.

Effective power to govern

8

Rights of both assembly and association are guaranteed and there are no serious legal threats to their existence. However, the government is cracking down on groups that assemble without proper legal authorization or that are carrying out activities viewed by the government as potentially destabilizing. According to the 2013 Human Rights Watch report on Ecuador, prosecutors have repeatedly applied a "terrorism and sabotage" provision of the criminal code against participants engaged in public protests against environmental and other issues since Correa took office in 2007.

Association / assembly rights

8

Between 2011 and 2013 the government has increasingly charged groups and individuals with terrorism for carrying out radical actions against the government, many of which have resulted in violence. As a result, many indigenous leaders have been charged with terrorism. Along the same lines, but even more significant, are the charges of terrorism that are pending against a group of young men belonging to a radical leftist group, known as Luluncoto 10. The prosecution's evidence is very weak and many of the accusations have not been proven. Though charges of this kind have often later been dropped or lessened, people engaged in public protest continue to face the risk of prosecution for "terrorism."

Freedom of expression is one of the rights that has been most weakened in the past few years, and President Correa has maintained an openly combative relationship with the media.

Freedom of expression

5

Referring to his conflicts with Ecuador's private media, Correa declared in an interview with Spain's daily newspaper El País in December 2012 that these media had developed as a too powerful political actors even trying to make or overthrow presidents and disregarding journalistic principles. While advocating the freedom of expression, Correa doubts that the private media would be appropriate to reach this end and instead has proposed the expansion of public non-profit media, or even to make the right to information a state function like the judiciary. The idea of converting information dissemination into a public good safeguarded by the state has been defended by the government in various international forums.

In this vein, the Inter American Press Association (Sociedad Interamericana de Prensa, SIP) states in its 2012 report the government has increasingly restricted

freedom of expression by intimidations and verbal aggressions against those who express opposing opinions.

In a 2012 report, the Ecuadorian organization Fundamedios identified several ways in which the government is censoring and hampering the media's work, namely through the threat of prosecution, media shut-downs, the increase in stigmatizing discourse, and prosecuting journalists for crimes of opinion. Faced with accusations regarding the criminalization of opinion and the curtailing of freedom of expression, President Correa said in a speech on December 29, 2012, that in Ecuador, "one is only brought to court for crimes, such as defamation or attacking another's honor. He has mentioned at other times that if a media house stops publishing or broadcasting "slanderous" information, then the government will cease court proceedings. According to Fundamedios, in 2011 there were 156 attacks on freedom of speech, rising even by about 10% to 173 in 2012. Among the cases Fundamedios mentioned is, for example, fining El Universo US\$40 million and sentencing editor Emilio Palacio and directors Carlos, Andres and Nicolás Pérez to three years of imprisonment.

The situation of freedom of press and opinion in Ecuador was denounced by journalist groups before the Inter-American Commission on Human Rights (IACHR), an agency of the Organization of American States (OAS). Following the denunciation, the government was initially conciliatory, but then went on the offensive, attacking journalists who lodged the complaints and attempting to de-legitimize the IACHR. The government went so far as to propose reforming the IACHR or creating a different organization that "takes into account regional characteristics." Countries such as Brazil and Argentina supported Correa in his proposal for a reform of the system of human rights monitoring in Latin America.

At present, the government owns a newspaper and two television stations, which it attained during a debt settlement agreement with the former owners of the media houses. Initially, the government said it would sell the television stations, but their position changed and the state has kept them under direct control. Apart from state-run media, another mechanism used by the government to influence public opinion includes the excessive use of a provision that was originally designed to be used in cases of national emergency or to communicate matters of great importance. The provision allows the government to link all radio and television channels to the so-called national chains. However, the government has used the provision to respond to information that it deems unfavorable and to issue pro-government propaganda. According to Fundamedios, the government has made at least 1,365 "links" to privately-owned media between January 2007 and August 2012.

3 | Rule of Law

While Ecuador maintains an official policy of the separation of powers, President Rafael Correa has developed a series of strategies to control the other branches of government outside of the executive. He maintains control by placing people in power from his political party or who are political allies. The president's far-reach has also become apparent in clashes with the National Assembly, in which his party has a majority, when members make minor changes to a bill proposed by the president in order to come to a broader consensus.

Separation of
powers
4

When such situations occur, Correa often resorts to a series of maneuvers, such as media campaigns in which the assembly members or the National Assembly as a whole are portrayed as blocking and hindering the work of the president. In addition, he uses his right of veto to try to force the law to be revised on his terms.

President Correa has written at least two letters to the President of the National Assembly to protest what he considers abuses of the assembly, related to auditing and political control.

In a speech on January 22, 2011, the president summarized his vision of the separation of powers: "This theory of the balances, power against power, and so on, often times immobilizes, especially when these things are misunderstood- and that's when you already have a system that works and is manageable. Here the system is changing and we need instruments for this change, and they block us, they block us, they block us. The Ecuadorian people voted for a real change. The old country is on its way out."

President Correa has always been critical of the role of Congress and other branches of government, as his conception of government is that the legislative and judiciary branches are subject to the executive. In the 2008 constitution, an institution called the Council of Citizen Participation was established in order to guarantee independence in the nomination of supervisory authorities. However, the power of this council has been weakened, evident in nomination of pro-ruling party candidates to the National Electoral Council and the Constitutional Court.

Correa's populist style and his strategy to legitimize his power are incompatible with the liberal principle of the separation of powers. Rather, it invokes a Rousseau-like ideology of democracy with an indivisible will, which the president embodies and represents.

During the period of study, the president proposed judicial reforms to modify the Judicial Council, the body responsible for the selection, promotion, and dismissal of judges. Voters in a May 2011 referendum approved a proposal to dissolve the council. The council was replaced by a transitional body which dismissed scores of judges in

Independent
judiciary
4

August and September 2011, and the future independence of the council was widely questioned. The newly formed National Judicial Council is now overwhelmingly dominated by members of the ruling party. For example, the new president of the council is Gustavo Jalkh, Correa's former private secretary and a former minister. Néstor Arbito, nominated by the Office of the Ombudsman, was minister of justice, and Ana Karina Peralta, nominated by the assembly, is former deputy minister of justice, both during the current government. Paulo Rodriguez, nominated by the executive, is the former president of the Judicial Council.

Veeduría Internacional (International Oversight), a group chaired by former Spanish judge Baltazar Garzón, noted irregularities during the process of selecting several judges who were appointed as part of the restructuring process of the courts.

There have been several court cases in which the defense has denounced the actions of the judges, claiming they were bending to government pressure, such as in the case of "Chucky Seven," which is discussed in section 2.4., in the COFIEC case, in the case of Colonel Carrión and in the case of the Luluncoto 10.

Apart from the pro-government bias displayed in the ruling by Judge Paredes in the case against El Universo, there were also implications for those who criticized the ruling. For example, Judge María Leonor Jiménez, the former president of the court of Guayas, was removed from the interim Judicial Council for saying in an interview with daily newspaper Hoy de Quito, that the El Universo case exemplified "rulings of politically opportunistic judges," in allusion to the judges' lack of independence.

In a 2013 report, Human Rights Watch said the following about the state of judicial independence in Ecuador: "Corruption, inefficiency, and political influence have plagued Ecuador's judiciary for years. Despite a judicial reform program that the Correa administration initiated in 2011, political influence in the appointment and conduct of judges remains a serious problem."

One of the mistakes of Correa's government has been failing to investigate from the outset allegations of corruption, which have been exposed by the opposition and the media. The allegations, many of which were later proven to be true, are regularly dismissed by the government simply as slander. They behave as if recognizing problems in the regime would weaken the government as a whole.

The most notorious case was that of the president of the central bank who not only mismanaged the financial resources of the country, but had falsified his university degree.

When the allegations emerged, the government denied the allegations could be true and even reached out to the accused to offer sympathy. When it was later demonstrated without a doubt that the allegations were, in fact, correct, they began to take action against those responsible. Such is the government's typical pattern, which

has been repeated in other allegations of misdoing, which demonstrates a double standard in who the government holds accountable. .

However, the clearest example of abuse of authority have been committed by the Communications Secretariat, who often interrupts media programming to refute the veracity of statements made by the media.

It is interesting that Correa promotes prosecuting cases of corruption in his discourse, but for him, the greatest corruption comes from the media, which, he alleges, does not tell the truth and takes advantage of its position to obtain economic and political gains.

From a legal point of view, offering or accepting bribes is illegal and punishable by a prison sentence of up to five years. However, the delivery of bribes or kickbacks in recruitment to the public sector is widely documented. Formal complaints are rarely lodged, as people fail to recognize this practice is a real problem.

The Comptroller is responsible for the supervision of public funds. There are frequent investigations and judicial proceedings as a result of mismanagement at the Comptroller's office, but it is generally only low-ranking officials who are sanctioned for misuse of funds, s they are unable to properly demonstrate how money was used. In these cases, the amount of money being investigated is generally quite small, as the officials investigated lack the authority to move large amounts of money.

Some investigations on corruption are politically motivated, as government officials and candidates running for public office often make allegations of corruption, even if they have little evidence. There is generally little follow-up on corruption allegations. Such investigations often stall after be referred to the courts since the trials are lengthy and often inconclusive.

In Ecuador there is no history of massive human rights violations such as those that have occurred in other countries in Latin America. There are, however, frequent abuses by authority figures, particularly rights violations by the police when taking statements from detainees, and during "anti-delinquent" operations. Arbitrary actions such as these have risen since Correa's government took power and they have set a bad precedent. For example, the president or his security officers have ordered people to be arrested for "offending the majesty of the Head of State," due to insults, slander or obscene gestures – an offense that was introduced in legislation during one of the periods of dictatorship. Not only does this allegation violate freedom of speech, but the cases can be processed summarily through what Correa calls "procedure." If the person apologizes, Correa may issue a pardon, but the case never goes to trial. Ultimately, this "procedure" is very serious as it makes the president judge and violates due process.

President Correa and other powerful members of government have also joined hands to criticize the Inter-American Commission on Human Rights that has issued critical opinions of Correa's administration. The government argues that the IACHR is not genuinely autonomous and asserts that the ideals of the institution are compromised by U.S. interests, as the organization is headquartered in the U.S.

4 | Stability of Democratic Institutions

While the country has formal democratic structures, they are not utilized to resolve political conflicts, nor are they respected by political actors. The political situation in the country seems more and more like the old populist system in which the leader connects with the people (or "the fatherland," as Correa says in his speeches) and receives the constant support of the "fatherland" through ongoing elections. It's a system in which power is concentrated with the president, and where institutions of liberal democracy the rule of law are seen as barriers for achieving national goals. Although most of the actors pursue their interests through formal institutions, it is common to also use informal avenues to exercise influence.

Performance of
democratic
institutions

4

The independence and effectiveness of democratic institutions is undermined by Correa's aims to play the role of the populist president. He has created a form of government in which society is polarized in a Manichean fashion. In essence, he has used democratic institutions to access the power and once there, he either delegitimizes the institutions or reforms any aspects of them that limit his power.

Funding for Ecuador's democratic institutions is very weak. Democracy as system has not been solidified in the country and has been experiencing a strong crisis since the mid-1990s. The situation was exacerbated by the economic crisis. This has created an enabling environment for the political transformation led by Correa, as laid out in "performance of democratic institutions."

Commitment to
democratic
institutions

5

It is important to remember that the president and the majority of the members of the government are openly critical of liberal democracy and the market economy, and are in favor of testing out different political structures, most notably what they call "new models of democracy," though it is not very clear what exactly that is.

Latinobarómetro 2011 noted that, in Ecuador, most citizens believe that without legislative power, democracy can still exist. Only 40% of the respondents in this country are in agreement with the statement: "without Congress there can be no democracy," while the average in the region, of those who agreed with the statement, is 59%. The same data show that 61% of the Ecuadorian people think democracy is preferable to any other form of government, while the average in the region is 58%.

The most relevant figure, however, is that 23% of respondents believe that in some circumstances an authoritarian government may be preferable to a democratic one,

which is 6% higher than the regional average, and only less than Honduras (27%) and Paraguay (25%). It should be noted, however, that since Correa's government came into power, the majority of citizens feel satisfied with the state of democracy, which may be related to the high approval ratings of the government (ca. 60%) and the tendency to confuse government, in general, with the current regime.

5 | Political and Social Integration

Presidential and parliamentary elections were held in February 2013 with a voter turnout of 80.2%. As was expected, the new electoral system maximized the supremacy of the ruling party, PAIS. The new system for registering political parties marks a new phase in the operation of the system of Ecuadorian politics. With 12 political organizations having obtained the right to present candidates in all kinds of elections, it was expected that the parties would stabilize and give way to a system of political parties that solidifies the supremacy of the ruling PAIS. With 52% of the electorate's support, PAIS won 100 out of 137 seats in parliament, or a near three-quarters majority (73%). The remaining 27% of seats were distributed among seven of the remaining 11 parties, with 3 seats won by independent or regional candidates. The effective number of parties (according to the Laakso-Taagepera index) declined to a mere 1.8 ENP, down from 5.8 ENP in 2006.

The transformations that have taken place in the party system are the best reflection of changes that have been occurring in the country since Rafael Correa took power. The system of political representation that worked, with some variability, since the transition, has virtually disappeared. Such a radical shift was made possible by the negative perception that most Ecuadorian citizens have of political parties. According to the 2007 report of the Latinobarómetro Corporation, only 8% of Ecuadorians (the lowest value of all of Latin America) demonstrate much or any confidence in political parties. Similar perceptions were published in the 2011 report. When Ecuadorians are asked if they agree with the following statement: "without political parties, you can't have democracy," only 40% agreed, less than any other country surveyed from Latin America, where the average was 58%.

During the review period, the government continued to attack what it calls the "partitocracy," an umbrella term that brings together political parties and traditional elites, accusing them of being responsible for the economic, political and social crisis in Ecuador. One of the most relevant issues of the new electoral system is the ever-increasing "confusion" between the affairs of party and the affairs of government. In Ecuador, the model being imposed is quite similar to Mexico during the era of PRI hegemony.

The Ecuadorian system of interest mediation is characterized by serious distortions. While until recently a few actors, especially the indigenous organization CONAIE,

Party system
4

Interest groups
4

exerted disproportionate influence, frequently reaching the point of extortion, many social groups remained unrepresented due to an underdeveloped civil society. Public interest groups have become less and less influential during the review period, mainly as a result of the increasing power of the state. Business organizations have also lost the role that they previously had. The CONAIE, a social organization which also functions as a public interest group, has lost its ability to draw power and fails to connect with the base as it did before. When CONAIE's leadership has attempted to mobilize the masses, the government has hindered their efforts, and as a result, they have had very little impact. Organizations such as the Association of Newspaper Publishers and the Union of Journalists have tried a series of actions to defend themselves from government attacks, but public support was very low and the government receptiveness practically non-existent.

Assessing "citizens' approval of democratic norms and procedures" in a country such as Ecuador is complex because the data shows two contradictory trends. On the one hand, the citizens show modest support for democratic institutions and the regime as a whole (see "commitment to democratic institutions" and "party system"). On the other hand, they show a great amount of satisfaction regarding issues related to the way in which democracy currently functions in the country. For example, 29% of the respondents in the Latinobarómetro 2011 indicate that democracy is improving, which puts the country in a group in which citizens have a positive outlook about their system of government.

Approval of
democracy
5

Ecuadorians respond similarly when asked about their degree of satisfaction with the way in which democracy operates. Again, Ecuadorians have a positive attitude that is reflected in the fact that 49% of respondents said they were satisfied or very satisfied (39% is the regional average) with the way in which democracy operates. There are two possible explanations to this apparent contradiction. On the one hand, it could be that citizens confound their view of the operations of the political regime with the performance of the government. On the other hand, this viewpoint could be a result of propaganda from the government, as Correa portrays his administration as one that is transforming the country into a true democracy, and he portrays previous regimes as non-democracies.

In the Latinobarómetro survey of 2011, the following question was asked to measure interpersonal trust: "Generally speaking, would you say that you can trust most people, or that one can never be too careful when dealing with others?" 24% of the respondents in Ecuador said "you can trust most people," which is just slightly above the regional average of 22%. It is well-known, though, that for interpersonal trust to transfer into social capital, you need an enabling environment in which organizations and associations are inclusive and not influenced by corporate interests. In Ecuador, such social cohesion is challenged by the prevailing influence of traditional

Social capital
5

structures, which are founded in principles of exclusion and differentiation between groups.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Ecuador is doing well on several indicators of human development, and the country has risen in rank on the United Nations Development Programme's Human Development Index. Ecuador is now placed at the 83rd position. In the 2011 report, the global index was 0,720 (a country with high human development has an index of ≥ 0.698), which was better than 2010 (0.695). Poverty levels have declined, according to data from the National Institute of Statistics and Censuses: in 2010, 38.3% of Ecuadorians were living in poverty (as measured by indirect methods or consumption data) while the percentage of poverty in December 2011 was 28.6% (measured as income per capita less than \$2.47 a day). One of the defining characteristics of poverty in the country is the fact that it focuses on rural areas and affects women and the indigenous population with greater intensity. The Gender Inequality Index of UNDP (0,469) shows that the situation of women is quite uneven if compared with countries with the same socioeconomic characteristics. Looking at the Gini coefficient provided by the World Bank as an indicator, we can see that the levels of inequality between Ecuadorians has increased between 2006 and 2010 from 0.46 to 0.49.

Socioeconomic
barriers

5

Poverty in urban areas has declined substantially over the past years, from 63.5% in 1999 to 32.4% in 2011. In the same period, inequality in urban areas measured by the Gini coefficient has declined from 0.53 to 0.43. There have been improvements in health care, education (through stipend programs) and labor (through minimum wages) indicating an overall improvement of the social situation. The literacy rate in 2011 was 91.9% for persons over the age of 15, and greater for women, at 93.3%, compared to men, of whom 90.5% were literate.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	62519.7	67513.7	76769.7	84039.9
GDP growth	%	0.6	3.0	7.8	5.1
Inflation (CPI)	%	5.2	3.6	4.5	5.1
Unemployment	%	6.5	5.0	4.2	-
Foreign direct investment	% of GDP	0.5	0.2	0.8	-
Export growth	%	-4.8	2.5	5.1	2.9
Import growth	%	-9.9	16.7	4.1	1.0
Current account balance	\$ M	136.1	-1635.7	-238.5	-
Public debt	% of GDP	17.7	20.9	19.9	18.6
External debt	\$ M	13263.5	14962.6	16496.6	-
Total debt service	\$ M	4788.2	1785.1	2407.5	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	13.7	13.4	12.9	13.5
Public expnd. on edu.	% of GDP	-	4.9	5.2	-
Public expnd. on health	% of GDP	3.1	3.2	3.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	3.1	3.1	3.2	2.8

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

The government has a political and economic project that openly criticizes the market economy and promotes a model it calls “21st century socialism” that, without excluding the private sector, promotes the active intervention of a strong state in society and the economy and clearly favors the creation and strengthening of public companies. The considerable state intervention in sectors the government regards as strategically important is clearly a case of discrimination based on ownership. Market competition operates under a weak institutional framework, with uneven rules for market participants. The informal sector has a strong presence, as does the “bazaar economy.” The government has created a normative framework to protect these

Market-based
competition

4

practices. The informal economy is protected by the constitution as a mechanism for guaranteeing the right to work.

In 2000, following a severe financial crisis, Ecuador adopted the U.S. dollar as its official currency. Price controls and benchmark prices are repeatedly used to intervene in the markets, especially for food items. There is freedom to launch and withdraw investments at least in the sectors open to private investment. Foreign investors are not discriminated against and may remit 100% of net profits and capital, subject to a 5% tax since 2011. However, the government has also deterred foreign investment with the repudiation of guarantees, frequent changes to taxes and hostility to banks. Foreign investment in “strategic” sectors such as media is restricted.

A major problem consists in the large share of informal employment. According to labor market data provided in December 2012 by the National Institute of Statistics and Census of Ecuador, the unemployment rate was 4.1%; the full-time employment rate was 42.8%, and the rate of underemployment was 50.9%. Increased government revenue has helped buoy the economy, enabling the creation of a massive number of jobs in the public sector, as well subsidies on public goods. However, this new economic structure is not founded on a sustainable production model.

This new economic system is not consistent with the belief system of most Ecuadorians. In the Latinobarómetro survey of 2011, 63% of respondents either agreed or strongly agreed that the market economy is the only system with which the country can be developed (the regional average was 56%). In addition, 75% of people said they believe that private enterprise is essential for the development of the country, which places Ecuador second in the region as having the most pro-business citizenry. Interestingly, these figures are similar in Venezuela, the other “socialist” country in the region where 77% of people believe private enterprise promotes development. The average for the region is 65%.

Rafael Correa’s government is in favor of state intervention in the economy by favoring the creation and strengthening of public companies, which generally enjoy monopolies. Due to the reduced size of the market and the concentration of business, Ecuador has tended toward oligopoly with respect to certain basic consumer products (flour, sugar, cement, etc.). In order to increase the offer in sectors subject to private oligopoly, the government has intervened by means of greater regulation or the direct intervention of the state as an additional agent producing or marketing products. The government has developed an active policy of concentrating economic activities under the control of the state.

Until 2011, Ecuador did not have anti-monopoly legislation of its own but applied regulation of the Andean Community. In October 2011, the new anti-monopoly law entitled the “Organic Law for Regulation and Control of Market Power” entered into force. According to the Antitrust Review of the Americas 2013, the law created a new

Anti-monopoly
policy
5

entity, the Superintendency for the Control of Market Power to investigate and decide antitrust matters and violations concerning the abuse of market power, restrictive practices or cartelization, unfair competition, and economic concentration. Industry groups have criticized the law's terminology in defining market power abuses as overly vague.

The government has been very active promoting laws that encourage the diversification of mass media ownership and has also prohibited banks from owning companies which are engaged in other activities such as the financial management of foreign exchange, the stock market or investment values, leasing, etc.

The Ecuadorian government's commercial strategy has been focused on finding new markets (such as Iran or China), decreasing emphasis on the traditional markets for Ecuadorian products and reinforcing so-called South-South relations, as well as strengthening organizations such as the Bolivarian Alliance for the Americas (ALBA) or the Union of South American Nations (UNASUR). However, the government attempted to change its strategy after finding that alternative markets were not sufficient for trade. Ecuador attempted to sign a free trade agreement with the EU, as Chile and Peru have done. This action led to the departure of the Deputy Minister of Foreign Affairs, Kintto Lucas, in April of 2012, who was part of the more left-wing faction of the government. This event was interpreted as possibly igniting a change of course in the regime's approach to foreign trade. However, the agreement has not been signed as a result of a stalled negotiation process between actors. The governments have marked differences with respect to intellectual property, services and investment guarantees. It is important to note that the main export product of Ecuador is oil and its trade is strongly influenced by political factors.

The government has adopted protectionist policies by increasing tariffs on a number of imports. The government justifies this measure by the necessity to limit the rise in purchases abroad, which increased with the adoption of the U.S. dollar in 2000, and the increasing amount of money in the economy resulting from rising fiscal revenues being transferred to the economy by wages and subsidies. There is a wide range of restrictions, regulations, administrative inefficiencies and lack of transparency which hamper free trade.

In December 2010 the government enacted the Organic Code of Production, Trade and Investment. The legal framework is designed to attract foreign and national private investment in strategic sectors both for new projects and for those already under way. Fundamental elements of the framework include the following: legal security, stability in tax burdens, clear rules and benefits for foreign trade, agility in the customs regime, the creation of tax incentives that go up to the waiver of 100% of certain taxes and charges, among other measures meant to spur investment.

Liberalization of
foreign trade

6

More explicitly, the act establishes differentiated tax rates depending on the sector where the investment is being made, and stability for investors in large-scale strategic projects through the creation of “investment contracts” that last up to 15 years. Such measures constitute “initial tools” for the promotion of investment to obtain concessions, licenses and permits, while the state retains the role of regulating and controlling investment. As we shall see, the biggest beneficiaries are big investors in public projects, such as large Chinese companies. It should be noted that this type of initiative contradicts other actions of government and a discourse which constantly questions the benefits of foreign investment.

For example, the president proposed canceling foreign investment protection treaties that are settled in international mediation courts, pointing to the fact that the constitution designates that all legal disputes should be dealt with in Ecuadorian courts. This, however, certainly does not offer any guarantees to investors, particularly given the lack of independence of the judiciary and the fact that the president himself meddles in the decisions of the courts.

Another barrier to trade is ongoing corruption. In spite of the efforts made by the government to improve the customs system by establishing more flexible procedures for exports and imports, businesses argue that corruption in customs operations continues to hamper trade.

The banking system has recovered since the crisis of the late 1990s. The Correa government defined as one of its priorities the tighter regulation of the financial system, leading to the adoption of the 2008 Law for the Creation of a Financial Safety Net, which, among other areas, established a bailout fund to be financed by the banks themselves, reformed the deposit insurance system, and regulated interest rates and the charging of commissions. Further new regulations have contributed to an ongoing reorganization of the banking sector. In order to provide for a decartelization of the economy, the anti-monopoly law prohibited combining multiple banks or different types of financial institutions and restricted corporate ownership across banking and other financial interests. Banks are also required to maintain at least 45% of their liquid reserves in Ecuador, in addition to maintaining as liquid reserves at least 1% of their deposits in securities issued by the non-financial public sector. Lastly, in the context of the election campaign, a special tax was approved that uses the profits of banks to finance an increase in the subsidy called the Human Development Bonus.

Having adopted the dollar as its national currency, Ecuador was hit considerably hard by the global recession following the financial crisis. However, the financial sector recovered significantly in 2010 and 2011. According to the Superintendent of Banks, deposits increased by 17.4% between June 2010 and June 2011. Consumer credit has risen sharply, increasing by 43% between August 2010 and August 2011. Commercial lending has grown by more than 17% over the same period. The ratio of nonperforming bank loans to total gross loans has been low and stable over the past

Banking system

6

4 years (at around 3.5%). The bank capital to assets ratio is 8.8. Public banking has been encouraged by means of the National Development Bank, the Bank of Ecuadorian Housing and the Bank of the Ecuadorian Institute of Social Security.

Since 2009, Ecuador has made some progress in complying with international standards and improving banking supervision, but still lacks a sound regulatory framework for its banking system. While Basel II regulations have been partially adopted, others are still awaiting implementation. The Superintendency of Banks and Insurance (SBS), which is constitutionally commissioned to regulate and oversee the financial sector, is considered largely effective but not sufficiently independent of political influence.

8 | Currency and Price Stability

The Ecuadorian economy has been dollarized, which means the government does not have much room to maneuver or intervene with monetary policy. After Ecuador adopted the dollar, inflation rates declined from a high of near 100% in 2000 to single digits since 2003. According to CEPAL, the inflation rate was at 5.4 in 2011 and 4.9 in 2012. President Correa does not believe in independence for central banks, as it would limit the government's ability to set public policy. The 2008 constitution took away the full autonomy of the central bank, so that the government was able to reclaim national reserves that central bankers had stashed in overseas banks.

Anti-inflation /
forex policy

7

The country could be at risk for high inflation due to the government's high public spending, but the risk is mitigated by the lack of monetary autonomy caused by dollarization.

Ecuador's current account balance is in the negative (- 0.3% of GDP) and the government has made a series of actions to balance it. Some imports have been restricted because since the increase in public investment and wages the consumption of imported products shot up. The government's economic team continues to believe in increasing expenditure as a necessary means for economic development. From 2010 to 2011 government consumption increased from 11.7% to 15.8% of GDP.

Macrostability

6

Mechanisms to capture resources have improved, through channels such as the optimization of the tax-collecting system. Correa and his team have critical positions on the country's external debt; nevertheless, they have managed to negotiate favorable agreements for the country. The dollarization of the country has created an anchor that has prevented implementation of many policies that would affect the macroeconomic balance.

Foreign exchange reserves in 2011 were improved in comparison to the year 2010, rising from \$2.6 billion to \$3.0 billion. However, they are smaller than the previous review period. Currently, foreign exchange reserves cover only six weeks of imports.

External debt stocks, public and publicly guaranteed, rose from \$7 billion in 2009, to over \$8.6 billion in 2010, to \$9.9 billion in 2011.

9 | Private Property

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

However, the property rights not only suffer from the political climate, but also from the weak rule of law. Court delays are significant, judgments are unpredictable and inconsistent, and the judicial system is severely affected by corruption. There have been numerous cases where the judicial system has not adequately protected property owners' rights. Deficiencies also exist with regard to intellectual property. There is a widespread local trade in pirated audio and video recordings, computer software, and counterfeit activity regarding brand name apparel. On the other hand, local registration of unauthorized copies of well-known trademarks has been reduced. The new constitution increases the state's role in the economy and enshrines the government's right to control strategic sectors such as natural resources and telecommunications.

Ecuador is currently ranked 97th of 130 countries in the 2012 International Index of Property Rights. Though Ecuador's economy is growing, the country is not very attractive for foreign investment (0.3% of GDP).

The right to engage in business is formally guaranteed, and the private sector is still the backbone of most economic activities in Ecuador. However, during Correa's terms in government, juridical uncertainty and a lack of economic clarity has worried businessmen, due to certain attitudes and interventionist policies on the part of the government. The problem is that official standards and the rule of law as a parameter have been replaced by what the government considers just or in the "national interest." While still relatively open to foreign investment in most sectors, new laws and regulations would limit to some extent private sector participation in so-called strategic sectors, most notably extractive industries. There have been no privatizations under the Correa government. Instead, state-owned enterprises have become increasingly important since the 2009 Law of Public Enterprises (Ley de Empresas Públicas), above all in strategic sectors such as resource extraction, telecommunications and transportation.

Property rights
5

Private enterprise
5

In contrast to the government's position, the 2011 Latinobarómetro survey reveals that 63% of respondents strongly agree or agree that a market economy is the only system with which the country can develop (the average of the region is 56%). What's more, 75% of people believe private enterprise is indispensable for the development of the country, placing Ecuador in second place in the list of countries for being pro-private enterprise. The regional average is 65%.

It should be noted that monetary policy is stable because of dollarization, which lends some stability to the market, although there are serious restrictions on capital outflows. Ecuador's economic freedom score is 46.9, making its economy the 159th freest in the 2013 Index developed by the Heritage Foundation. Its overall score is 1.4 points lower than last year. The score for business-freedom has declined slightly.

10 | Welfare Regime

The Ecuadorian Institute of Social Security (IESS) mainly offers health services, pensions and loans. It has had financial problems, although these have improved since dollarization, which has prevented its resources from losing value for monetary reasons; nevertheless, it continues to have problems caused by the institute's debts to the private sector and the government's use of the IESS resources to finance its projects. Its coverage of health services is rather centralized in large urban centers and has improved in recent years thanks to investment. The IESS primarily covers workers within the formal sector of the economy. There is also a Peasant Social Security system that deals with rural workers under a different regime. The police and armed forces have their own social security systems. With the new constitution, social security coverage has been widened to the whole population, but the necessary mechanisms, infrastructure and resources that would turn this right into a reality have not yet been put in place. In terms of attention for more vulnerable sectors (the poor, the disabled, the elderly and single mothers), apart from a public health system that has serious limitations, there are indirect subsidies for products such as fuel or electricity and direct subsidies such as the so-called Human Development Bond, which consists of a monthly payment of \$35 per family. The government has set up a system of care for the disabled, a sector that was not previously accounted for.

One of the initiatives created and maintained by the Correa administration is a program for people with physical disabilities. The program, which provides specialized care and orthopedic equipment to beneficiaries, is carried out through the Manuela Espejo and Joaquín Gallegos Lara Mission.

Health expenditures as a proportion of GDP have declined from 8.8% in 2009 to 8.1% in 2010, but they have risen slightly in nominal terms from \$321 to \$328 per capita. Life expectancy rose from 78 years in 2010 to 79 years in 2011.

Social safety nets
5

According to INEC, 28.6% of Ecuadorians were in a state of poverty by December 2011 (measured by income). The Ecuadorian government has increased investment in sectors such as education and health with the aim of improving opportunities in the mid- to long term. One of the main restrictions on equality of opportunities in Ecuador is the structure of exclusion that has grown up throughout its history, which expresses itself in ethno-social patterns.

Equal opportunity
5

The 2008 constitution introduced a gender parity (50-50, including alternation) for lists of candidates to the national parliament. According to data compiled by the Inter-Parliamentary Union, 40 out of 124 seats (32.26%) in Ecuador's parliament are occupied by women. Illiteracy is about 3 percentage points higher among women. In the case of indigenous people, despite many legislative provisions in their favor, the situation still is unsatisfactory: There is a sizeable gap between the average education level of indigenous and non-indigenous people. Being indigenous in Ecuador increases the chance of being poor. According to the INEC, poverty in rural areas is 33.5 percentage points higher than in urban areas.

11 | Economic Performance

According to the statistics from the Economic Commission for Latin America and the Caribbean (ECLAC), the annual variation of total GDP (at constant prices of 2005) from the year 2010 to 2011 was 8%, largely driven by the high price of oil, the country's main export product. Oil accounts for 51.2% of the total exports of the country.

Output strength
7

One of the biggest problems facing the country at the macro level is the negative current account balance, which has been growing over the last three years. In 2011, the deficit was - 0.3%, increasing during the year to - 0.5%. Unemployment has declined over the study period. In 2011 the annual average unemployment rate was 6% down to 4.8% in the year 2012. However, underemployment and scarcity of work remain problems in the Ecuadorian labor structure.

According to the National Institute of Statistics and Census of Ecuador, inflation in the year 2012 was 4.2% and that of the previous year was 5.4%. This positive figure is due in part to the use of the U.S. dollar as currency. One of the successes of the government has been to reduce the burden of the debt-to-GDP ratio, which was 17.8% in 2011. We can credit the government's renegotiation processes for this reduction.

Gross capital formation remained stable at 26% from 2010 to 2011. The current account balance turned negative in 2010 (2008: \$1.647 million; 2009: \$136 million; 2010: \$-1,613 million; 2011: -259 million). Foreign direct investment is volatile but positive (2008: \$1.006 million; 2009: \$321 million; 2010: \$158 million; 2011: \$568 million).

12 | Sustainability

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

Environmental
policy
5

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 of 2012 Ecuador ranks 31 of 132 countries studied, and ranks as having some of the best environmental conditions in Latin America.

One example for the contradictions and inconsistencies of environmental policy can be seen in the handling of the Yasuní national park, which is notable for its rich biodiversity and its underlying oilfield (80% or 200,000 hectares of the oil field lie inside the park). Despite a widely popular plan to gather compensation in excess of \$100 million from international donors for not tapping the oil under the Yasuní, the government has in recent years asked Petroamazonas to develop holds between 40 million and 45 million barrels. At the same time, the government is still pushing on with its plan to raise another \$3.6 billion from international donors. The government's decision sent contradictory message out internationally and showed that the government was not serious about preserving the environment.

The government is very eager to reform the education system and has substantially increased expenditure on education, with programs such as distributing free text books to primary school pupils, free education and a system of high-tech "millennium schools," which have been built in rural areas. However, the reforms have not always been well directed and have tended to become the focus of conflict with certain sectors, such as the universities, because the new law regulating them failed to take a series of observations into account. At the same time, the drive to incentivize continuous training of primary and secondary school teachers led to a change in the hiring system, generating conflict due its malfunctions.

Education policy /
R&D
5

Despite the changes, research and development activity remains limited, as these processes need several years in order to show results.

The government has launched programs to recruit university professors from other countries with doctorate degrees and has offered them good terms of employment.

There is a network of institutional support for research coordinated by the Ministry of Knowledge and Social Talent and by the National Secretariat of Higher Education, Science, Technology and Innovation (SENESCYT). Gross enrolment rate in education for 2010-2011 shows comparatively high levels, when compared to countries with similar characteristics. The enrolment rate for primary education is 119.1%, for secondary it is 87.8%, and for tertiary education, 39.8%.

Transformation Management

I. Level of Difficulty

Despite being a country with major inequality, the difficulties for developing the country are not entirely structural given that the country is placed in the upper part of the Human Development Index list (0.720), improving over time.

Structural
constraints
6

These data suggest that structural conditions in the country are not an impediment to the promotion of development processes. It is a country where a large percentage of the population lives in poverty (28.6%, measured by income).

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

There is a strong culture of organization in Ecuador but practices are rather particularistic and do not contribute significantly to the formation of interpersonal trust and/or trust in institutions, or indeed to the accumulation of democratic social capital. Rather, this culture responds to the logic of indigenous social organizations, which are focused on their own communities. The state's historic weakness and incapacity has generated incentives for self-government in the solution of public problems. The Catholic Church has also acted as a promoter of trade unions and local, peasant and indigenous organizations. To these elements, and others that are less relevant, we could add the indirect effect of political parties' weakness and their resulting incapacity to represent social demands.

Civil society
traditions
6

One of Ecuador's latent conflicts, which has existed 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.

Conflict intensity
4

The huge inequalities and ethnic heterogeneity of the country constitute potentially dangerous cleavage-lines. With a Gini-coefficient of 0.49 in 2010, the inequality of income distribution is still very high. Some of this potential for conflict is mobilized

from time to time by actors such as CONAIE. However, these mobilizations are sporadic while social groups normally coexist without major frictions due to the traditional segmentation of society.

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

II. Management Performance

14 | Steering Capability

Correa's government has maintained its priorities and lines of action, unlike other governments, which could not rely on a clear plan of government.

However, its objectives do not always strengthen democracy and the market economy, or even counter them.

Due to President Correa's consolidation of power, there often seems to be competing proposals within the government. These proposals concern, for example, the case of environmental issues that are clearly at odds with the president's economic model, which is focused on the extraction of minerals and petroleum. The position of the government is increasingly monolithic due to fact that those with dissenting voices are increasingly leaving government. The effect is the president is now surrounded by a group of staunch, hardline supporters that adhere to his positions on an unconditional basis.

The concentration of power in the hands of Rafael Correa is so great that it is not possible to foresee the rise of a group, either within his party or from the opposition parties that would oblige the president to change his objectives. In general terms, the priority of the government is to strengthen the state as the central actor in all political, economic and social processes. Most notably, the government has prioritized political change focused on the "socialism of good living" and programs designed to change the production matrix.

The Ecuadorian model follows the policy of economic development which prevailed in post-WWII Ecuador and, as such, has a planning body called the National Planning Secretariat (SENPLADES). According to the official information, SENPLADES is

Question
Score

Prioritization
5

arm of the national government responsible for articulating public policies related to management and public investment.

The plan is comprised of 12 national strategies and 12 national goals, which are designed to facilitate change and promote the “good life” for all Ecuadorian citizens. The plan was prepared by SENPLADES as the Technical Secretary of the System of National Decentralized Participatory Planning, presented by President Rafael Correa Delgado, and approved by the National Planning Council. These efforts to design a comprehensive development plan, have collided in several case with authoritarian volunteerism of the President, however, and various actions and strategies have been modified or adapted because they did not seem suitable to the president. It should not be forgotten that the president is an economist by training and is constantly attempting to demonstrate his expertise in the field, though he is not always successful.

Ecuador’s government has been quite effective in articulating and implementing its political and economic reform, although certain projects have failed. Such failure has come about due to either a rush to put them in place, or due to resistance from certain sectors of the administration. During the review period, the number of changes to the structure and to the members of the Cabinet have decreased, which in principle increases the capacity of the government to implement public policies.

Furthermore, it is one of the few times throughout the democratic period that there has been a group of people trying to put a clear political project into practice. However, it is important to remember that this reform project does not defend either the market economy or liberal democracy.

The government has also made a series of efforts to improve the functioning of the country’s public administration. Measures include efforts to improve human resources and provide organizations with the necessary material resources for their best performance. This has been made possible by the increase in fiscal resources. Whether or not these measures have been effective in improving government administrations is unclear, however, and a medium and long-term assessment should be carried out.

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

One of the greatest achievements of the government is the improvement of the road and energy infrastructure in the country, an area in which improvements were sorely

Implementation
6

needed. In general, the government has been very effective in the construction of infrastructure of all kinds –health, education and the funding for public administration.

The government demonstrates little willingness or ability in policy learning. To better enable the government to effectively manage the implementation and operation of public policies, Correa’s administration has set in motion a series of measures to restructure its public administration, planning processes and management systems. However, the measures have not resulted in positive results because such mechanisms are only effective in the context of strong institutionalization. In theory, the National Secretariat of Planning should take measure to fix the mistakes, but the effectiveness of the institution is limited because public policy decisions are highly influenced by the decision and will of the central government.

Policy learning
4

As mentioned above, the procedures are not always respected, namely in cases where a person with political influence considers it necessary to bend the rule for so-called national interests.

Despite the creation of mechanisms to encourage good practices in the negotiation of contracts and open auctions, corrupt practices persist. For example, civil servants are known to collect “commissions” from companies awarded contracts. In addition, in cases of proven corruption, enforcement is often lacking, as authorities rarely go after people of senior status who are involved in corruption. In fact, the government’s response in these cases generally has been to attack the whistle-blowers rather than to investigate and sanction those actually responsible.

Furthermore, these measures at the micro level are subject to structural restrictions, and especially to the supremacy of the political structure, which is inflexible when it comes to modifying guidelines, particularly given that final decisions rest in the hands of the central government, and more specifically, with President Correa. The main difficulty in the decision-making process and the implementation of public policies comes down to the fact that in the end, all decisions depend on the will of the president. It is customary for the president to use his public appearances to put pressure on officials who are implementing various policies, and he is generally reluctant to listen to different viewpoints or to alter his objectives and procedures. Correa’s government, as mentioned earlier, is very inflexible when it comes to criticisms and complaints by the opposition, media and other actors.

15 | Resource Efficiency

One of the problems with the use of human, financial and organizational resources is the concentration of functions in the president’s person; so much so that there have been various occasions on which he has publicly rejected reports drawn up by experts

Efficient use of
assets
5

in the ministries because he did not agree with the conclusions or recommendations therein. Time has shown that many of these conclusions and recommendations were, in fact, correct and appropriate.

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

Despite the government's reform efforts, there are sectors of the administration with very under-qualified personnel, which causes communication and comprehension problems with the technical and executive sectors; as a result, public policies are not implemented efficiently. The expansion of the government's budget in recent years did not translate into economic growth.

In contrast to previous governments, the current administration has a system of planning and coordination and a development plan: The National Plan for Good Living 2009 – 2013.

The use of public resources has strengths and weaknesses, as the government has made large investments in infrastructure, for example, while funding is needed for pensions and other social expenses.

With view on the budget the development in recent years is clearly negative - currently the country runs up its biggest-ever budget deficit. As for administrative efficiency Ecuador launched a big process of decentralization of competences from governmental to sub-national governmental level, with the aim of assuring the population equal access to services and public goods and promoting a balanced territorial planning. Decentralization, however, seems to be hardly compatible with the strong tendency toward personalization and centralization of power in the hands of the President. It is too early to assess this process at the moment. The Comptroller General is responsible for public accounting, but his responsibility is only accounting and he does not get involved in deciding the quality of spending or investment effectiveness.

In order to facilitate coordination within the executive branch, the government has launched a series of systems, such as regular meetings between the members of the executive. Likewise, the government has adopted a mechanism for coordination between different ministries and secretariats with the appointment of coordinating ministers. Such coordinating mechanisms have been solidified over the last two years following the series of major changes that were put in place in the early years of the administration. But, as already mentioned, President Correa's role in the decision-making process can and does supersede the state's coordination mechanisms, undermining their legitimacy.

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

The same can be said with regard to external financing. While on the one hand external financing is required, the declared “revolutionary” process (and the concomitant weakening of the institutional framework) is hurting the investment climate. Accordingly, the country’s rating is way below investment grade.

Another example of the lack of coordination in the government is trade policy. The government is seeking to improve production and is looking to foreign markets, as reflected in the Organic Code of Production, Trade and Investment, which was approved in 2010. However, the government’s aggressive attitude and outspoken criticism of liberal economic policy has led to the closure of markets and has scared away international partners – partners that local producers need to expand their markets.

In Ecuador, there are a number independent bodies charged with supervision, such as the Comptroller or the Attorney General. However, the opposition and members of the public have questioned the work of these bodies, alleging they have carried out weak investigations and have failed to take an in-depth look at the facts in many cases. The impartiality of the Attorney General, who was faced with looking into government mismanagement, was always under suspicion because before arriving at the Attorney General’s office in July 2011, he was an official in Rafael Correa’s government, having served as both a minister and an ambassador.

Anti-corruption
policy
4

There is a National Secretariat of Management Transparency whose mission is to ensure the implementation of the policy of transparency to combat corruption in the public sector and in government institutions. However, the government has shown an ambivalent response to specific and justified complaints against members of the government, such as in the case of Pedro Delgado, mentioned above, or cases of ministers whose academic titles have questionable merit.

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

In the framework of the confrontation between the government and the media, a situation has arisen in which the media have serious limitations to reporting the news. While the law guarantees transparency, public bodies will not provide information because they believe it will be manipulated or distorted. The president took this a step further in banning ministers from speaking to private news organizations. This ban was based on the argument that private media houses are companies who seek profit and ministers should not contribute to the attainment of private profits. Members of the National Assembly from the opposition party are also limited from speaking freely even though the law protects them accordingly.

16 | Consensus-Building

The government openly questions liberal democracy and proposes a number of mechanisms which, according to members of the government, improve it and make it more participatory and direct, an opinion that is not shared by all political sectors in the country. The government also has a critical opinion of the market economy. The commitment to market economy is even more equivocal on part of a range of actors, including the government, who frequently refers to “socialism” as an economic ideal.

Consensus on goals
4

Despite the overwhelming dominance of the ruling party in government, it cannot be said that there is a clear consensus between all relevant policy sectors. However, the largest barrier to the creation of consensus is the inability of the government and the opposition to reach agreements on major public policy issues. One example of this was the president’s veto of bills that were modified during the legislative process. In addition to the members of PAIS, other political groups in the National Assembly voted in favor of the bills. The lack of consensus-building is typical of majority governments like President Correa’s. The president has a vision of government office in which he has been granted the right – by obtaining the majority of the vote - to make the public policy decisions he deems appropriate.

There are no open anti-democratic actors in Ecuador. However, democratic rules and procedures are fragile and extra-constitutional forms of political action are common. Infrastructural or economic projects frequently meet this kind of resistance, limiting the government’s capacity for reform. Among political actors in Ecuador, there is a kind of formal compromise with democracy. Nevertheless, there seems to be a fundamental disagreement on what form of regime democracy should entail and what the rules of the game should be. One of the peculiarities of Ecuador is that the government is headed by actors who do not believe in liberal democracy or the market economy. They define themselves as 21st century socialists and maintain that

Anti-democratic
actors
7

representative democracy is an outdated form of regime, for which reason they have to construct a different type of democracy, a system that they tend to qualify with a series of adjectives without ever defining them clearly: radical, participative, direct, sovereign, eco-socialist, among others. Among Latin American countries, Ecuador has had the greatest number of interruptions in the institutional order leading to presidents leaving office (Bucaram, Mahuad, Gutiérrez), which would seem to confirm the lack of a democratic vocation among the relevant political and social actors.

The most significant cleavage in the country is ethnic and it divides society between a white/mixed race group and the “Indians.” It should be mentioned that this is a confrontation with a long history that has laid the foundations for a social structure based on a discriminatory system that transcends the social and economic spheres.

Cleavage /
conflict
management
4

The government tends to exacerbate conflicts in general (not simply ethnic ones) instead of handling them. The strategy for dealing with conflicts consists in the total “destruction” of actors who do not share the government’s position. For the government, democracy consists of doing the will of the majority, and the personification of the majority is the president.

There is also a difference between the various regions of the country, which used to translate into a confrontation between the coast (the tropical region bordering the Pacific) and the mountains (the Andean zone), but tensions have decreased recently. This is one of the conflicts that the president has handled successfully, employing a narrative of national unity and integrating the cultural practices of the various regions; his personal experience has helped him here (he comes from the coast and has lived much of his life in the Sierra).

Despite the government’s discourse of encouraging participation in public affairs, this participation is minimal because the regime does not accept demands that are not in line with its own position; indeed, the government openly confronts its opponents and delegitimizes their demands. Obviously, as power is understood as to be centralized in the figure of the president, the participation of other actors in the process of agenda setting, policy formulation, deliberation and decision-making, policy implementation and performance monitoring is practically zero.

Civil society
participation
5

What are presented as mechanisms of participation operate almost vertically and without feedback mechanisms and are, in fact, very closely related to paternalistic and clientelistic practices. Furthermore, so-called participation by civil society is used as a mechanism for legitimizing decisions that have already been taken by the political actors.

In addition, the governing party has the majority in the National Assembly and in other powerful entities.

Ecuador has not experienced major historical injustices or has already achieved reconciliation prior to 2011.

Reconciliation
n/a

17 | International Cooperation

International cooperation is one of the areas in which the current government has been most successful. It has managed to occupy a leading position among the countries in the region considered to be allies. Correa has carried out intense international activity with the aim of strengthening relations with Latin American countries, with an emphasis on governments that share his political beliefs. At the same time, there has been an attempt to improve relations with Asian countries (particularly China) and Arab countries. Ecuador has even shown support for the governments of Iran, for Gaddafi in Libya and for Syria.

Effective use of
support
7

Correa's government has managed to capitalize on its links with the Hugo Chávez's leftist government and its bloc, increasing its prominence due to Chavez's illness. President Correa was the leader in the construction of the new regional integration organizations. Although this system has been very effective politically, it was not very profitable from an economic point of view since countries with strict regulations and closed markets are not the best possible trade partners.

As far as trade partners are concerned, China is special case, as Ecuador has obtained funding for large infrastructure works and investments in the oil industry from China. As a result, China has become the government's preferred economic partner.

One of the differences that has taken place in recent years has been an attempt by some sectors of government to improve relations with the United States, with the objective of signing a trade agreement. An internal crisis over this issue was staved off by the departure of the Deputy Minister of International Relations, who had been against the agreement with the U.S.

The government has pursued a strategy of confrontation with international institutions like the IMF and World Bank. We can say that this confrontation has been sought and consistent with their criticism of liberal democracy and the market economy, and the clear alignment of the government of Ecuador with countries that have difficult positions in an international context, such as Venezuela or Iran. This stance, which was sought after, and is not accidental, has inevitably distanced Ecuador from a number of countries. One issue that has taken away some credibility from the government in the international context has been its showdown with the press. In addition, Correa's government has opted for closer alliances with countries openly critical of liberal democracy and the market economy. The credibility of the country with international investors has not recovered yet, observable by the B rating from Standard & Poor's in 2012 which is five levels below investment grade.

Credibility
4

Ecuador's government has a position of clear support for all projects that express the need for Latin American integration. The government has been one of the most active driving forces behind the creation of an organization that will behave as an alternative to the OAS. The act of working to create such an organization is consistent with the pattern of political confrontation that Ecuador has established with the United States. It should be noted that Ecuador has lost a series of economic and trade agreements with the United States because of the lack of political harmony between the two countries.

Regional
cooperation

6

Furthermore, President Correa has worked intensely at the international level to promote the Bolivarian Alliance for the Americas (ALBA), the Comunidad de Estados Latinoamericanos y Caribeños (CELAC), and the Union of South American Nations (UNASUR), whose headquarter is to be constructed in Ecuador. His activities have centered on strengthening ties with other Latin American countries, particularly those governed by left-wing leaders.

The government's regional relations tend toward crisis and confrontation whenever there is a difference of opinion, with the argument that the "homeland" has changed and is now courageous and sovereign.

Ecuador broke off diplomatic relations with Colombia in 2008 when Colombian government forces launched a military attack against the Colombian guerilla group, the Revolutionary Armed Forces (FARC) violating Ecuadorian territory and killed Raúl Reyes, one of the group's leaders. An apology by the Colombian President on 1 March 2008 helped to prevent an escalation of the crisis between the two countries. Diplomatic relations were restored in June 2008 under a deal brokered by former US President Jimmy Carter. Since Juan Manuel Santos assumed the Presidency in Colombia in August 2010, Ecuador's relationship with Colombia has steadily improved. In December 2011, Santos and Correa signed a maritime border treaty and a security cooperation agreement during the first bilateral visit by a Colombian President to Ecuador in four years.

As for Brazil, bilateral relations have improved, too. Brazilian state development bank BNDES will finance construction of a hydroelectric plant in Ecuador, a sign Brazil is mending relations with the government of President Rafael Correa after a 2008 dispute over another power project.

Strategic Outlook

Due to the re-election of President Correa in 2013, it is very likely that the situation in the Ecuador will remain stable, and very similar to the previous years of Correa's administration. During the period to come, the ruling party will have a more comfortable majority in the National Assembly than it did in previous years. This should allow Correa's government to pass controversial laws that restrict liberties. In the coming years we can expect to see a government that is increasingly personal and authoritarian, with all the power concentrated in the presidential office –that is, with President Correa.

The most troubling trend in Ecuador has been restrictions on personal freedoms, and there is indication such restrictions will only get tighter in coming years as the state exercises more control over its citizens. However, it would be advisable for the president to bring divergent groups together (instead of increasing the distances and polarization between groups) since social confrontation can generate social fractures that can affect the stability of the country.

It is almost certain that the political opposition will remain weak given it lacks a clear position and alternatives to Rafael Correa's proposals. This weakness was evident in the election campaign of 2013 in which the opposition was unable to present themselves as a credible alternative to Rafael Correa and the PAIS party. It is, therefore, advisable that the opposition build a strong discourse on social issues facing the country. The great merit of Correa's government is having focused his discourse on the social problems of the country and in that area he has no competition.

Ecuador's current economic model, with a focus on high income taxes, is dependent on high oil prices. If these high prices are maintained, the government should not face major problems in retaining the current model.

At the international level, the role of Ecuador will depend on how President Correa situates himself as a regional leader in a post-Chavez era. It is expected that the idea of a "Bloc of Bolivarian countries," when brought to the next level, will result in internal conflicts (with Venezuela as the main proponent of the project) for the control of power and governance.

Although the self-proclaimed progressive presidents will continue to coordinate actions, it is expected that none of them will give up prominence and leadership to a third party, something that did happen with respect to Chavez. The government's economic strategy, focused on the extraction of raw materials, mega-infrastructure projects and power generation, will increase Ecuador's dependence on China, since it is the only potential partner with investment capacity and the willingness to accept the risk of investing in the country. On the other hand, President Correa will continue seeking international prominence through his discourse and "anti-imperialist" radical actions, which beyond media prominence, does not give returns in the long run. It is advisable that the government seeks new regional allies. Relations with Brazil are likely to improve further in the next years as the "Bolivarian" axis wanes in importance.

