



SPECIAL REPORT

Ecuador: a time for optimism regarding the Business-government relationships

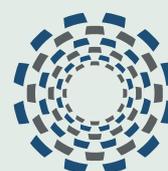
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CÁMARA DE
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1. INTRODUCTION

Opportunity: this word describes the new dialogue opened the past second of March between the Ecuadorian government and the business sector that started after the meeting between sectorial leaders and President Rafael Correa together with 15 authorities (ministers, superintendents and directors of the national productive sector). The meeting was considered a milestone regarding the relationships between companies and the Government in Ecuador since the last time the President sat together with the private sector was two years ago.

This step forward comes in a “difficult time” (according to the President’s words) and was probably taken due to the current economic situation in the country caused by the drop on the oil’s price, the appreciation of the dollar, the depreciation of national currencies such as the Peruvian and Colombian ones and the still incipient export industry of Ecuador. In such scenario the conversations started in March focused on five different topics proposed by the private sector aiming to reinforce the private investment and support the country’s economy. According to the Minister of the Production Coordinator, Richard Espinosa, the Government has admitted at least 98% of the proposals to be viable.

This report aims to present and analyze the business sector proposals and the Government’s answers so we can clearly understand the scenario to come regarding the Government-business relationships. Afterwards, a roadmap can be established meeting the national interests backed by a truly proposal dialogue between the private and public sector.

“The private sector presented 37 proposals based on private investment”

2. THE MEETING ON MARCH THE 2nd

The last time there was an official conversation between President Correa and the business sector was back in August 2012 when Santiago Leon was Minister of the Production Coordinator (Richard Espinosa took office in March 2013). Along those two years there were sporadic meetings (random or not) as for example the presidential tours where the President invites representatives of the private sector to attract investment. Indeed, the trip to China in January 2015 was the perfect opportunity to ask for a formal meeting with the President: the 2nd March meeting.

Together with the President and Vice-president of the Republic, other ministers leading ministries related to the industrial and productive sector also took part on the meeting as well as other institutional authorities of the State such as the Internal Revenue Service or the Superintendence to control the market's power (key actors on the Ecuadorian development of the industry). The private representation was formed by union leaders of the Ecuadorian National Federation of Chambers of Industry, the Ecuadorian Business Committee and the Alliance for entrepreneurs and innovation.

The meeting was planned to last two hours. As the government's Vice-President later explained on the 7th March during the “citizens outreach”, President

Correa had to cancel his agenda for the day due to the meeting's development which lasted around five hours. The private sector presented 37 proposals based on private investment and with five key points:

- Efficiency and regulations agility
- Tax environment
- Promotion of suitable employment
- Entrepreneurship and innovation
- Strengthen the external sector

The government has admitted that at least 98% of the proposals are viable and as part of its commitment (done before the president) by the second of April, both the President and Vice-President, must have a roadmap on the public-private plan needed. It must also include long-term goals (until 2020). In six months, a new meeting with President Correa will be held to evaluate the agreements and the first results.

It seems that, so far, there is a clear and safe roadmap that will enable to continue the dialogue between companies and the government. It also indicates that there is a presidential commitment to make the private sector to take part in elaborating future regulations in the sector by sharing its knowledge, experience and advice. The

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real challenge for both parts is to maintain the established purposes and work together for the country’s benefit. Finally, if we had to sum up the results of the meeting of the 2nd of March in just one sentence that would be: “it is clear that in order to achieve national development in Ecuador it is needed a coexistence, harmony and joint work between the public and the private sector”.

3. PRIVATE INVESTMENT: TRANSVERSAL VIEW

According to the Central Ecuadorian Bank the public investment increased from USD 1,982 million in 2006 to USD 13,852 in 2013; as for the private investment it increased from USD 7,777 to USD 12,461 in the same period. Although investment has grown in both sectors the rhythm has not been the same: in 2006 private investment represented more than 80% of the gross investment; in 2013 it just represented 47%.

Along these years the government of President Correa has used incomes to increase public investment especially in infrastructures. However, once again and due to the differences in the investment amounts, the business sector considers that private investment should be the driver of economic growth and the source of quality job creation. For this reason, one of the proposals for 2020 is to balance the private and public investment amounts (of course

with an important increase on the private investment).

During the meeting there were clear signs of the importance of the private sector to boost economic growth and guarantee the sustainability of the gains already achieved regarding poverty reduction and improvement of life conditions. These gains should not be interrupted due to the Ecuadorian exportation price of petrol which during the first two months of the year was around USD 45 a barrel (almost half of the registered price in 2014 and below the price established in the General National Budget of USD 79.7).

4. THE FIVE KEY POINTS OF THE PRIVATE PROPOSAL

1. Efficiency and regulations agility. According to a survey carried out with a representative sample of the industry (business representing 30% of the nonoil GDP), 80% of the businessmen think that the main factor in competition is to have regulatory certainty. This was actually one of the exposed topics in the meeting with President Correa on which the business sector asked for some changes. According to data offered by the Official Register 1,544 regulations were passed in 2014: 30% were reforms to regulations and 70% were new regulations. Within this number we are just including regulations linked to the private sector and we are excluding regulations and quality rules.

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2. Tax environment. One of the proposals to give liquidity to the private sector so it can hold greater investment is to establish a tax credit when the advance on the income tax is higher than the income tax expense. Another suggestion is a joint review (of the public and private sector) of the tax formula to calculate the advance of the income tax. Additionally, and as a result of the new Law for production incentives and tax fraud prevention passed at the end of 2014, they have proposed to progressively eliminate the limit of costs deductions associated to publicity (which is established in the mentioned law).

Moreover, there is a proposal to create an International Committee to Eradicate Illegal Trade. Such committee should:

- Be formed by the Ecuadorian Internal Revenue Service, the National Employment Service (SENA), the Ministry Production Coordinator, the Ministry of Industry, the National Unemployment Institute, the Interior Ministry, the National Police, the Public Prosecutor and the Ecuadorian Intellectual Property Institute.
- Establish control protocols.
- Centralize information to allow intelligence customs strategies to be implemented.

- Receive and channel complaints.

- Promote a culture of respect regarding the legal regulations on this issue.

Furthermore, in order to energize investment, the venture capital and the stock market (especially regarding small transactions), there was a proposal to review the tax on occasional disposal of shares by establishing parameters for capital gains on occasional sale of shares (payable during the transaction).

3. Promotion of suitable employment. Regarding the draft on Labor Justice (reforms to the labor code) that is now in the National Assembly, businessmen have asked to dismiss the intention to include an article on wages gaps. According to this article, the top executives of a company would have a limit on their wages. Said limit would be calculated according to the company's lowest salary and said calculations would be made with a formula established by the Minister of Labor Relations.

On the other hand, the private sector also proposed to institutionalize the tripartite dialogue of employers, the Government and employees; activate the parameters of the International Labor Organization on the National Labor Council and create mechanisms to:

“The ‘Ecuador Investment Summit’ is a great agreement that opens the door to boost foreign investment and strengthens the investment capacity of the private sector”

- » Reduce casualness
- » Increase productivity
- » Create decent and sustainable work
- » Foster social inclusion

They have also asked for a suitable retirement for employees without endangering the company’s sustainability in the long term and to eliminate the figure of employment retirement by a gradual transfer to the Ecuadorian Social Security Institute.

competition and exportations by improving the conditions to access the market and closing trade agreements with strategic partners such as Canada, the USA, the American Common Market (composed by Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica) and the European Free Trade Association (composed by Iceland, Norway, Switzerland and Liechtenstein).

5. THE GREAT AGREEMENT: ECUADOR INVESTMENT SUMMIT

4. **Entrepreneurship and innovation.** For 2020 the business sector has set the goal to invest USD 240 million (0.16% of the GDP) to invest on venture capital to boost entrepreneurship. They also expect to create 12 thousand new companies, 100 thousand employments and record USD 900 million in sells (0.7% of the GDP) according to the mentioned conditions. In order to achieve these goals the business sector counts on the participation of the Presidency of the Republic, the Vice-President, the Entrepreneurship and productive Innovation Service and the Alliance of Entrepreneurship and Innovation (AEI).
5. **Strengthen the external sector.** This proposal is based on the possibility to deepen in

The “Ecuador Investment Summit” is a great agreement that opens the door to boost foreign investment and strengthens the investment capacity of the private sector. This summit will take place by the end of the year. This meeting will be a round of investment and business in which the Government and the business sector will take place. Its objective is to attract national and international investment.

The summit is seen as an international meeting which will gather around a thousand investors willing to invest local and foreign capital. This event should not be isolated but be the result of several actions that will help Ecuador to have a favorable environment for investment (one of the main aspects for the productive sector). It is expected the participation of around 1,000/1,500 national

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and foreign investors to attract investment and create tourism foreign exchange.

There are further proposals:

- Foster already existing campaigns as for example the macro business round.
- Articulate the Pro Ecuador, embassies, the international entrepreneurial network and the business chambers.
- Achieve at least USD 500 million in additional investment during the following 12 to 24 months.
- Make Ecuadorian companies be hostesses of visiting companies.

6. THE ROADMAP IS SET

During the conversation with the president which was sincere and with a clear definition of the next steps, the commitment of the private sector with the country was clearly noticed through their proposals channeled through the Ecuadorian National Federation of Chambers of Industries, the Business Committee of Ecuador and the Alliance for entrepreneurs and innovation. The working agenda is structured in three different stages:

- In a month (April), a meeting between businessmen and ministers will be held in order to set an initial diagnosis of the 37 presented proposals to improve the investment

environment. When finishing this report (March 20th) there have already been three meetings.

- In six months (around September) there will be a new meeting with the President to know the development and the achievements of the roadmap.
- Hold the “Ecuador Investment Summit” at the end of 2015.

From now on, both the Government and the private sector have the opportunity and the responsibility to carry out the proposals presented on the second of March. There is a feeling of optimism in the private sector regarding the possible results but they are also aware of possible obstacles that may arise in the process. The key for success is monitoring and setting agreements. Nevertheless, we firmly believe that these private-public meetings will be repeated in the next years.

7. SOME CONCLUSIONS

- There is now doubt that the meeting held at the beginning of March shows openness and interest by President Correa in working together with the private sector in this “difficult moment”, as he has described the current situation, which could slow down investment (especially social investment). It is apparently this uncertain environment what convinced the Government to see the private sector as a strategic

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- ally to eradicate problems such as poverty, unemployment and the lack of investment.
- Now that there is a new dialogue and work opportunity the business sector has to guarantee that this approach and agreements will continue after 30 months without conversations between the Government and the private sector. Through specific actions and monitoring those responsible of carrying out the proposals the private sector, using its agility and dynamic, must boost constant meetings with concrete working agendas that will lead to get results.
- Best ideas and opportunities usually come from difficult times. For this reason, this difficult scenario for Ecuador resulting from the drop on the oil's price, becomes a perfect stage to start joint projects, making profit of the situation and the political will, that will show more clearly the contribution of the private sector to the country and its commitment to work in Ecuador by fostering investment and national production expecting good conditions to strengthen the private's sector collaboration to the economic development.

AUTHORS



Richard Martínez is the President of the Federación Nacional de Cámaras de Industrias in Ecuador. He is an economist and holds an MBA in Executive Business by the IDE Business. He has been President of the Ecuadorian National Federation of Chambers of Industry since January 2015. In March 2012 he was appointed Vice-President of the Cámara de Industrias y Producción (CIP) and he is currently the president. He has taken part in national and international forums related to the productive sector: Ecuadorian Trade Policies, Production Code, Implications of Ecuador joining Mercosur, and other forums related to social issues, tools to eradicate poverty, fighting casualness... etc.



Verónica Poveda is Public Affairs manager in LLORENTE & CUENCA Ecuador. She is a journalist and has more than 5 years of professional experience covering political issues. She started her professional career in 2010 in LLORENTE & CUENCA. In the Quito office she leads the Public Affairs team and she has designed and implemented several strategies to build and strengthen the business-government relationships for national, international and non-governmental companies such as Holcim, Alpina, Philip Morris (and its subsidiary Itabsa), Kellogg's and Arca of Ecuador. Her professional career has allowed her to know the dialogue and action need required in the current public and private Ecuadorian scenario.

vpoveda@llorentecuenca.com

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CORPORATE MANAGEMENT

José Antonio Llorente
Founding partner and Chairman
jallorente@llorenteycuenca.com

Enrique González
Partner and CFO
egonzalez@llorenteycuenca.com

Jorge Cachinero
Corporate Director for Innovation
jcachinero@llorenteycuenca.com

SPAIN AND PORTUGAL

Arturo Pinedo
Partner and Managing Director
apinedo@llorenteycuenca.com

Adolfo Corujo
Partner and Managing Director
acorujo@llorenteycuenca.com

Madrid

Joan Navarro
Partner and Vice-President of Public Affairs
jnavarro@llorenteycuenca.com

Amalio Moratalla
Partner and Senior Director
amoratalla@llorenteycuenca.com

Juan Castellero
Financial Director
jcastillero@llorenteycuenca.com

Lagasca, 88 – planta 3
28001 Madrid (Spain)
Tel. +34 91 563 77 22

Barcelona

María Cura
Partner and Managing Director
mcura@llorenteycuenca.com

Muntaner, 240-242, 1º-1ª
08021 Barcelona (Spain)
Tel. +34 93 217 22 17

Lisbon

Madalena Martins
Partner
mmartins@llorenteycuenca.com

Tiago Vidal
Managing Director
tvidal@llorenteycuenca.com

Carlos Ruiz
Director
cruiz@llorenteycuenca.com

Rua do Fetal, 18
2714-504 S. Pedro de Sintra
Tel: + 351 21 923 97 00

LATIN AMERICA

Alejandro Romero
Partner and Latin American CEO
aromero@llorenteycuenca.com

José Luis Di Girolamo
Partner and Latin American CFO
jldgirolamo@llorenteycuenca.com

Antonio Lois
Regional Director of Human Resources
alois@llorenteycuenca.com

Bogota

María Esteve
Managing Director
mesteve@llorenteycuenca.com

Germán Jaramillo
Chief Executive
gjaramillo@llorenteycuenca.com

Carrera 14, # 94-44. Torre B – of. 501
Bogota (Colombia)
Tel. +57 1 7438000

Buenos Aires

Pablo Abiad
Partner and Managing Director
pabiad@llorenteycuenca.com

Enrique Morad
Chief Executive for the Southern Cone
emorad@llorenteycuenca.com

Av. Corrientes 222, piso 8. C1043AAP
Ciudad de Buenos Aires (Argentina)
Tel. +54 11 5556 0700

Lima

Luisa García
Partner and CEO of the Andean Region
lgarcia@llorenteycuenca.com

Cayetana Aljovín
General Manager
caljovin@llorenteycuenca.com

Av. Andrés Reyes 420, piso 7
San Isidro. Lima (Peru)
Tel. +51 1 2229491

Mexico

Juan Rivera
Partner and Managing Director
jriviera@llorenteycuenca.com

Bosque de Radiatas # 22 – PH7
05120 Bosques las Lomas (México D.F.)
Tel. +52 55 52571084

Panama

Javier Rosado
Partner and Managing Director
jrosado@llorenteycuenca.com

Avda. Samuel Lewis. Edificio Omega, piso 6
Panama City (Panama)
Tel. +507 206 5200

Quito

Catherine Buelvas
Managing Director
cbuelvas@llorenteycuenca.com

Av. 12 de Octubre 1830 y Cordero.
Edificio World Trade Center, Torre B, piso 11
Distrito Metropolitano de Quito (Ecuador)
Tel. +593 2 2565820

Rio de Janeiro

Yeray Carretero
Director
ycarretero@llorenteycuenca.com

Rua da Assembleia, 10 – sala 1801
Rio de Janeiro – RJ (Brazil)
Tel. +55 21 3797 6400

São Paulo

Juan Carlos Gozzer
Managing Director
jcgozzer@llorenteycuenca.com

Rua Oscar Freire, 379, CJ 111, Cerqueira César
CEP 01426-001 São Paulo SP (Brazil)
Tel. +55 11 3060 3390

Santiago de Chile

Claudio Ramírez
Partner and General Manager
cramirez@llorenteycuenca.com

Avenida Vitacura 2939 Piso 10. Las Condes
Santiago de Chile (Chile)
Tel. +56 2 24315441

Santo Domingo

Alejandra Pellerano
Managing Director
apellerano@llorenteycuenca.com

Avda. Abraham Lincoln
Torre Ejecutiva Sonora, planta 7
Santo Domingo (Dominican Republic)
Tel. +1 8096161975



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