



Ministerie van Buitenlandse Zaken

Doing Business in Ecuador

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Ecuador is one of the smaller countries of South America, rich in culture, history and biodiversity. Economic growth figures in the last few years have been steadily but not significant. Continuous economic growth, all be it slow, is forecasted for 2018. Ecuador is making an effort to become more integrated with international markets through increased South-South integration of Latin American countries, but also with other countries in the world, including the EU and EFTA. Despite these liberal developments, the social agenda keeps playing a dominant role in Ecuadorian national policies.

Ecuador is divided in three regions by the Andes mountain range: Amazonian tropical forest (Selva), highlands (Serra) and coastal lowlands (Costa). Rainforest covers a large part of the east with a mostly tropical and monsoonal climate, while the southern Pacific coast has a more arid climate, and the northern coast a temperate, oceanic climate. Coastal areas are amongst the most affected regions by the El Niño weather phenomenon. The capital city of Quito and the port of Guayaquil are connected to Amsterdam through a daily direct KLM flight. Quito is located in the higher mountain areas, which have a tropical savanna or temperate Mediterranean climate. Because of these diverse geographic areas, Ecuador contains a wealth of natural beauty and diversity, being one of the 17 mega-biodiverse countries in the world. Population-wise, a majority Ecuadorians are *Mestizos* (71%), mixtures of colonial descendants and local populations, with minority populations of indigenous and African and European descendants. Spanish is the official language, although a minority still speaks Quechua, the most predominant of traditional indigenous languages.

Ecuador has a nominal GDP of US\$ 109 billion (2016), and a population of 16.6 million (2017), resulting in a nominal GDP per capita of around US\$ 11,788 (PPP). This makes Ecuador the 4th poorest country in South America, despite the fact that poverty

significantly decreased over the last two decades. In 2000, 28% of the population lived on less than US\$ 1.90 per day (2011 PPP-adjusted), but that number has dropped to just 4.8% in 2015. This can be attributed to Ecuador's poverty reduction policies. From an international perspective, Ecuador is part of the *Comunidad Andina*, a customs union which also includes Peru, Bolivia and Colombia.

The Ecuadorian economy is service-based, which sector accounts for almost 60% of its GDP. Industry docks in at 34%, of which the extracting sector supplies the lion's share. Agriculture makes up the missing 7%. In 2017, Ecuador's exports amounted to US\$ 16.8 billion, and imports to US\$ 16 billion, resulting in a positive trade balance of approximately US\$ 800 million. The most important exports are crude petroleum, cacao, shrimps and bananas. The most important import commodity is refined petroleum. The largest export products to the Netherlands are cacao (in various forms), skipjack & bonito tuna, bananas, shrimps and roses. Imports from the Netherlands mostly consist of coal tar oil, medicines, electronic equipment, machinery and bulbs/seeds for various agricultural products.

The political scene is volatile and it is important to note that Ecuador has enacted several investment deterring policies. While

the country removed a slew of import taxes in 2017 by joining the sub-regional free trade agreement with the EU it simultaneously terminated all of its bilateral investment protection treaties (IPTs), including the one with the Netherlands, with the commitment of negotiating modernized IPTs in 2018. These IPTs offered international investors protection, but were terminated after international investors used these treaties to successfully sue the Ecuadorian government because of investment disputes caused by corruption and the failing juridical system. Due to a looming balance of payments crisis, Ecuador has capital controls in effect, like a 5% capital tax for any sum of dollars leaving the country. Because Ecuador uses the US\$, it must carefully manage its money supply through international trade, which has always been balanced by Ecuador's oil exports, but has been jeopardized by low oil prices. Left-wing politics are applied in the extractive sector from 2008-2017, where a great deal of control is exerted by the government, including nationalizations in the past. Investing in Ecuador can be lucrative, but also carries serious risks with it.

Ecuador falls under the responsibility of the Dutch Embassy in Peru, with honorary consulates in Quito and Guayaquil.

Priority sectors

Agro/Food

Like in most Latin-American countries, the agriculture and food industry plays a significant role in the Ecuadorian economy. Even though it accounts for only 7% of the GDP, this sector is highly important for Ecuadorian livelihood strategies and food security, employing over a quarter of the total population. One of the main reasons for this sector's slow contribution to GDP is that it has long been treated as subordinate to oil exploitation in terms of investment preference and public funding. Recently however, agriculture has received more political attention, though growth rates remain moderate. Considering Ecuador-Dutch trade, the agro/food business is one of the most important sectors. Around 95% of the Ecuadorian exports towards the Netherlands consist of agricultural and food products, amounting to a value of approximately US\$ 450 million per year.

Thanks to Ecuador's mild climates and diverse geography, the agro/food sector still shows a high growth potential. Business opportunities can be found in increased production, industrialization, quality improvement and control, certification, organic and biological conversion, enrichment of seeds, disease and pest control and bringing new land under cultivation, especially in the flower, banana, fruit, cacao and seafood sectors. Special interest can be paid to the Ecuadorian seafood production sector, as crustacean production continues to grow, the exports of which overtook bananas as the second most important export in 2017.

Food export is not the only sector with opportunities for Dutch Businesses. Even though large plots of land are owned by export-orientated companies, the majority is still under cultivation by smallholders, producing small yields of mostly food crops for own consumption or local markets. Ecuador still imports most of its foodstuffs, so providing technologies and knowledge for increasing production for domestic consumption provides potential for business. Thanks to active government policy on

reforestation, agroforestry for example, provides an interesting sustainable investment opportunity.

Most important agro/food products produced in Ecuador: Flowers, cattle, banana, (exotic) fruits, shrimp, tuna, coffee and cocoa. Other high potential products are avocado, cranberries, grapes, bulbs, infusions and dietary natural supplements (i.e. guayusa). Two key factors are worth considering in this sector considered comparative advantages of Ecuador: its huge biodiversity – which presents a great opportunity also for the pharmaceutical industry – and the extended number of natural sunlight hours it receives across the year – which plays a critical factor in the quality of agro foods.



Water

Across Ecuador, its farmers as well as city dwellers are facing challenges in both spatial and temporal water scarcity, exacerbated by severe water pollution, limited distribution networks and overall poor management. The combination of Ecuador's topography, dependency on glacial and surface waters resources, and the economic importance of the coastal area, makes the country highly vulnerable for climate change effects in terms of both sea level rise and more extreme weather events. This vulnerability is increased by local human influences like the destruction of mangroves, important for flood protection, as well as deforestation. These threats come hand in hand with opportunities for the Dutch water sector in climate change adaptation, especially considering integrated water resource management related research, modeling, and engineering.

Part of the water scarcity issue could be addressed with increasing sustainable exploitation of groundwater resources. At this moment, however, there is virtually no information available about accessible quantities, status of aquifers, nor overall water balances, which are of vital importance for the sustainable extraction of this resource. Dutch opportunities considering groundwater resources can therefore be found in analyses, modeling as well as the setting up of water management plans, and later on groundwater extraction methods.

The Ecuadorian government does not dedicate sufficient amounts of financial resources to large-scale public projects in the water sector. This means that a substantial part of the funding will have to come from either business-model strategies or development/aid funds. Only sanitation and drinking water programs, including water treatment, distribution and monitoring, benefit from some government funding, in particular for local governments.

Energy

Ecuador is standing at a crossroads with regards to its energy sector, as economic growth and the corresponding rise in energy consumption have required investments in this sector. Total primary energy supply is still dominated by oil, which accounts for 76%, followed by hydroelectricity, which accounts for 19%, and natural gas for 4%. The remaining ~1% is attributed to non-hydro renewables. Ecuador has the third largest proven oil reserves on the South American continent. While oil will continue to play an important role in Ecuador's energy mix, the government is looking towards hydroelectric projects to power its future. Former years' relative political stability since 2007 has allowed Ecuador to invest in these kinds of long-term goals, resulting in possible opportunities for Dutch companies in existing hydro, or new solar/wind projects and energy infrastructure.

Electricity generation is already predominantly hydro-based (58%, 2016), but following the commitment to the 2016 national energy plan, the national ambition is that electricity generation will consist of 90% renewables by the end of 2018, with the largest portion being hydro. At 5,100 MW of installed capacity (2016), hydro still has growth potential - with total potential estimated at more than 21,000 MW. In 2016 the Coca Codo Sinclair hydroelectric power plant came online, with a capacity of 1.5 GW, and five more such projects will be completed in the coming years. There are ample opportunities for companies active in the hydro sector. Other forms of renewables are, as of yet underutilized. That isn't to say that wind or solar won't become more important in the future, as economically viable hydro projects are finite. Ecuador also has a high potential for solar and wind energy, containing areas with a potential solar generation between 4.5 and 5.7 kWh/m² year round, while wind electricity has an estimated capacity of 500 MW in high potential areas where wind speeds reach on average more than 8 m/s. Solar and wind are the sectors with most potential for Dutch companies.

Logistics

Since 2010, US\$ 8.2 billion has been invested in various logistics projects across Ecuador. A prime example are The State Road Network projects, covering more than 9,700 km, which have proven to be difficult to construct and maintain due to Ecuador's mountainous terrain. In a country where mobility has been a historic issue, investments in infrastructure will act as economic arteries, connecting more isolated areas to developed ones and providing opportunities both for local and international companies looking to invest. The process has however been marred by corruption scandals, and foreign companies should keep this in mind.

In 2013 the new Mariscal Sucre Airport opened. A US\$ 700 million project, the airport is emblematic of the logistics sector in Ecuador, with the old making way for the new.

Another key pillar in the logistics and transportation machine would be the port sector. Ecuador already relies heavily on shipping, and this is only going to increase in importance. Its ports are up for modernization, the most prolific of which being the Posorja port, 85 km from the country's second city, Guayaquil. This port will expand cargo capacity to and from Guayaquil by almost 50%, or 750,000 TEU (Twenty-Foot Equivalent Units). This

expansion is planned at a budget of over US\$ 1 billion. Nearby Puerto Bolívar is also expanding, mostly with sophisticated & sustainable technology. This port focuses mainly on the mining industry, and fruit. Both ports' expansion could offer opportunities for Dutch technology export. Port of Esmeraldas is the last port the government wants to give on a long-term concession contract including expansion, development and management.

There are also opportunities for Dutch companies in the logistics portion of the extractive sector. Transport of materials and other supporting infrastructure and technology are in high demand. The extractive sector, including oil, LNG, and mining will continue to have a strong presence in the Ecuadorian economy, and could benefit from Dutch technology and innovation in this sector.

Do's and don'ts in Ecuador

Habits

- Take your time to build personal relationships in business.
- Take your time for, and realize the importance of business lunches.
- Research hierarchical structures between business relations. Especially for the older generation, doing business with someone of a lower level is uncommon.

Social interaction

- Be careful with "Dutch directness", as Ecuadorians value diplomatic and polite behavior over directness. Because of this, Ecuadorians might respond with a yes while they actually mean no.
- Speaking Spanish is a necessity.
- Be patient. Ecuadorians can be less punctual than we are accustomed to, both in personal meetings and in business deadlines.
- Be aware that business and personal communication is more often than not conducted in person, by telephone or even WhatsApp, as opposed to e-mail.
- Be aware that online presence is not (yet) expected from businesses, and as a result many otherwise respectable companies do not have their own website. Many venture online initially through Facebook or other social media channels.

Business

- Be flexible with deadlines, and do not be surprised if they are not met. Seek legal advice with respect to contracts.
- Depending on the scale of the business and type of sector, many transactions are still cash-based.
- Opening bank accounts, acquiring national credit cards and dealing with SRI or tax-related matters – Servicio de Rentas Internas – can be tedious, non-transparent and frustrating. Hire local experts. Start the process early to avoid delays. Seek local advice with respect to SRI.
- E-government and paperless procedures are increasing. However, government pages are rarely user friendly.
- Ecuadorians make extensive use of business cards. Have them with you to make easier connections with business partners.
- Use bilingual business cards.

Official name	Republic of Ecuador
Government type	Unitary presidential constitutional republic
Population	16,385,068 (2016 est.)
Area	283.561 km ²
Time difference	-6 hours (UTC-5)
Currency	US Dollar (US\$)
GDP growth rate	-1.5% (2016) ; 3.34 (last decade)
GDP per capita	US\$ 6018 (2016, Current US\$)
Trade volume	Exports: US\$16.8 billion (2016.), Imports: US\$16 billion (2016)
Inflation	1,72% per year (2016)
Income level	Upper middle income level (World Bank, 2016)
Global Competitiveness Index	97 (out of 137)
Ease of Doing Business	118 (out of 190)
Global Corruption Index	117 (out of 180)
Main trading partners	Import: USA, China, Colombia. Export: USA, Chili, Vietnam. (2016)
Major exports	Crude oil (30%), bananas (16%), crustaceans (15%), processed fish (5.3%), flowers (4.8%).
Major imports	Refined petroleum (8.4%), coal tar oil (6.1%), medicines (4.5%), cars (3.0%), soy flour (2.3%).
Netherlands FDI in Ecuador	€77 million (2016)
Dutch-Ecuador trade	Exports to NL: US\$359 million, Imports from NL: US\$303 million, Trade Balance: US\$+56 million (2016)

Relevant links and contacts

How can we support your business?

Services

The Consulates of the Kingdom of the Netherlands in Ecuador is always willing to assist Dutch companies and organizations that are considering to open business in Ecuador.

The following services and information can be offered:

- Available business support instruments
- Developments in Ecuador
- Market opportunities in Ecuador
- Policies, rules and regulations in Ecuador
- Practicalities in Ecuador
- Relevant locally active entities
- Matchmaking between Dutch and Ecuadorian parties
- Organizing or supporting trade missions to Ecuador



In order to receive any more information, help or contact about business in Ecuador, do not hesitate to contact:

agregadocomercialguayaquil@nlconsulate.com

Business support instruments

- [DTIF](#)
- [PvW - WWSD](#)
- [SIB](#)
- [DHI](#)

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