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ECUADOR'S ECONOMIC TIES WITH SPAIN
AND THEIR DEVELOPMENT IMPACT

by

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS.....	4
PREFACE	5
ABSTRACT	6
RÉSUMÉ.....	7
ACRONYMS.....	8
INTRODUCTION	10
I. INSTITUTIONAL FRAMEWORK FOR ECONOMIC RELATIONS BETWEEN SPAIN AND ECUADOR.....	13
II. IMPACT OF SPAIN'S PRESENCE IN ECUADOR: TRADE AND FINANCIAL RELATIONS	16
III. RECOMMENDATIONS	43
REFERENCES.....	46
OTHER TITLES IN THE SERIES/ AUTRES TITRES DANS LA SÉRIE.....	50

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PREFACE

Understanding the multidimensional relationships -- economic, political, demographic, diplomatic -- between OECD countries and emerging and developing economies lies at the heart of the OECD Development Centre's mission. And those relationships are increasingly complex. In the aftermath of the Second World War, in contrast to today, high-income economies sought to promote economic development in former colonies by means of official development assistance. Today, foreign aid magnitudes are rivalled and often surpassed by other flows from high-income to developing economies: foreign direct investment, portfolio investment, revenues from exports, and migrants' remittances. This working paper considers these questions in the context of a case study: the economic relationships between Spain and Ecuador.

The paper demonstrates that, even while Spain -- like many other OECD member countries -- has committed itself to promoting Ecuadorian development by means of its development assistance policy, other Spanish policies in other policy domains have an effect on Ecuadorian development. These other dimensions of Spanish decision making -- notably in the realms of trade, investment and migration -- may have impacts in Ecuador more important than foreign aid. This interdependence of policy decisions imposes upon Spain and other OECD countries a responsibility to ensure greater coherence among policies, if providers of development assistance are to meet the ambitious development goals they have set themselves.

The 2010 edition of the OECD Latin American Economic Outlook (LEO) -- which draws upon the analysis in this working paper as an important background document -- systematically analyses the relationship between international migration and economic development in Latin America and the Caribbean, a fundamental component of the policy coherence puzzle. LEO 2010 argues that Latin American migration is in fact three flows: people flows, naturally; but also money flows (remittances sent back home) and flows of ideas, which lead to trade and investment flows within transnational diaspora communities. This working paper provides empirical verification of the quantitative and qualitative importance of these multi-faceted flows in the case of Ecuador and Spain.

This paper furthermore lays out concrete policy recommendations, in particular for the authorities in Spain, and by extension, for policy makers in OECD countries more generally. This set of suggestions illustrates the novel challenges of development policy making in a setting where two countries' public policy decisions interact, sometimes unwittingly, and indeed where the decisions of various ministries, agencies and departments interact and overlap. Difficult as these challenges may appear, policy makers have no choice but to meet them head on.

Javier Santiso
Director, OECD Development Centre
July 2009

ABSTRACT

This study provides a general analysis of economic relations between Spain, as a donor of official development assistance (ODA), and Ecuador, as a partner and recipient of development aid. It seeks to assess the potential (in)coherence between Spain's foreign economic activities and the goals of development and poverty reduction that the Spanish government established for its relations with developing countries. Hence, the study's main aim is to determine whether the Spanish government as a whole (and not just Spanish co-operation) is coherent with Ecuador's development and thus coherent with Spain's policies on international development co-operation. We therefore analyse the links between the two countries through trade, international remittances, foreign direct investment (FDI) and external debt, from a development point of view.

The secondary aim is to offer recommendations to help make Spain's activities more coherent with development. One main challenge that arises is the lack of an institutional framework for a wider set of relations between the two countries. Although there is an institutional basis for international assistance activities, it does not cover other economic activities such as trade or investment projects. As a result, incoherences appear, such as the approval of ODA trade credit lines that are eliminated in debt cancellation agreements a few years later.

JEL Classification: F14, F21, F24, F34, F35, O19, O21

Keywords: development, coherence, trade, finance, aid, foreign debt, Spain, Ecuador

RÉSUMÉ

Cette étude analyse les relations économiques entre l'Espagne, un bailleur de fonds, et l'Équateur, pays partenaire et récipiendaire de l'aide au développement. On cherche à établir les (in)cohérences potentielles entre les activités économiques extérieures de l'Espagne et les objectifs de développement et réduction de la pauvreté que le même gouvernement a établis pour ses relations avec les pays en développement. Le principal objectif est alors celui de déterminer si l'ensemble de l'Administration espagnole (et pas seulement l'administration chargée de la coopération au développement) est cohérent avec l'objectif de développement de l'Équateur et, en conséquence, cohérent avec les politiques espagnoles de coopération internationale pour le développement. Concrètement, nous analysons, du point de vue du développement, les liens en matière de commerce, transferts internationaux de migrants, investissements directs étrangers et dette étrangère.

Le deuxième but est d'offrir une série de recommandations afin d'assurer la cohérence des activités économiques extérieures de l'Espagne avec son objectif de développement. Un des défis majeurs réside dans l'absence d'un cadre institutionnel intégrant l'ensemble des relations entre les deux pays. Bien qu'il existe une base institutionnelle pour la coopération internationale au développement, celle-ci ne couvre pas certaines dimensions économiques comme le commerce ou les projets d'investissement. Il en résulte l'apparition d'incohérences comme l'ouverture de lignes de crédit AOD qui sont par la suite résiliées lors d'un accord d'annulation de dettes.

Classification JEL: F14, F21, F24, F34, F35, O19, O21

Mots clés: développement, cohérence, commerce, finance, aide, dette extérieure, Espagne, Équateur

ACRONYMS

AECI	Agencia Española de Cooperación Internacional (Spanish Agency for International Co-operation)
AGE	Administración General del Estado (National State Administration)
BCE	Banco Central de Ecuador (Central Bank of Ecuador)
CAF	Comunidad Andina de Fomento (Andean Development Community)
CAN	Comunidad Andina de Naciones (Andean Community)
CAP	Common Agricultural Policy
CECO	Centro de Estudios Comerciales (Centre for Business Studies)
CESCE	Compañía Española de Crédito a la Exportación (Spanish Export Credit Company)
CLD	Corporación Latinoamericana para el Desarrollo (Latin American Corporation for Development)
CO ₂	Carbon Dioxide
COFIDES	Compañía Española de Financiación del Desarrollo (Spanish Corporation for Development Financing)
CSP	Country Strategy Paper
DAC	Development Assistance Committee
EBA	Everything But Arms
EU	European Union
FAD	Fondo de Ayuda al Desarrollo (Development Aid Fund)
FDI	Foreign Direct Investment
FIEX	Fondos de Inversión en el Exterior (Foreign Investment Funds)
FONPYME	Fondo de Inversión para la Pequeña y Mediana Empresa (SME Investment Fund)
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalised System of Tariff Preferences
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICEX	Instituto Español de Comercio Exterior (Spanish Foreign Trade Institute)
ICO	Instituto de Crédito Oficial (Official Credit Institute)
IDA	International Development Association
IFA	International Financial Architecture
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística, España (National Institute of Statistics, Spain)

INECI	Instituto de Cooperación Internacional, Ecuador (Institute for International Co-operation, Ecuador)
LDC	Least Developed Countries
LMIC	Lower-Middle-Income Countries
MAEC	Ministerio de Asuntos Exteriores y de Cooperación (Ministry of Foreign Affairs and Co-operation)
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEH	Ministerio de Economía y Hacienda (Ministry of Economic Affairs)
MIC	Middle-Income Countries
MIGA	Multilateral Investment Guarantee Agency
MITYC	Ministerio de Industria, Turismo y Comercio (Ministry of Industry, Tourism and Commerce)
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OTC	Oficina Técnica de Cooperación (Technical Bureau for Co-operation)
PPP	Public-Private Partnership(s)
PRSP	Poverty Reduction Strategy Paper
SDRM	Sovereign Debt Restructuring Mechanism
SECI	Secretaría de Estado de Cooperación Internacional (State Secretariat for International Co-operation)
SENPLADES	Secretaría Nacional de Planificación y Desarrollo (National Secretariat for Planning and Development)
SODEM	Secretaría Nacional de los Objetivos de Desarrollo del Milenio (National Secretariat for Millennium Development Goals)
WTO	World Trade Organization

INTRODUCTION

This paper is part of a broader study on development policy coherence, co-ordinated through the OECD Development Centre and conducted with co-operation from that centre and the Ecuadorian unit of the Latin American Faculty of Social Sciences (FLACSO). In addition to its initial contribution of an analysis of Ecuador's development prospects (carried out by Hugo Jácome and Augusto Espinosa), FLASCO also contributed to this project by organising a workshop held in February 2007 at FLACSO headquarters, where a first draft of this document was discussed with a group of noted experts, and by organising some 30 interviews with representatives of different branches of the Ecuadorian government (Ministry of Economic Affairs, Ministry of Foreign Relations, Ministry of Industry and Competitiveness, SENPLADES, Central Bank of Ecuador, Superintendency of Companies and Superintendency of Banking and Insurance), with members of delegations from international bodies (IMF, World Bank, CAF, UN, EU) and the government of Spain (the Spanish Embassy, Bureau of Economy and Trade, AECI), and the private sector (Banco Internacional, Repsol YPF, CORPEI and Banco Solidario)¹.

But like an earlier publication about Senegal (Olivié, 2007), this analysis is part of a broader examination of development policy coherence that the Real Instituto Elcano began in 2005². Specifically, this document seeks to address and compare, for a single recipient of Spanish development aid (Ecuador, in this case), the analysis and recommendations on policy coherence already conducted on the Spanish government as a whole (Olivié and Sorroza, 2006b). This, then, would be the theoretical framework of this study.

In discussing the study's methods, we should also define its key variables. As in earlier results from this project (Olivié and Sorroza, 2006b; Olivié, 2007), development is understood to mean economic and social well-being and, more specifically, achieving MDGs or making progress towards MDGs, which are the current reference framework for development co-operation, both internationally and for Spain, as indicated in the country's current Master Plan (MAEC, 2005a). In turn, the types of policy (in)coherence considered are "whole of government" (in)coherence, as defined in Picciotto (2005a and b), viewed in a strictly economic context. In other words, through this conception of coherence, one can address the possible synergies or inconsistencies in Spain-Ecuador relations regarding trade, remittances, direct investment, foreign debt and, tangentially, economic instruments of development co-operation.

1 The reader should bear in mind that, although the fieldwork for this study was conducted in the first months of 2007, the last update of this document is dated December 2008.

2 For more information on this project, see

www.realinstitutoelcano.org/wps/portal/rielcano/CoherenciaDesarrollo

Table 1. Ecuador's key development indicators

	Year(s)		Unit
Area	2007	283.6	thousand km ²
Population	2007	13.34	million inhabitants
OECD and World Bank classification	2008	LMIC - OECD IDA/IBRD - World Bank	
Politics			
Presidential republic	2008		
EIU democracy index	2007	92nd out of 167	Ranking
		5.64	Index
Confidence in the functioning of democracy	2008	37	per cent
Economy			
GDP	2007	44 180	million USD
Agriculture	2007	6.7	per cent of GDP
Industry	2007	34.9	per cent of GDP
Services	2007	58.4	per cent of GDP
Human development – Achievement of MDGs			
HDI	2005	89th out of 177	ranking
		0.772	Index
Poverty USD1	1990-2005	17.7	per cent
National poverty line	1990-2004	46.0	per cent
Net rate of primary school enrolment	2004	98	per cent
Ratio of boys to girls in primary education	2005	1.01	
Infant mortality rate	2005	25	per 1 000 live births
Maternal mortality rate	1990-2004	80	per 10 000 live births
Percentage of adults with AIDS	2005	0.3	per cent
CO ₂ emissions	2004	2.2	metric tonnes per capita
Gini coefficient	2008	53.6	
Foreign economic relations			
Main trade agreements	2008	WTO CAN Common Market of the South (Associated state)	
Trade in goods	2007	62	per cent of GDP
Incoming FDI	2005	4.5	per cent of GDP
Main initiatives for debt forgiveness or conversion	2007	Paris Club	
Debt service ratio	2006	24.1	per cent of exports
Dependence on aid	2005	0.6	per cent of GDP

Notes:

IDA: International Development Association (soft loan window of the World Bank)

IBRD: International Bank for Reconstruction and Development (hard loan window of the World Bank)

CAN: Comunidad Andina de Naciones (Andean Community)

OECD: Organisation for Economic Co-operation and Development

WTO: World Trade Organization

LMIC: Lower-Middle-Income Country

Source: World Bank, Economist Intelligence Unit, IMF, Latinobarómetro, UNDP

As in the Senegal study, this analysis excluded some elements that were, in fact, part of the broader framework affecting all countries receiving aid (Olivie and Sorroza, 2006b). Excluded items include institutional aspects of the donor country's government that could affect coherence

levels, and the implications of IFA for developing countries. The former deserves to be analysed for the Spanish government as a whole and not specific recipient countries, while the latter should be studied for all developing countries collectively³.

Why Ecuador? The selection criteria are very similar to those that made us choose Senegal for an earlier study. Firstly, we at the Real Instituto Elcano and the OECD Development Centre considered the importance of analysing the impact of Spain's foreign economic relations with a Latin American country, given Latin America's importance to Spain (not only as a region receiving aid but, above all, as an economic partner) and given Spain's importance to the region as a donor and investor, compared to other OECD members. Once we had determined the region, we felt we should concentrate on a high-priority country for Spanish co-operation as defined in the current Master Plan (MAEC, 2005*a*). Third and last, we were looking for a country with a minimum economic flow in the various areas to be analysed: trade, remittances, direct investment and debt.

The next section describes the institutional framework in which economic relations between the two countries operate. After that is a brief review of the economic flow between the two countries, highlighting the relative importance of remittances in comparison with other types of economic ties. This second part continues with a more detailed examination of each of these bonds: trade, remittances, direct investment and debt; studying in depth both the magnitude and nature of this flow as well as the policies (if any) that sustain it, at either a national or supranational level. This, in turn, leads us to assess the prospects for making foreign economic policy goals more compatible with the development criteria prevalent in co-operation policy. In conclusion, the third section offers a set of recommendations intended to increase the coherence of Spanish policies on Ecuadorian development.

³ Arguably, this sectorial analysis of the IFA is what Pablo Bustelo is doing in the collective study on development policy coherence, covering all donors and recipients (Olivieé and Sorroza, 2006*a*).

I. INSTITUTIONAL FRAMEWORK FOR ECONOMIC RELATIONS BETWEEN SPAIN AND ECUADOR

In general terms, the Millennium Declaration, the MDGs, the Monterrey Consensus (United Nations, 2002), the Maastricht Treaty, Spanish Law 23/1998 (the International Development Co-operation Act) and the Spanish Co-operation Master Plan for the 2005-08 Period (MAEC, 2005*a*) require, directly or indirectly, coherence in the Spanish government's policies on the development of countries receiving aid; i.e. that the economic impact of such aid on the recipient country's economic and social well-being should be positive. In addition, this coherence principle gains strength in the third Spanish Co-operation Master Plan for the 2009-12 Period, a plan still in the draft stage.

However, unlike Spain's approach to the Asia-Pacific region or sub-Saharan Africa, the Spanish government has no regional plan in which to situate its policies toward Latin America or, more specifically, toward the Andean region. Nor are there country-by-country plans that would let us analyse the goals pursued by Spain in its economic relations with Ecuador⁴. The basic documents for relations between these two countries deal exclusively with international development co-operation: the Spanish Co-operation Master Plan for the 2005-08 Period (MAEC, 2005*a*) and the strategy for Spanish co-operation with Ecuador (MAEC, 2005*b*).

The Master Plan still in effect designates Ecuador as a high-priority country⁵, which places it among those that will receive up to 70 per cent of Spain's bilateral ODA. For this group, Spanish co-operation will focus on drafting the country strategy documents that will ensure that the policies of the National State Administration are coherent (MAEC, 2005*a*). Moreover, the Master Plan explicitly identifies Latin America as a priority for official development co-operation; a co-operation to be carried out on three inter-related levels: bilateral, subregional (for the Andean zone in the case of Ecuador) and regional (fundamentally through the Ibero-American Co-operation system). Lastly, with regard to co-development activities, the Master Plan states that the main initiatives in this area will be implemented first in Ecuador and Morocco, given the large volume of remittances to these two countries.

4 See Bustelo (2006) for an assessment of the Asia-Pacific Plan, Malamud (2005) for an examination of Spanish policy towards Latin American, and Olivié (2007) for a general analysis of the 2006–2008 Africa Plan and its implications for the development of Senegal.

5 The countries that receive official aid from Spain are grouped into three categories: high-priority countries, countries receiving special attention, and preferential countries.

According to the CSP, in turn, and following the requirements laid down in the MDGs on the international level and the Master Plan on the national level, Spanish co-operation “aims to contribute to the fight against poverty and to the improvement of living conditions for the most disadvantaged population while generating opportunities for the inclusion of the vulnerable sectors, strengthening the process of consolidating democracy, social cohesion and the exercise of citizens’ rights” (MAEC, 2005b, p. 12). To meet this goal, a focus on three priority fields of activity is proposed: *i*) democratic governance, citizen involvement and institutional support; *ii*) covering basic needs; and *iii*) promoting the economic base and businesses. As Section II of this study will show, these last two goals include activities that can also be categorised under the “economic areas” defined for analysis of policy coherence: foreign trade, remittances, direct investment, foreign debt and IFA (Olivie and Sorroza, 2006b). Specifically, coverage of social needs is partly supported by improving access to education. Improving that access is one goal of debt-conversion programmes. Promoting the economic base and businesses, along with other activities, seeks to reinforce the mechanisms for credit access and the productive use of migrants’ remittances.

Nonetheless, tracking the Spanish government’s aid payments to Ecuador (see Section II.1.) indicates two relevant actors in Spain’s co-operation with Ecuador: the MITYC and the MEH, whose principal involvement (granting FAD loans and debt-conversion operations) are not, however, included in the co-operation strategy document. It is striking that two bodies with such prominent roles in Spanish co-operation are not mentioned in a medium-term strategy document. In this sense, the Ecuador CSP is a strategy for MAEC co-operation with Ecuador more than for the co-operation of the entire Spanish development co-operation system.

Ecuador’s development agenda, in turn, has been characterised in recent years by the institutional and political crisis that have afflicted the country for more than a decade (EIU, 2006 and 2008; Pachano, 2005; Sánchez, 2002)⁶. That has been a strong obstacle which has prevented the Spanish government from being able to “support national strategies to fight poverty” (MAEC, 2005b, p. 12), since these strategies have not been defined clearly.

For years, the institutional crisis has resulted in the lack of a political agreement to promote a development plan resulting from a shared overall vision of Ecuadorian society and political forces. However, in recent years, the MDGs were somehow incorporated into the country’s political-economic agenda. The National Secretariat for Millennium Development Goals (abbreviated SODEM in Spanish) was created, and answers directly to the office of the president of the Republic. This secretariat took part in diagnostic projects as well as action proposals to achieve MDGs (SODEM, 2005 and 2006; CISMIL, 2006a and 2006b).

Since the new government took office, there have been a series of administrative restructurings that placed SODEM under SENPLADES, a body that the Correa administration has strengthened. This process is also meant to provide visibility for the current government’s political commitment to development. Likewise, in 2007, to address economic and social planning for development, the Office of the President released the “2007-2010 National

⁶ For example, in the last 23 years there have been 27 ministers of economics and finance.

Development Plan: A Plan for the Citizens' Revolution"⁷. The plan is governed by nine principles with a marked political and social emphasis⁸, expressed more specifically in what the text itself defines as eight strategies for change that redefine the concept of development: *i*) internal development, inclusion, competitiveness and employment; *ii*) sovereign international relations and intelligent, active integration into the world market; *iii*) diversification of production; *iv*) territorial integration and rural development; *v*) sustainability of natural heritage; *vi*) a State with effective planning, regulation and management capabilities; *vii*) economic democratisation and social protagonism; and *viii*) guarantee of Rights.

Some of the plan's strategies would affect Spain's economic agenda with Ecuador and, by extension, the main lines to follow in several instruments covered by this study. Specifically, the policies and instruments analysed in this study would be affected directly by strategies *i*, *ii* and *iii*, and indirectly by *iv* and *v*.

The plan goes further and lists a set of national goals for human development (which are understood to contribute to achieving the strategies and principles indicated above). These are: *i*) foster equality, cohesion, and social and territorial integration; *ii*) improve citizens' abilities and potential; *iii*) increase the population's hope and quality of life; *iv*) promote a healthy, sustainable environment and ensure safe access to water, air and soil; *v*) ensure national sovereignty, peace and foster Latin American integration; *vi*) ensure stable, fair, decent jobs; *vii*) build and strengthen public, common space; *viii*) affirm national identity and strengthen the diverse identities and inter-culturalism; *ix*) promote access to justice; *x*) ensure access to public and political involvement; *xi*) establish a supportive, sustainable economic system; *xii*) reform the State for the collective well-being.

Though these can all serve as a guide for policies and tools put forth in this study (as with the environmental goal as it affects promoting direct investment in the country), goals *v* (specifically the promotion of Latin American integration) and *xi* (establishing a supportive, sustainable economic system) in particular would serve as guidelines in this regard.

The plan itself suggests a set of targets in order to meet each goal. For goal *v*, the main targets are to replace bilateral free trade agreements with the United States with a regional trade and financial focus with South America, make a commitment to a productive economy, and attract direct investment for production sectors as opposed to other sources of foreign funding. Goal *xi*, in turn, makes several proposals for rural, agricultural and fishing development, strengthening of institutions, promotion of competitiveness and productivity, and improving infrastructures. Regarding integration into the world market, the country is pursuing sustainability of foreign debt, geographic diversification of foreign economic relations, and renegotiation of the terms of access to the main export markets.

⁷ <http://plan.senplades.gov.ec/>

⁸ *i*) the human being who wishes to live in society, *ii*) equality, integration and social cohesion; *iii*) the honouring of rights and strengthening of abilities; *iv*) the reconstruction of that which belongs to the public; *v*) a liberating job and leisure; *vi*) supportive, cooperative coexistence; *vii*) harmonious coexistence with nature; *viii*) a democratic, multinational, mega—diverse secular state; and *ix*) a democracy that is simultaneously representative, participatory and deliberative.

II. IMPACT OF SPAIN'S PRESENCE IN ECUADOR: TRADE AND FINANCIAL RELATIONS

II.1. Overview of economic relations between Ecuador and Spain

Most of Ecuador's external revenue comes from the country's primary exports, with oil exports playing an increasing role in recent years. In fact, revenue from oil exports exceeds revenue from migrants' remittances, the second-largest source of external revenue, according to official data (Acosta *et al.* 2006). The composition of the bilateral balance between Spain and Ecuador is somewhat different, as oil trade is less important and migrants' remittances from Spain are more significant.

It is hard to assess the recent overall trajectory of economic relations between these two countries (taking into account trade in goods and services, migrants' remittances, investments and ODA). The lack of information on the volume of migrants' remittances for the years before 2004 leads to a severe underestimation of total economic flow between these countries, as shown below.

Created with data from official Spanish sources, Figure 1 shows a clear predominance of migrants' remittances sent from Spain to Ecuador within the overall economic relations between the two countries. The volume of remittances far exceeds any other economic relation. Though the available data is sparse⁹, we know that in recent years these remittances accounted for more than 80 per cent of the principal entry of foreign currency into Ecuador from Spain. Indeed, in 2004, the remittances tracked by the Bank of Spain accounted for more than 88 per cent of the sum of remittances, export revenue, net investments, and development aid originating in Spain (i.e. more than EUR 942 million out of a total of more than 1 062 billion). The following year, that figure had dropped to just over 84 per cent (slightly less than EUR 992 million out of a total of EUR 1 168 billion).

The second-largest source of Ecuador's revenue from Spain is exports of goods and services from Ecuador (Figure 2). Though Ecuadorian sales to Spain have shown somewhat erratic behaviour, they have increased over the last ten years, having more than doubled in absolute terms. Starting at just over EUR 86 million in 1998, Ecuador's exports to Spain rose to nearly EUR 103 million in 1998 only to drop suddenly to just over EUR 64 million in 2000. After

⁹ The data available at the Banco de España (Bank of Spain) show the geographic distribution of remittances sent from Spain starting in 2004.

hovering around 70 million in 2001 and 2002, exports began to recover in 2003. The most pronounced increases occurred starting in 2005, when exports exceeded EUR 135 million. In 2007, they reached almost EUR 200 million.

For the period under discussion, the third largest source of funds entering Ecuador from Spain is ODA. Except for 1998, ODA exceeded net FDI in every year. In recent years, development aid has been noticeably lower than the amounts recorded for migrant remittances (in years for which we have data) and also below the figures recorded for export revenue. The erratic progress indicated above for other types of flow also applies to ODA flow. In 1998, ODA was just over EUR 18 million, and over the next three years the figure dropped into the range of 13 to just over 18 million. In 2000, ODA rose above 25 million, only to drop again to more than 21 million in 2001. At this point, strong growth took place (to more than EUR 45 million in 2002), a level which was not, however, maintained in subsequent years. In 2003 and 2004, Spanish ODA to Ecuador surpassed 21 and 25 million respectively, later rising to just under 39 million in 2005. A new increase occurred in 2005 that was not maintained in 2006, but which did bounce back in 2007, when ODA was more than EUR 50 million, the highest figure for the entire period.

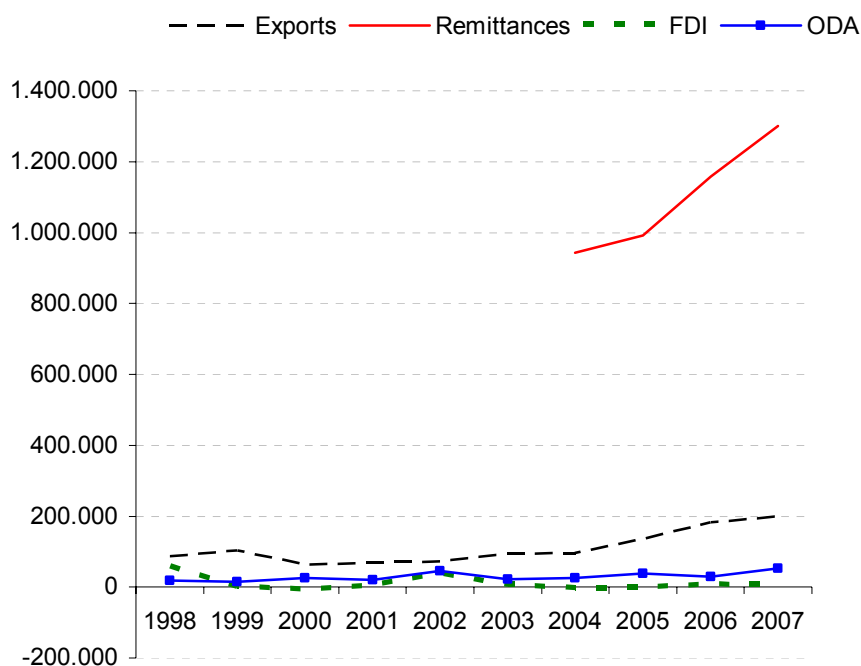
In principle, and tracking the same variables used in the study on the coherence of the Spanish government's development policy in general (Olivié and Sorroza, 2006b), any analysis of internal coherence is excluded¹⁰ and, therefore, this study will not include an analysis of how well Spain's international development co-operation instruments are aligned with the goals of the policy itself. Nonetheless, certain Spanish co-operation instruments also fall under the "economic areas" defined for this study (foreign trade, migrants' remittances, direct investment, foreign debt and international financial architecture). Specifically, prominent items in this regard are FAD loans, microfinance programmes and debt-conversion operations¹¹.

More than half of Spanish ODA to Ecuador is channeled through Spain's AGE. In 2007, 56.76 per cent of gross bilateral ODA came from the central administrative level of the government. Among the various government ministries, key roles were played by the MAEC, the MEH and the MITYC, which that year channeled 55.41 per cent of the gross bilateral ODA. Each ministry's involvement varies noticeably from year to year. For example, the MEH, which in 2005 paid more than 15 per cent of the gross aid, made little or no contribution in the other years. Also erratic is the involvement of the MITYC, as its contribution varied between 1.21 per cent in 2005 and 9.10 per cent in 2007. As for the MAEC, which provided 54.48 per cent of aid in 2004, it saw that number drop to 33.51 per cent in 2006, only to rise to 46.31 per cent in 2007.

10 For a survey of the conceptualisation and classifications of policy coherence, see Olivié and Sorroza (2006a and 2006b).

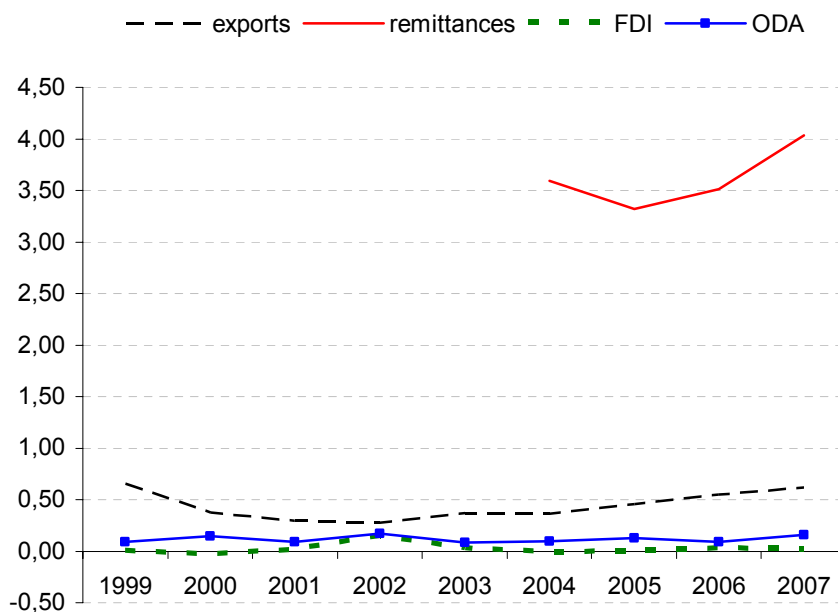
11 This situation also occurs in other countries that receive aid from Spain. For a detailed case study of Senegal, see Olivié (2007).

Figure 1a. Summary of economic relations between Ecuador and Spain (1) in thousands of EUR



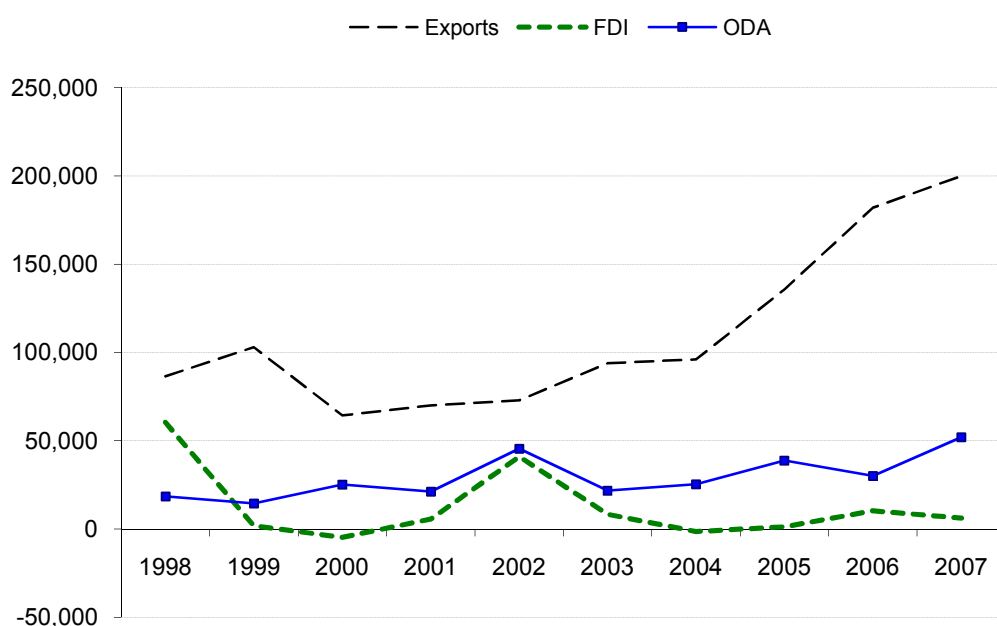
Source: Bank of Spain, MITYC (DataComex and DataInvex), MAEC, OECD (OECD.Stat) and the author's research

Figure 1b. Summary of economic relations between Ecuador and Spain (1) in per cent of Ecuador's GDP



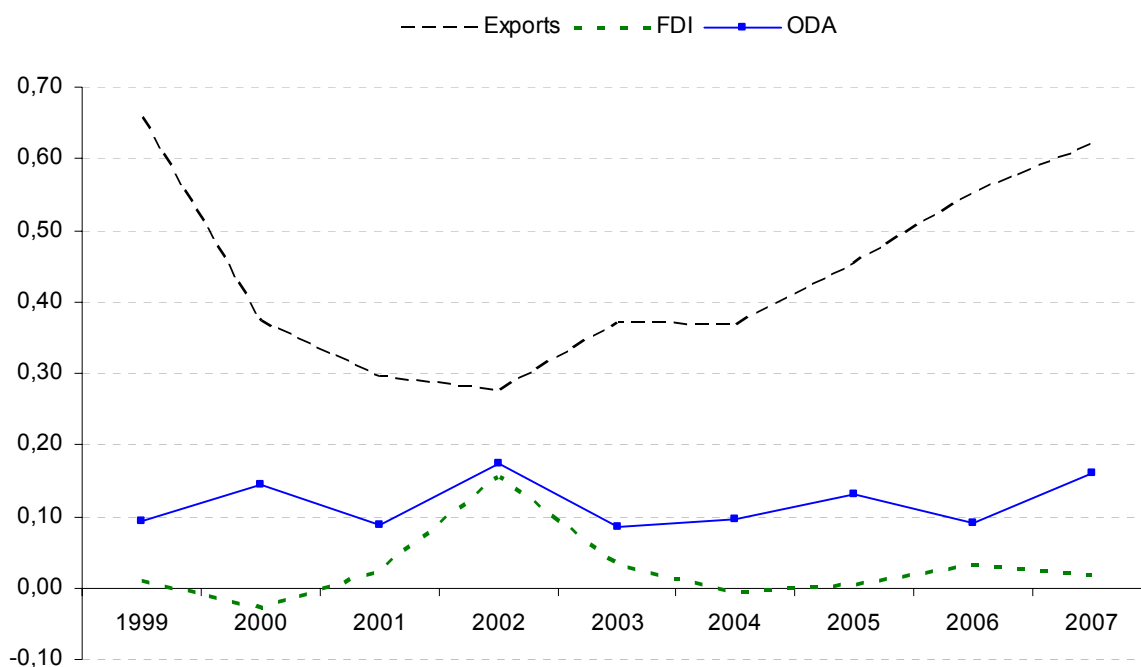
Source: Bank of Spain, MITYC (DataComex and DataInvex), MAEC, OECD (OECD.Stat), World Bank (World Development Indicators Online), European Central Bank and the author's research

Figure 2a. Summary of economic relations between Ecuador and Spain (2): detail in thousands of EUR



Source: Bank of Spain, MITYC (DataComex and DataInvex), MAEC, OECD (OECD.Stat) and the author's research

Figure 2b. Summary of economic relations between Ecuador and Spain (2): detail in percentage of Ecuador's GDP



Source: Bank of Spain, MITYC (DataComex and DataInvex), MAEC, OECD (OECD.Stat), World Bank (World Development Indicators Online), European Central Bank and the author's research

Table 2. Principal actors in Spain's official co-operation in Ecuador in thousands of EUR and per cent

	2004	2005	2006	2007	Total for the period
MAEC	19 318 (54.48)	17 810 (42.16)	11 130 (33.51)	25 206 (46.31)	73 464 (44.43)
MEH	6 (0.02)	6 475 (15.33)	0 (0)	0 (0)	6 481 (3.92)
MITYC	2 241 (6.32)	510 (1.21)	2 979 (8.97)	4 953 (9.10)	10 683 (6.46)
Subtotal	21 565 (60.82)	24 795 (58.70)	14 109 (42.48)	30 159 (55.41)	90 628 (54.81)
Total gross bilateral ODA	35 459	42 243	33 212	54 424	165 338

Note: parentheses indicate per cent

Source: MAEC (2008)

The data on MAEC aid payments for these years show what might be a change in co-operation trends articulated by that ministry. In 2004 and 2005, about 2/3 of gross ODA was channeled through the Fondo para la Concesión de los Microcréditos (Fund for the Granting of Micro-Credit) while the other 1/3 was channeled through the AECEI. In fact, the CSP for Ecuador emphasises two microfinance goals, one of which seeks the productive use of migrants' remittances sent to Ecuador. In 2006 and 2007, by contrast, there is little or no funding for micro-credit. These two years brought a substantial increase in funds channeled through the AECEI, and the SECEI began to transfer funds through multilateral development bodies. Those funds eventually rose to more than EUR 7 million.

The participation of the MITYC, in turn, involved a single instrument: FAD loans. During the period under discussion, practically 100 per cent of the payments were concentrated in this type of repayable aid.

Lastly, the activities of the MEH were focused on debt-cancellation and debt-conversion programmes.

Thus there are apparently signs of a shift toward the MAEC contributing a larger percentage of Spain's overall aid, which would help reduce the erratic fluctuations in ODA and also (along with a relative decrease in micro-credit loans) would tend to reduce the relative weight of repayable aid. As shown in Table 3, the sum of gross payments of FAD loans and micro-credit loans represents, for these years, about 22 per cent of total gross aid. (Note that this percentage was 42 per cent for 2002-05.)

It should be mentioned, however, that MAEC data indicate an increase in FAD payments in 2006, reaching almost EUR 5 million in 2007. Also, given the levels of per capita income in Ecuador, only half the repayable financing granted by the MITYC was provided under concessionary terms that count as ODA, with each loan accompanied by an equivalent sum lent

under commercial financing terms. Therefore, the debt levels generated in Ecuador through Spanish co-operation could become 100 per cent higher than indicated in Table 3.

Table 3. Repayable aid to Ecuador in thousands of EUR

	2004	2005	2006	2007	Total for the period
Gross FAD payments	2 235	510	2 979	4 953	10 677
Reimbursements to FAD	-8 863	-3 426	-2 882	-2 361	-17 532
Net FAD	-6 628	-2 916	97	2 592	-6 855
Gross micro-credit payments	13 048	11 088	0	1 000	25 136
Micro-credit reimbursements	0	0	0	0	0
Net micro-credit loans	13 048	11 088	0	1 000	25 136
per cent subtotal with regard to gross ODA	(43.10)	(27.46)	(8.97)	(10.94)	(22.62)

Note: parentheses indicate per cent

Source: MAEC (2008)

Despite improved levels of indebtedness in recent years (the debt service ratio dropped from 36 per cent of exports in 2004 to 24.1 per cent in 2006 [Table 1]), Ecuador has had almost chronically high foreign debt. Its levels of foreign debt contrast with those of other developing countries that have been able to benefit from multilateral debt-forgiveness initiatives, like the HIPC and MDRI programmes. This is true of Senegal, for example, whose debt service ratio in 2006 was 6 per cent of exports. In fact, this situation explains the bilateral debt-conversion agreements with Spain, which will be analysed below. Under the circumstances, it is advisable for donor countries to be prudent in granting repayable aid that would contribute to deepening Ecuador's foreign debt.

There are some additional features of the programme of FAD loans to Ecuador worth highlighting. The most recent loans are part of the Spanish-Ecuadorian financial co-operation programme, signed on 29 September 1997, which granted Ecuador up to 74.4 billion pesetas in credit for a three-year period, from 1998 to 2000¹². The programme, which also establishes the financial terms of the loan agreements and their tied nature (with bidding limited to Spanish companies, to be carried out with technical assistance from the Trade Office of the Spanish Embassy) was extended to June 2006 by mutual agreement. According to data from the MITYC, the FAD loans to Ecuador through this programme totalled more than USD 100 million split among six projects approved between 1997 and 2003 (Table 4).

The programme has not been renewed, so at present no financial programme is in effect for FAD loans. The MITYC itself indicated in early 2007 that a new programme might be negotiated after the new Ecuadorian government took office. However, the CSP for Ecuador makes no mention of this co-operation instrument (MAEC, 2005

12 Using the rate of exchange in effect when Spain adopted the euro, this amount was equivalent to 447 million EUR.

), neither in regard to the recently instituted programmes that are still in effect, nor in regard to new potential partnerships of this type. Also, no MITYC documents describe a policy for this instrument in connection with Ecuador (medium-term or long-term guidelines, principles or goals).

Table 4. FAD loans to Ecuador broken down by sector and approval date in millions of USD

Project	Contract amount	FAD amount	Approval by Council of Ministers
Phase 1 of second stage of Quito trolleybus system	55.00	27.50	26/12/97
Supply drinking water to Loja	33.44	33.44	30/12/99
Strengthen technical education	27.58	13.79	01/02/02
Land registry: land-use planning for agricultural zones	20.69	10.34	13/12/03
Improving the quality of private education and community-based media I	25.25	12.62	19/12/03
Improving the quality of private education and community-based media II	4.75	2.38	19/12/03
Total	166.71	100.07	

Source: MITYC

Unlike micro-credit loans, the FAD loans are given as tied aid, contingent on acquisition of goods and services from Spain. This type of aid, strongly discouraged by the OECD, limits the expansion of local production (by giving preference to acquisition of goods from abroad) while boosting the level of imports to the recipient country and affecting its trade deficit.

Thus, several studies have negatively assessed this co-operation instrument, both for recipient countries in general (for example, González and Larrú [2004]) and for Ecuador in particular (see Intermón Oxfam [2006]). A frequent recommendation to the government is to stop classifying loans as development aid and admit that from this standpoint, the instrument's only goal is to support the internationalisation of Spanish business. Moreover, the review of this instrument that has been underway for several years might lead to splitting it into two entities, each prioritising one of the tool's two current goals. However, in this analysis of development policy coherence within a comprehensive view of economic relations between Ecuador and Spain, what interests us about any Spanish government instrument (whether related to co-operation or not) is its potential to achieve one of Spain's goals for countries receiving aid: development. From this perspective, the debate over whether to count FAD as ODA, very important in other contexts such as the sectoral breakout of Spanish co-operation, is not too relevant.

In short, it would be appropriate to discourage the negotiation of a new financial programme for FAD loans between these two countries. In addition, as previously noted regarding economic relations between Senegal and Spain (Olivie, 2007), granting new FAD loans or another type of repayable aid may lead to a strange situation in which some development co-operation takes the form of ODA loans that are later forgiven. In this vein, one can compare the total debt repaid between 2002 and 2005 (25 million) with the total debt forgiven in the same period and classified as ODA (nearly EUR 19 million).

In any case, Spain's own Economic and Trade Office in Quito confirmed in late 2008 that, given the Ecuadorian government's current priorities on foreign debt, negotiation of a new agreement on this matter is out of the question in the medium term. We should also bear in mind the Organic Law on Fiscal Responsibility, Stabilisation and Transparency promoted by the Ecuadorian government in 2002, intended to achieve a ratio of debt to GDP of no more than 40 per cent by 2008.

Finally, there is FDI, the type of Spanish funding least common in Ecuador. For the selected period, except for 1998, the net Spanish investments were lower than any other economic flow towards Ecuador. It also shared with other flows a recent "sawtooth" progression that nonetheless indicates a downward trend in incoming investments from Spain. In 1998, net FDI was more than EUR 60 million, but it decreased sharply the following year and did not recover until 2002, when nearly EUR 41 million of Spanish direct investment flowed into Ecuador. Starting in 2003 there were further declines and recoveries, resulting in a net FDI flow of just over EUR 6 million in 2007.

We have observed that the erratic behaviour characterising FDI flow also occurs in other types of economic flow between these two countries. This is largely due to the low intensity of their economic relations, with strong relative increases and decreases even though the raw numbers are consistently low. In the case of FDI, as we will see below, this up-and-down progression can also be explained by the relatively large size of the investment projects.

II.2. Trade relations between Ecuador and Spain

According to data from the BCE, Ecuador's exports of goods and services have been highly dynamic in recent years. Between 2002 and 2007 they experienced a nearly tenfold increase, primarily due to rising oil prices. Ecuador's main exports are raw materials, including crude oil, plantains and bananas. Imports, in turn, are noticeably more diversified, though raw materials and capital equipment for industry account for a large percentage, as do fuels and lubricants.

According to BCE data, the top export product in 2007 was crude oil (50 per cent of exports), followed by bananas and plantains (nearly 9 per cent of exports), making Ecuador one of the world's leading banana exporters (EIU, 2006). These two export segments, when combined with foreign sales of Ecuadorian coffee, shrimp and prawns, cocoa, tuna and flowers means that the country's traditional products account for more than 66 per cent of total exports. The weight of oil exports is partly due to the rise in crude oil prices in the first half of this decade (in 2006, 54 per cent of total export revenue came from crude as opposed to 40 per cent in 1996 [EIU, 2008]). Nevertheless, the distribution of exports has not change noticeably in recent years. In 2002, crude was also the main export product (35 per cent of total sales). That same year, crude oil and traditional products accounted for 63 per cent of total sales.

According to data from EIU (2008), Ecuador's main trading partner is the United States: in 2006 the US received 54.1 per cent of Ecuador's exports, and was the source of about 25 per cent of Ecuador's imports. In addition, the United States' imports from Ecuador have been increasing, since in 1998 they constituted 39 per cent of the Andean country's sales. This upward

trend is due, in part, to the predominance of oil among the sales to the US; oil sales that have been especially dynamic in recent years. A major portion of Ecuador's exports are destined to other American countries (Peru, Colombia and Chile received more than 15 per cent of these sales in 2006), which means that Ecuador's foreign trade takes place primarily within the Americas (in 2006, more than 73 per cent of sales were to that part of the world). Thus, the European Union would be a marginal trading partner for Ecuador, which somewhat explains the makeup of its exports to the EU, a large percentage of which consists of bananas (a product that has been less dynamic in recent years than the oil exported to the United States). Exports to Spain, in turn, rose to 2.2 per cent of the total volume in 2005, making it Ecuador's number six export destination (EIU, 2006).

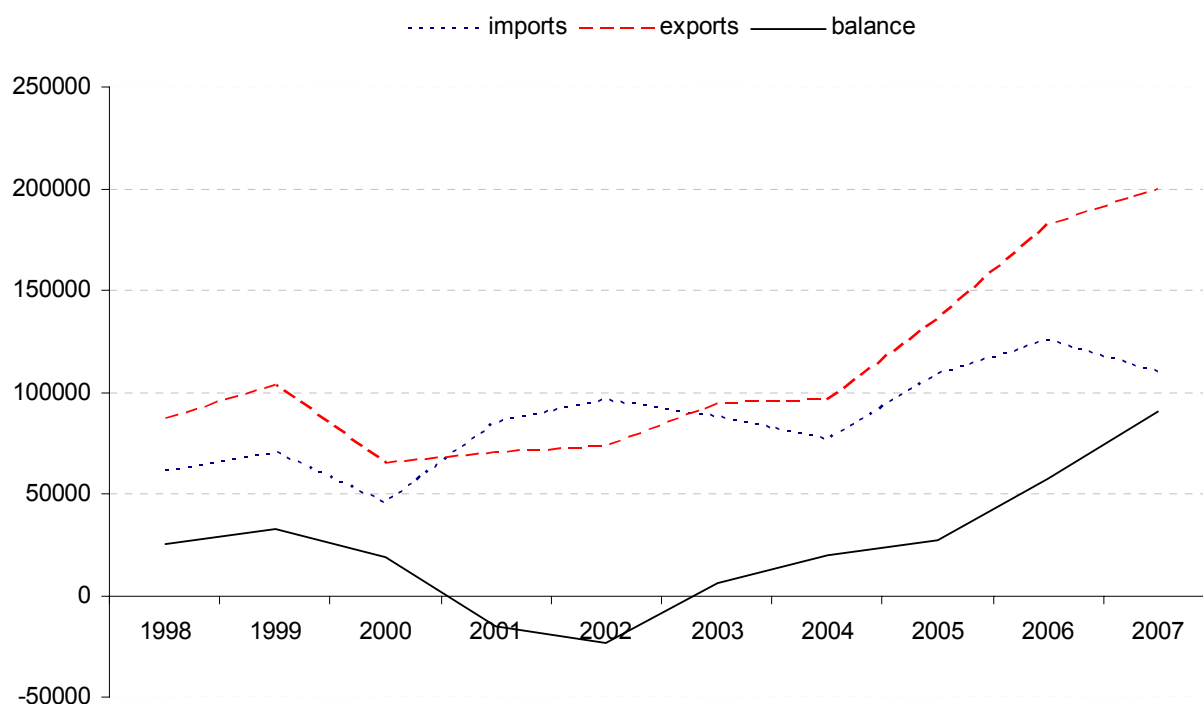
Except for 1998, a time of financial crisis, Ecuador has traditionally recorded a trade surplus. In 2000 the balance turned negative as the result of an import boom. However, dynamic trade in crude oil returned the trade balance to positive levels in 2003. Ecuador also had a trade surplus with Spain in the late 1990s. The financial crisis marked a turning point: there was a reduction in trade volume between the two countries but, above all, a reduction in Ecuador's exports, giving it a negative balance in 2001 and 2002. Ecuadorian exports to Spain, which began to recover in 2001, yielded a positive balance in 2003 that remains in place at this writing. Ecuador's surplus increased almost fifteen-fold between 2003 and 2007 (Figure 3). In any case, it is worth noting the increasingly intense trade relations between the two countries: trade volume has more than doubled in the last ten years, rising from nearly EUR 148 million in 1998 to more than 301 million in 2007.

Just as Spain is a marginal trading partner for Ecuador, the Andean country is not one of Spain's principal export destinations or sources of imports. In fact, Spain's trade with Latin America in general is not very significant compared with its trade within the EU. Spain's most noteworthy trading partners in Latin America are Mexico and, to a lesser extent, Brazil. According to MITYC data, Ecuador accounts for 0.09 per cent of Spain's purchases abroad and 0.11 per cent of its foreign sales.

As with Ecuador's exports in general, products destined for Spain are concentrated on a short list consisting of a few primary products. From 1998 to 2007, more than 90 per cent of sales were concentrated in four food or primary products, according to data from Spain's Ministry of Commerce. With few variations, this concentration level remained in place throughout that period. However, there are major differences between Ecuador's export pattern in general and the specific pattern it follows with Spain: oil, which represents such a large portion of Ecuador's total sales, is not one of its leading sales to Spain. The main export segment is food (including the segments for fishing products, fruits and vegetables, as well as animal-based and vegetable-based raw materials). Specifically, fishing products are Ecuador's most important export to Spain, representing on average more than 65 per cent of exports to the country for 1998-2007¹³ (Table 5). Notable among the fish products are tinned tuna (whose sales, according to the MITYC

13 There is a striking similarity between Spain's export patterns with Senegal and Ecuador. See Olivie (2007).

Figure 3. Trade relations between Ecuador and Spain in thousands of EUR



Source: MITYC (DataComex) and the author's calculations

(Table 5). Notable among the fish products are tinned tuna (whose sales, according to the MITYC [2006], are the leading export to Spain), prawns (which have risen to an annual level of 25 per cent) and processed or tinned fish. A considerable portion of these exports will be intra-firm since the major Spanish companies in the sector have their own processing plants on the coast of the country.

Spain's imports from Ecuador are more diversified: for the 1998-2007 period, six products account for less than 69 per cent of total imports (as opposed to four products accounting for more than 90 per cent of exports). Much as occurs with Ecuadorian imports from its trading partners in general, the imports from Spain incorporate more added value than Ecuador's exports to Spain (chemicals, transport supplies, machinery and other capital equipment).

It should be noted, however, that according to a report from the same ministry (MITYC, 2006) the list of Spain's principal exports to Ecuador differs from the DataComex information. According to this report, the main exports are electronic devices and equipment, machinery, textile machinery, ceramic floor covering, books and printed matter, plastics for greenhouses, pharmaceutical chemicals, paper, wines and confectionary products.

Table 5. Ecuador's main exports to and imports from Spain in per cent

	Overall average 1998-07	2003	2004	2005	2006	2007
Exports						
Fish	65.17	64.72	61.75	64.06	69.20	66.10
Fruits and vegetables	19.03	20.45	19.21	20.26	19.20	16.01
Animal and vegetable raw materials	6.89	6.65	7.91	7.16	6.05	6.69
Per cent of total	90.85	91.82	88.88	91.14	94.06	88.36
Imports						
Food	15.16	13.42	18.23	15.07	15.30	13.78
Fish	11.14	10.12	13.52	10.90	11.77	9.40
Semi-finished products	25.74	26.51	29.48	23.87	22.68	26.15
Chemicals	16.92	14.79	19.89	16.88	14.82	18.20
Capital equipment	40.77	38.88	33.95	48.14	44.74	38.14
Industry-specific machinery	10.61	18.20	9.71	6.76	8.92	9.45
Transport supplies	11.99	4.27	8.23	21.79	23.10	2.54
Other capital equipment	11.52	12.43	10.84	6.65	9.69	17.97
Finished consumer goods	10.26	13.70	11.80	7.80	8.43	9.58
Other finished consumer goods	6.24	8.48	7.40	4.37	4.88	6.06
Per cent of total	68.41	68.29	69.60	67.35	73.18	63.62

Source: MITYC (DataComex) and the author's calculations

The state of Ecuador's economic development is reflected in its trade balance. This is a primary export economy that concentrates its production and exports on a short list of products. Ecuador is not having trouble achieving equilibrium in its trade balance or its balance of payments, unlike most developing countries. However, we must take into account that these positive balances are largely the result of revenue from crude oil exports and migrants' remittances. Therefore, a major portion of the trade surplus depends on the international price of a raw material that traditionally experiences high levels of volatility, as we have been able to observe in recent years. As for migrants' remittances, we must remember that, despite the advantages of this uncompensated flow that is channeled directly to the population, there is danger of a decrease in this revenue as families are reunited abroad, as migrants return, or if the economic crisis worsens in Spain or the United States. In short, the equilibrium of the current account balance is largely precarious and encourages consideration of reforms that could lead to structural change, with less dependence on production and export of a few primary products. In this regard, the EIU (2006) indicates that in Ecuador, the modern sector coexists with another less modern and productive one, which lacks access to credit and depends largely on development aid to increase its levels of productivity and mechanisation.

A more recent report (EIU, 2008) considers Ecuador one of the most open economies in the region (from 2000 to 2006, its trade in goods rose to 30 per cent of GDP). This liberalisation was carried out mainly during the 1990s (World Bank, 2005), as part of the restructuring and adjustment programmes of the IMF, which followed the phase of industrialisation through import replacement. Ecuador has been a member of the WTO since 1995. It has also been a

member of the Andean Community (CAN) since its founding in 1992. As a CAN member, it is subject to the common external tariff which nonetheless has numerous exceptions (MITYC, 2006). In its trade relations with OECD countries, its efforts have focused on negotiation of an FTA with its main trading partner, the United States. At first the negotiations were held jointly with Colombia and Peru, but later they became bilateral. The other two Andean countries have already signed the agreements with the United States, which obviously reduces the negotiating power of Ecuador, which has not yet signed.

As an Andean country, Ecuador has benefited from successive revisions to the GSP trading arrangement granted by the EU. In 1990 the EU granted the Andean Generalised System of Preferences, commonly referred to as the Andean GSP. This GSP was contingent on the beneficiary countries' contribution to the fight against the drugs problem. Temporary in nature, the Andean GSP was replaced in 2001 by the Drugs GSP, which would remain in effect from the start of 2002 to the end of 2004. This second scheme allowed the entry of various products into the EU tariff-free or with greatly reduced tariffs. Access to the European market was contingent on the fight against drugs, the defence of workers' rights and the sustainable management of forested areas, through the ratification and enforcement of the main international conventions on these subjects. The tariff exemption affected 91 per cent of the tariff lines which, in principle, would largely deregulate access to the European market. On 1 January 2005, the Drugs GSP was replaced by GSP Plus, which applied to the Andean and Central American countries as well as Moldova, Georgia, Mongolia and Sri Lanka. GSP Plus involved a generalised extension of preferences, allowing 6 000 products to enter the EU with payment of reduced duties. The GSP Plus arrangement, like the Andean GSP and Drugs GSP before it, has undergone continuous modifications. Some of these involved broadening the arrangement, allowing Andean producers easier access to the European market, but many involved narrowing the arrangement in ways that eroded preferences, as a result of the European Union's necessary compliance with the rules imposed by the WTO under the most-favoured-nation clause.

Nonetheless, as in earlier arrangements, bananas, Ecuador's main export to the EU, were excluded. In fact, the rules for bananas' access to the European Union are traditionally the main point of contention in the handling of trade relations between the EU and Ecuador, and by extension with the CAN. On 1 January 2006, the new European tariff on bananas came into effect, which is currently set at EUR 176 per tonne. So far, Ecuador and various Latin American countries acting jointly have been able to successfully appeal this decision before the WTO. Recently, the WTO ruled in favour of the Andean country yet again. This makes nine rulings in favour of Ecuador and against the EU since 2000 regarding the problem of access to the European market for bananas.

From the standpoint of the EU, this measure is meant to protect the European banana industry (presumably that of the Canary Islands). Some trade experts interviewed for this study, however, indicated that the main reason behind European protectionism could lie in the European Union's desire to strengthen preferential trade relations with African countries (or to be more specific, the banana-producing former French colonies). Bear in mind that in that same year, 2006, the EU dropped its banana import quotas for LDCs, as part of the EBA treaties (European Commission, 2006a).

Ecuador's exports to the EU under the GSP have grown much more swiftly than exports covered under the general arrangement. This would suggest that the GSP arrangement covers the appropriate products (at least in the case of Ecuador) or that this Andean country was able to take advantage of the trade options offered by the EU. But in this regard it should be noted that bananas account for around 50 per cent of Ecuador's exports to Europe and that, despite that, the EU has granted this product no kind of trade preference. In fact, the European Commission's own data indicates that bananas constituted 90 per cent of the total value of exports from Andean countries to the EU under the general trade arrangement¹⁴.

At this writing, negotiations were still underway for an association agreement between the EU and the CAN. This agreement would go further than the proposed FTA with the United States: in addition to a trade agreement it would include co-operation and policy elements similar to those in other economic agreements signed by the EU with other regions. According to Spain's Ministry of Commerce (MITYC, 2006), agreeing to a common external tariff for imports from the CAN was the main sticking point in the negotiations. In any case, representatives of the Ecuadorian government and its agents in Quito involved in these negotiations have been relatively optimistic about the likelihood of a successful outcome from the negotiations. In this regard, it should be noted that Europe has not excluded from the negotiations, *a priori*, the possibility of easing access to the European market for bananas.

Thus, as usually occurs in the European Union's economic relations with developing countries, its dealings with Ecuador are handled at the regional level, through the CAN. As is also usual in these cases, the European Commission's development co-operation has been gradually focusing on the Andean integration process. The EU has developed or is developing projects to provide technical assistance to build trade capacity (such as the ExpoEcuador project or Trade-Related Technical Assistance [TRTA]), projects to homogenise regional statistics systems (the ANDESTAD project), projects to harmonise the rules of competition in the Andean region, and projects to bolster the customs union (the Granadua project) (European Commission, 2006b).

In the broader analysis of Spain's economic policy coherence in general (Olivié and Sorroza, 2006b), three key points are emphasised about the impact of foreign trade on the development of countries receiving aid: a strategic, non-discriminatory approach to integrate less developed countries into trade, provide better access to markets and foster the production and export capacity of the country receiving aid.

Regarding Ecuador's strategic integration into international trade, as we have just seen, the country already carried out a structural reform that led to advanced liberalisation of trade. A more strategic integration into international trade could involve a partial reversal of that process, which would probably not be possible from a policy or WTO standpoint, nor perhaps in the context of the CAN, nor in the negotiations for an association agreement with the EU.

14 In this context, an interesting line of research would be an assessment of the lost export revenue and lost economic growth caused by Europe's trade barriers to Ecuadorian bananas.

What does seem an important field of action for the EU in general and Spain in particular is market access. We have already seen that Ecuador's main exports to the EU are primary products, specifically foods, and that bananas, the principal export, traditionally face major barriers to accessing the European market. Alongside this phenomenon, we must consider, in broader terms, the system of European agricultural protectionism summarised in the CAP.

The same occurs with the boosting of production and export capacity. Ecuador's primary single-export economy makes capacity-building activities advisable for donors in this context. This kind of support becomes essential in a potential trade agreement between the EU and Ecuador. Co-operation assistance in this area would also be consistent with Ecuador's National Export Promotion Plan for 2001-10 (Plan Nacional de Promoción de Exportaciones del Ecuador 2001-10), which pursues both increased annual growth in Ecuadorian exports (as much as 7 per cent per year from 2001 to 2010) and a diversification of these exports in terms of products, destinations and local economic operators. As indicated above, a considerable portion of European Commission development co-operation had been focused precisely on the export sector and the integration process. Although it is still too soon to assess these co-operation projects, many of which are in the implementation phase, we should point out that some of those responsible for these projects support drawing up more activities of this sort, as they still detect considerable gaps¹⁵.

More broadly, it seems that the main deficit in the trade relations between Ecuador and Spain is the lack of a trade agreement to serve as a framework for these relations and make them predictable. When relations are conducted "in a vacuum" like this, there is the risk of unpredictable obstacles caused by unilateral decisions. When such EU decisions impede access to the European market, Ecuador's trade development is hampered. This hinders achievement of the MDGs, making it hard to meet the goals set by the Spanish government in its Co-operation Master Plan (MAEC, 2005a). Clearly the association agreement between the EU and the CAN is important in addressing this problem.

II.3. Migrants' remittances

As seen above, according to data from the Bank of Spain, Ecuadorian migrants' remittances from Spain to Ecuador in 2007 accounted for more than 83 per cent of the main types of economic flow analysed in this study: remittances, export revenue, net investments and development aid. This is, then, quantitatively the most important element in the economic relations between the two countries. The importance of remittances to Ecuador's economy and, especially, for Latin America in general, may explain the proliferation of studies on this topic in recent years¹⁶.

15 An initial assessment regarding the creation of future projects would be to take into consideration the relatively small size of the Ecuadorian companies involved in the export sector, in comparison with their European counterparts.

16 See, for example, Cox et al. (1998), IMF (2005) Gosh (2006), López—Córdova and Olmedo (2006), Rapoport and Docquier (2005), and Solimano (2003) for people's motivations for sending remittances; Cirasino et al. (2008), IMF (2005), Orozco (2006) and Orozco and Fedewa (2006) for analysis of the costs of

According to a study by Acosta et al. (2006), there are probably some 3 million Ecuadorians living outside their country, of which 1 million are thought to have left the Americas between 2000 and 2005. The study identifies three phases in the migratory movements of Ecuadorians. In the first phase, from 1993 to 1997, there was a moderate increase in migratory flow. In the second phase, from 1998 to 2000, the 1998/99 financial crisis (which led to a drop in GDP and a rise in unemployment and inflation) appears to have caused a sharp rise in the number of workers leaving the country. In the third phase, from 2001 to 2005, these departures reached a degree of saturation.

Traditionally, the main destination for Andean and Caribbean migrants was and is the United States, though there has been an observable increase in migration to Europe, particularly in the wake of the financial crisis of the late 1990s. According to INE data, 408 394 people immigrated to Spain from Ecuador between 1998 and 2007. In addition, the arrival rate over this period appears to have decelerated in recent years from a peak of 88 732 immigrants in 2002 to 14 292 in 2006 and 24 647 in 2007. In any case, these figures are noticeably larger than those recorded for most sub-Saharan countries, despite heavy media attention to illegal immigration by boat from Africa to Spain. For example, according to the INE, the number of arrivals from Senegal in 2007 was 10 261.

Thus, the main reason for the high volume of remittances from Spain to Ecuador is the massive influx of Ecuadorian migrants into Spain in the first years of this decade. This influx is related, again, to the financial crisis in Ecuador that forced people to emigrate, an essential push factor. But aside from Spain's robust economy in those years, one pull factor to keep in mind is Ecuadorians' free entry into Spain until a visa system was imposed in 2002. Until that year, Spain's migratory policy towards the countries of Latin America allowed migrants free entry: they could enter as tourists with little or no proof of their planned tourist activities. The imposition of visas through European channels, when Spain joined the Schengen Area, surely helps to explain the slowed influx of migrants in later years (Aja and Arango, 2006).

Differences in the volume of migration from Africa versus Latin America yield similar differences in the volume of remittances sent. According to Fajnzylber and López (2007), on a per capita basis, Latin America is currently the world's leading recipient of remittances. And although, according to those same authors, Ecuador is not a notable recipient of remittances in the context of Latin America (for example, Haiti receives remittances for 52.7 per cent of its GDP while, in raw numbers, Mexico is the region's leading recipient, with USD 21.8 billion in 2005), a study by MIF-FOMIN (2004) indicated that the increased arrival of remittances in the Andean region in the middle of this decade was greater than in Central America or the Caribbean. Specifically, according to a slightly earlier analysis by Solimano (2003), Ecuador was the leading Andean recipient of remittances. Nonetheless, more recent data from the MIF-FOMIN suggests a deceleration of the remittances' growth rate. In 2007, the total volume of remittances to Latin America rose to USD 66.5 billion, 7 per cent more than the previous year; it was the first year since 2000 that the remittances increased by less than 10 per cent.

sending remittances; and Barham and Boucher (1998), Fajnzylber and López (2008), Koechlin and León (2006), Rubenstein (1992) and Taylor (1999) for analysis of the impact on human development.

In any case, Ecuadorian remittances are thus appreciably higher than those sent to Senegal and have a greater impact on both Ecuador's economy and Spain's. According to data from the Central Bank of Ecuador, remittances sent to the Andean country have increased more than tenfold in 14 years, rising from USD 273 million in 1994 to 3 088 billion in 2007. Thus remittances have now risen to just over 7 per cent of Ecuador's GDP. Of that sum, according to the same bank, about USD 1.3 billion originated in Spain in 2006. This means that currently, just over 44 per cent of the remittances received by Ecuador come from Spain, making it the number two source of Ecuador's incoming remittances. Ecuador is, in turn, one of the main destinations for outgoing remittances from Spain, according to the Bank of Spain: the Andean country received 16 per cent of the total remittances sent from Spain in 2007 (Table 6).

Table 6. Basic data on remittances from Spain to Ecuador in millions of USD and per cent

	2004	2005	2006	2007
Total remittances to Ecuador in millions of USD (BCE)	1 604	2 468.6	2 927.6	3 087.9
Per cent of Spanish remittances that are sent to Ecuador (Bank of Spain)	25.5	20.1	17.0	16.0
Remittances from Spain to Ecuador in millions of USD (Bank of Spain)	1 172	1 234	1 454	1 783
Per cent of Ecuadorian remittances originating in Spain (BCE)	-	-	44.2	-
Remittances per cent of Ecuador's GDP (BCE and World Bank)	4.91	6.64	7.10	6.99
Spanish remittances per cent of Ecuador's GDP	3.59	3.32	3.14	4.04

Source: Central Bank of Ecuador, Bank of Spain, European Central Bank, World Bank and the author's calculations

It is essential, however, to view this data with the utmost caution. As most analyses of migrant remittances indicate, the official numbers can be merely tentative.

The method for sending migrant remittances has other implications on their impact on the recipient countries' development since the cost of sending a remittance varies depending on the channels used. The percentage sent through informal channels appears high. According to the survey conducted by Bendixen (2003), 2/3 of all remittances to Ecuador were channeled through remittance agencies, which involves a higher cost than sending money through formal channels. Solimano (2003) identifies Caixa Catalunya and Banco de Crédito Popular as two of the few traditional financial institutions that participate in the business of sending remittances from Spain. It is true, though, that in recent years new operators have joined the remittance transfer market from the ranks of traditional banking. They account for a smaller percentage of the remittances to Ecuador than the remittance agencies, but some large generalist banks such as Santander and BBVA, and large savings banks such as La Caixa, are already actively involved in transferring remittances to that country.

The use of the remittances in the destination country is also basic to the impact of this flow on the development of the recipient countries. A greater percentage spent on consumer goods or investment in the basics (education, healthcare, housing or electrical appliances when

starting from inadequately habitable conditions) or productive investment will have a positive and greater effect on development and poverty reduction than if the remittances are spent on luxuries or speculative investment, such as real estate investments that fuel a bubble (Olivié and Sorroza, 2006b). There can also be indirect macroeconomic and multiplier effects that promote job creation, thus also benefiting households that do not receive remittances.

Several studies have analysed the use of remittances sent to Ecuador from abroad. The results are collected in Acosta *et al.* (2006) and indicate that 61 per cent of the remittances sent to Ecuador are used for essentials (food, rent, electricity, water, telephone, transport, clothing and medicines) while 17 per cent go to pay for luxury items. According to this study, 14 per cent is invested in the following sectors: 4 per cent to buy property, 2 per cent to education and 8 per cent to business. The remaining 8 per cent goes to savings. However, according to data from the 2005 population survey (cited in FLACSO-Ecuador and UNFPA [2006]), remittances in Ecuador go primarily to home maintenance, then to healthcare, and lastly to education, housing construction, and paying debt, with only a minimal amount going to savings and business pursuits. In addition, some research indicates that real estate investment may have produced a bubble, which suggests that investments in housing are sometimes higher than necessary to attain conditions of minimal habitability. More recently, data from the survey on migrants' remittances to Ecuador conducted jointly by the Real Instituto Elcano and the Ecuadorian unit of FLACSO in 2007 show a clear predominance of food purchases, which make up 43.55 per cent of the remittances received, and which also is concentrated in the highest income quintiles which does not allow us to establish a link between incoming remittances and improvement of the country's nutritional conditions. The percentage of remittances spent on education (18.14 per cent of total remittances) and healthcare (7.63 per cent) is considerably lower. Only a marginal portion is used for clothing purchases, housing, savings, buying vehicles or electrical appliances, or for investment (Ponce *et al.* 2008).

In analysing the risks associated with the flow of remittances (Olivié and Sorroza, 2006b), we saw that concentration of remittances among a small number of recipients can heighten inequality in recipient countries. It seems, according to MIF-FOMIN (2004), that this risk applies to Ecuador, where just 14 per cent of the population receives any of the more than USD 1.7 billion of incoming remittances, as opposed to 28 per cent in El Salvador or 24 per cent in Guatemala.

Besides the risk of a growing concentration of revenue, it seems, according to Acosta *et al.* (2006) that the trade balance is being affected. In fact, a large percentage of the remittances spent on consumer goods are oriented specifically towards foreign consumption, leading to an increase in imports (electrical appliances, IT products, clothing and mobile phones). In this regard, the destination of the remittances follows a pattern similar to that of consumer purchases or national investment, both of which are import-intensive according to the EIU (2006)¹⁷. Other risks pointed out by Acosta *et al.* (2006) are the generation of dependencies and even inflationary tensions. On the other hand, the authors also indicate its positive, counter-cyclical effect on the financial crisis

17 According to the same source, the increase in consumption in recent years has surpassed GDP.

of the late 1990s. In this context, Solimano (2003) also emphasises that remittances have tended to rise during periods of increased unemployment in Ecuador.

Various projects have studied the impact of remittances on various human-development indicators in Ecuador, yielding very different results. Acosta *et al.* (2007, 2008) find that remittances have a moderate impact on poverty reduction on a national level but a significant impact on individual households that receive remittances and a positive impact on educational variables, though this is limited to urban areas. According to Calero *et al.* (2008), remittances have a positive impact on school enrolment and a negative impact on child labour, especially among girls in rural environments. Nevertheless, according to Pacheco (2007) there are no significant results regarding cognitive-educational variables in rural areas and an analysis by Guerrero (2007) finds no effects on healthcare spending. According to Acosta *et al.* (2006), the capacity of remittances to reduce poverty levels in Ecuador is limited to 5 per cent, due to the concentration of this flow in the highest income quintiles. These results are consistent with those we found in our analyses of the impact of remittances on several development variables: in Ecuador, remittances only contributed marginally to a host of human-development indicators that include a number of educational and healthcare variables. Specifically, as regards education, there was a positive impact on student enrolment in private schools: the remittances may have been serving to finance the transition from state schools to private ones. Regarding health, it may be that the remittances are being used to follow through on medical treatments through the purchase of medicines in case of illness (Ponce *et al.* 2008). On the other hand, we do not see a significant impact on poverty reduction, and we do find a negative impact, though moderate, on equity in the distribution of income (Olivie *et al.* 2008).

In short, in terms of reducing remittance transfer costs and regarding the money's use in the recipient country, there seems to be room for improvement so remittances will produce a greater impact on Ecuador's economic and social development. Regarding the use of the money from remittances, we have observed, based on general data available for all countries from which these funds are sent: *i)* according to several sources, the recipients of remittances do not belong to the social segments with the lowest income¹⁸; *ii)* the recipients comprise a small percentage of the Ecuadorian population: 14 per cent; *iii)* they receive a high volume of foreign currency; *iv)* this indicates that the annual volume of remittances per capita is relatively high¹⁹; and *v)* this might generate a wide margin for an increase in savings and investment as opposed to purchasing consumer goods.

In short, drawing concrete conclusions and recommendations for Ecuadorian remittances from Spain requires access to data broken out by types of use to which remittances from Spain are put once they arrive in Ecuador (including their use to purchase imported items), the degree of concentration of the recipient population, and its counter-cyclical impact not only at the national level but also at the local level, where co-development projects are planned. An initial

18 This phenomenon is confirmed by data from the RIE—FLACSO survey on migrant remittances, which indicates that the receipt of remittances is concentrated in the highest—income quintiles (Ponce *et al.* 2008).

19 Ponce *et al.* (2008).

problem of co-development programmes that try to incorporate remittances may be that they assume that remittances are received by the people with the lowest incomes in their country, located in the poorest areas. If that were the case, the recipients of remittances would therefore be likely to benefit from development co-operation programmes. The data shown under this heading indicates that this does not seem to be the case in Ecuador.

II.4. Spanish direct investment in Ecuador

We have repeatedly pointed out that the bulk of FDI flow tends to be concentrated on developed countries. Only a small percentage of FDI goes to a limited number of developing countries, the bulk of which is received by the most dynamic East-Asian economies (primarily China) (García, 2006).

In this context, the worldwide FDI in a small Latin American economy such as Ecuador is obviously not going to be high. With incoming direct investment that averaged nearly USD 1.78 billion between 2004 and 2007, Ecuador received 0.04 per cent of the world's FDI, 1/44 the amount of Brazil's incoming FDI for the same period (1.76 per cent of worldwide FDI flow) and 0.46 per cent of the total incoming FDI for the region (in those years, Latin America received 7.93 per cent of worldwide FDI flow) (Table 7).

Besides its low share, Ecuador has tended to receive a decreasing proportion of direct investment in recent years. In relative terms, the progress is very marked: starting with a 0.12 per cent share in worldwide FDI flow in 2004, recent years have brought a downward trend to the point where the figure was 0.01 per cent in 2007. This trend is taking place in a region whose appeal is fading for international investors, due to Asia's growing appeal as well as the completion of a wave of privatisations in the Latin American region. As shown in Table 7, Latin America's participation in the international production circuit dropped from 9.56 per cent in the 1990s to 7.93 per cent in recent years.

In short, it could be said that, aside from being a residual destination for international investments, Ecuador is showing a decreased appeal in this regard. Following the general framework for analysis of the Spanish government's overall policy coherence (Olivié and Sorroza, 2006b), it could be said that Ecuador is experiencing a decline in one, several or all FDI pull factors, which can be summarised as competitiveness (of costs, of efficiency), existence of institutional traits or markets (legal certainty, liberalisation of trade). Moreover, as indicated below, foreign investments go to traditional and/or extractive sectors, following a pattern similar to Spain's FDI in the Andean country.

We have already seen that Spain's direct investment in Ecuador are not very significant compared to other flows. According to data from the Central Bank of Ecuador, Spain contributed 34.4 per cent of incoming FDI in 2007²⁰ and was the country's fifth-largest investor that year, after the United States, Brazil, Panama and France. In addition, as with trade relations, the bulk of Spanish investments are concentrated in a small number of sectors. From 1998 to 2006, annual

20 This high level of involvement is partly explained by the strong divestment that year by the Cayman Islands, which proportionally increased the involvement of other foreign investors.

FDI flow from Spain to Ecuador totaled nearly EUR 130 million. Of that sum, just over 102 million, or nearly 80 per cent, was concentrated in three sectors. The most important sector for Spanish investments in Ecuador is intermediation in fuel and mineral trade, which accounts for just over 43 per cent of the investment flow for that period. The number two sector is the extraction of oil and natural gas, which comprises 28.45 per cent of the investment flow for that period. It should be noted that in previous years, this was the primary sector for Spanish investment in Ecuador. Lastly there is the fishing industry (specifically fish preparation and tinning, production of fish-based products) which received slightly less than 8 per cent of incoming FDI from Spain (Table 8). Thus, more than 71 per cent of Spanish direct investment in Ecuador in recent years were concentrated in the extraction industry, while a marginal portion was devoted to another primary sector, fishing, which as we have seen is also a fundamental part of trade between these two countries.

Table 7. Ecuador's incoming FDI millions of USD and per cent

	1990-2000	2004	2005	2006	2007	2004-07
Ecuador	494	837	493	271	178	1 779
Per cent Ecuador / worldwide total	0.10	0.12	0.05	0.02	0.01	0.04
Per cent Ecuador / Latin America	1.05	0.89	0.65	0.29	0.14	0.46
Per cent Latin America / worldwide total	9.56	13.16	7.97	6.59	6.89	7.93
Per cent Brazil / worldwide total	2.44	2.53	1.57	1.33	1.89	1.76

Source: UNCTAD and the author's calculations

Table 8. Spanish FDI flow to Ecuador broken down by sectors in thousands of EUR and per cent

	total in thousands of EUR	total per cent	1998	1999	2000	2001	2002	2004	2006
All sectors	128 329	100	60 327	1 716	-4 731	5 646	40 851	-1 504	10 314
Selected sectors	102 132	79.59							
Extraction of crude oil and natural gas	36 506	28.45	36 504		2				
Preparation and tinning of fish and production of fish-based products	10 056	7.84	11	2 863		5 308	5 641	-4 112	344
Intermediation in fuel and mineral trade	55 570	43.30	23 547				32 023		

Source: MITYC (DataInvex) and the author's calculations

Regarding the distribution of Spanish investments in Ecuador over different sectors, we should highlight the presence of the mobile phone business Telefónica Móviles in the telecommunications market. With the acquisition of Otecel, the Spanish company came to control

one of the two operators in the market, with a market share of 32 per cent (EIU, 2006). But for recent years, as we have just seen, Spanish involvement in this industry has not translated into a sustained investment flow in this sector. On the other hand, the economic and trade report prepared by Spain's Trade Office in Quito indicates that, with some 40 companies in the country, Spain is involved in almost every sector of the Ecuadorian economy, though its presence in most sectors is modest (MITYC, 2006). The same report indicates that the Spanish companies with a strong presence are concentrated in the oil sector (Repsol YPF), the tinned foods and fishing industry (Garavilla) and the publishing sector (Santillana and Planeta). Grupo Fierro, in turn, has investments in the financial, oil, match manufacturing and drinks sectors. In any case, the breakout by sectors in Table 7 is largely consistent with the breakout for all FDI in Ecuador. Data from the EIU (2008) indicates that at present, about 90 per cent of incoming FDI goes to the oil sector.

Following the relative analysis of the potential of FDI to contribute to development included in the broader framework of policy coherence (Olivie and Sorroza, 2006b), it can be said that this type of investment has a greater or lesser capacity to contribute to development, depending on a set of impact factors that can be briefly summarised as follows: *i*) a crowding-in effect in the target sector; *ii*) an effect on structural change; *iii*) a certain bias towards exports (not fully compensated by a rise in imports or in foreign debt); *iv*) they are generally investments in new facilities (as opposed to mergers and acquisitions); *v*) labour-intensiveness; *vi*) generation of links with local industry; *vii*) respect for labour standards; *viii*) generation of technology spill-overs; and *ix*) use of clean technologies.

Spanish direct investment in Ecuador reveals the primary role of extractive industries and, to a lesser extent, distribution of crude oil. As argued on previous occasions (García, 2006), compared to other investment sectors, the extractive industries typically cause less of a knock-on effect, do less to facilitate technology transfer, are less labour intensive and, of course, do less to facilitate structural change towards a more diversified economic structure.

A greater coherence with the development of the Spanish government's investment policies towards Ecuador would involve, basically, support for the internationalisation of Spanish businesses subject to criteria that would facilitate a greater impact on the MDGs and development through direct investment. To achieve this, these support criteria should include some of the factors mentioned above (technology spill-overs, training activities, investment in the construction of new facilities, and a bias towards exports).

Some of the financial instruments to promote Spanish investments in developing countries are those granted by COFIDES, a company whose responsibility consists basically of supporting projects of this kind. COFIDES administers the FIEX and FONPYME funds and other lines of financing with multilateral financial institutions.

In recent years, a Royal Decree was approved which noticeably altered the operational mechanisms of these support instruments: RD 1226/2006. The goal of this change was to make them more flexible. It eliminated the requirement whereby aid derived from the FIEX and FONPYME funds was restricted to direct investment in funds belonging to companies in another country, thus allowing investments to be made through conduit companies headquartered in

third countries. In addition, this support, previously limited sectorally to productive investment, was expanded to include activities related to export, technology transfer, subcontracting and franchises. No doubt either of these two measures would help make the use of the funds more flexible, surely leading to greater use of these funds by Spanish companies. However, it is important to evaluate how much this increased flexibility is also leading to relaxed development criteria in the recipient country.

Then again, the COFIDES' general activity, which previously focused on developing countries, has expanded to include support for internationalisation in developed countries. To what degree this broadening of activities involves a decline in the available financing for the internationalisation of Spanish business into developing countries will depend on COFIDES' total budget and the geographic division of that budget.

As we will see in the next section, granting new lines of repayable financing should take into consideration sustainability criteria and should be coherent with multilateral and bilateral debt-forgiveness policies. Otherwise, a cycle may be created in which a government agency periodically forgives loans granted by another agency of the same government. In this context, according to COFIDES data, support in the form of debt has gradually been reduced over the past ten years, coinciding with a parallel increase in support in the form of capital or quasi-capital, to the point where, in 2007, 92 per cent of the resources committed by the institution were given as invested capital or as quasi-capital instruments. This support to business therefore had the advantage of not boosting the servicing of the recipient country's foreign debt.

COFIDES grants most of its aid to large companies. In 2007, 39 per cent of the businesses that developed approved projects were SMEs. The size of the business is generally cited as a relevant factor affecting the investment's impact on employment, which in turn has an impact on development as identified in the theoretical framework for this study (Olivie and Sorroza, 2006b). Thus, in principle, a business support instrument's impact on the country receiving the investment would be greater if more of the investments went to smaller businesses. In this context we should highlight, on one hand, that COFIDES' portfolio currently includes just one project in Ecuador, and the beneficiary company is Garavilla, a major tinned-foods company. Thus, in Ecuador, COFIDES is supporting a large company that also works in a traditional sector. On the other hand, according to early-2007 data from the Ecuadorian Superintendency of Companies, there are more than 21 000 micro-enterprises and more than 11 000 small businesses, as opposed to fewer than 4 000 medium-sized companies and just over 1 600 large companies. These numbers contrast with the reality that assets, sales and contribution to GDP are concentrated in large companies (which in principle have less job creation capacity than small businesses and micro-enterprises). Large companies absorb 82 per cent of the assets and 78 per cent of total sales, while they contribute more than 90 per cent to the country's GDP. Micro-enterprises, in turn, possess 1 per cent of the total assets, carry out 1 per cent of sales, and their contribution to GDP is less than 0.6 per cent. Support instruments that promote internationalisation of Spanish business should therefore, especially in the case of Ecuador, take this phenomenon into account and give greater priority and emphasis to smaller businesses. In this same context, one should also bear in mind that the National Plan to Promote Non-Oil-Related Foreign Investment 2001-10, created by CORPEI (Ecuador's Export and Investment

Promotion Corporation) places strong emphasis on job creation: direct investment in the country until 2010 should be able to directly create 300 000 jobs.

The breakout of COFIDES support into sectors for all countries receiving investments indicates a clear emphasis on construction and the manufacturing sector. In principle, this indicates that aid goes to sectors that can incorporate greater added value than the more traditional primary sectors, which are the main sectors of the Ecuadorian economy. COFIDES therefore favours structural change, another development impact factor identified in the theoretical framework of this study (Olivié and Sorroza, 2006b). Structural change is also a goal for the aforementioned plan to attract investments, which seeks to raise non-oil FDI levels to USD 7 billion by 2010. These levels of non-oil investment would help diversify Ecuador's exports, which would mean that the concentration of support to Spanish businesses in non-traditional sectors would also reinforce coherence with development as far as trade is concerned. Nonetheless, as mentioned above, the sole beneficiary of COFIDES aid is Garavilla, a large company dedicated to a traditional sector: fish. However, a significant portion of this company's business activity is also dedicated to tinning fish, which incorporates added value to its activity, thus favouring a degree of structural change.

In assessing factors affecting the impact of FDI on development (Olivié and Sorroza, 2006b), it was observed that investment that builds connections with local entrepreneurs generally also has a greater knock-on effect on the economy receiving the investment. Foreign entrepreneurs interviewed in Quito also indicated that this connection with local players also contributes, in general, to reducing the levels of risk associated with their investments.

Lastly, we should emphasise that these fields of activity would not be compatible with national, regional or international regulations, which tend to harmonise and deregulate the rules on FDI in developing countries. What we are discussing in this section is having the Spanish government support a developing country's strategic, productive integration into international trade, and to achieve this, the Ecuadorian authorities must retain a degree of manoeuvring room (policy space) for regulations on foreign investment.

II.5. Foreign debt

Foreign debt has historically been a problem in Ecuador. Since the 1970s, Ecuador has suffered several financial crises and subsequent bailouts, yielding a high degree of foreign debt and fiscal deficit and leading the different governments to negotiate aid loans and renegotiate debt repayments on several occasions.

In the 1990s, specifically from 1993 to 1998, there was a boom of incoming foreign capital, resulting in a crisis in balance of payments and a fleeing of capital in 1999. The causes of this crisis are, of course, varied, but Díaz Alvarado *et al.* (2004) highlight three triggers: possible contagion from Russia, the abrupt fall in oil prices (which also could bring about a decrease in government revenue and a rise in the public deficit)²¹ and the 1997/98 El Niño natural disaster. Because of pressures on the balance of payments, in 1999, Ecuador's monetary authorities

21 The main oil company, Petroecuador, is state owned.

abandoned the crawling-band exchange arrangement and moved the sucre to a floating arrangement. However, the collapse of Ecuador's currency and its foreign exchange value led to the country's dollarisation in 2000 (Díaz Alvarado *et al.* 2004). That same year, the Ecuadorian government negotiated an aid package with the IMF worth USD 304 million. This aid was repayable and, according to the EIU (2006), was contingent on implementation of an extensive list of structural reforms such as the reduction of oil subsidies and a loosening of restrictions on privatisation and foreign investment. In 2003, under the government of Mauricio Pozo, a new thirteen-month loan amounting to USD 205 million was granted. This loan was contingent on the reform and privatisation of the banking system and on tax reform, aimed at broadening the tax base. Although, according to the EIU (2006), most of the funds were not used and many of the reforms never occurred, the new loans contributed to swelling Ecuador's already enormous stock of foreign debt.

In 2004, Ecuador's debt service ratio was 36 per cent of exports, while Senegal, an HIPC, showed a ratio of 7.6 per cent for that year. Thus, the World Bank classified Ecuador as a "severely indebted" country at that time. In recent years, a large portion of the national budget went to paying down debt and the bulk of social spending (education and healthcare) was funded through international aid which was also largely repayable (Intermón Oxfam, 2006). Nonetheless, at the start of the present decade, in much of developing Latin America and Asia, there has been a trend towards reducing foreign debt as much as possible. In the case of Ecuador, this policy has been viable partly thanks to revenue from remittances and partly through increased revenue from oil exports resulting from the strong rise in the price per barrel during this period. Thus, in 2006, ratio of debt service to exports dropped to 24.1 per cent, according to the World Bank.

Despite more favourable circumstances, there are structural problems related to foreign debt. Since we are discussing an MIC, Ecuador is not eligible for international multilateral or bilateral debt forgiveness programmes such as the HIPC Initiative or the MDRI, since these initiatives exclusively benefit LDCs²². Although in 2000, at the height of managing the financial crisis, the government negotiated a restructuring of Brady bonds and Eurobonds in the amount of USD 6.6 billion, the only international forum in which Ecuador can discuss and negotiate its foreign debt is the Paris Club. As is well known, this Club deals only with bilateral debt, and thus the problems that can result from multilateral indebtedness, through the IMF for instance, fall outside its scope and activities.

In September 2000, Ecuador agreed to a restructuring of its bilateral debt with Paris Club creditors, accrued through April 2000, in the amount of USD 880 million. After an agreement was reached with the IMF in 2003 for a new aid package, the Paris Club renegotiated Ecuador's debt, postponing the payment of USD 81 million of principal which was due between March 2003 and March 2004, and reducing debt service for that same period. The agreement was negotiated under the Houston Terms (Ecuador's eighth round before the Paris Club), under which the credit was restructured into 18-year loans, with a three-year grace period and market interest rates (EIU, 2006).

22 For a more detailed analysis of the geographical allocation of aid, see Olivie (2004).

Even so, Ecuador's access to private capital markets has been extremely limited. In 1999, it lost its access to international private markets and, as a result of the crisis, in 2001, Standard & Poors reclassified Ecuador's foreign debt denominated in foreign currency from B- to CCC+ (Día Alvarado *et al.* 2004). The country did not regain any degree of access to international capital markets until December 2005, when it issued USD 650 million' worth of ten-year bonds (EIU, 2006). According to data from the BCE, foreign loans nearly reached the total of foreign debt up to 2000. Starting in 2001, these two items were equal until 2005. In 1991, more than half of the foreign debt (52.75 per cent) was contracted with banks, while the debt to governments and international organisations was split into roughly equal parts: 22.8 per cent and 20.64 per cent respectively. These percentages changed noticeably with the 1999 crisis: there was a marked drop in debt to banks, from USD 6 809 billion or 52.53 per cent of total foreign debt in 1999 to USD 4 313 billion or just under 41 per cent in 2000. In 2005, the new access to private capital markets raised bank debt from just under USD 4.3 billion to nearly 5 billion the following year (Table 9).

In March 2005, as part of the new debt-conversion policy, the Spanish government decided to go further than the Paris Club in dealing with Ecuador's bilateral debt. After extensive negotiation with Ecuadorian authorities, the first development debt conversion programme went into effect in January 2006, the so-called Ecuador-Spain Debt Swap Programme. The project will remain in effect for four years and involves USD 50 million: 30 million originally for hydropower projects and 20 million in educational projects. For Ecuador, the debt-conversion programme seeks to carry out development projects in those regions that generate the most emigration to Spain²³.

Table 9. Foreign debt, by creditor in millions of USD and per cent

	1991	1995	1999	2000	2001	2002	2003	2004	2005
Public debt	10 202	12 351	13 373	10 987	11 107	11 377	11 491	11 061	10 851
Total foreign loans	10 024	12 178	12 961	10 549	11 107	11 377	11 491	11 061	10 851
International agencies	2 285	3 377	3 603	3 681	4 272	4 213	4 514	4 298	3 888
	(22.80)	(27.73)	(27.80)	(34.89)	(38.46)	(37.03)	(39.28)	(38.86)	(35.83)
Governments	2 069	2 316	2 382	2 307	2 369	2 777	2 641	2 426	2 000
	(20.64)	(19.02)	(18.38)	(21.87)	(21.33)	(24.41)	(22.98)	(21.93)	(18.43)
Banks	5 288	6 354	6 809	4 313	4 348	4 328	4 298	4 298	4 934
	(52.75)	(52.18)	(52.53)	(40.89)	(39.15)	(38.04)	(37.40)	(38.86)	(45.47)
Suppliers	382	132	167	248	118	59	38	39	29
	(3.81)	(1.08)	(1.29)	(2.35)	(1.06)	(0.52)	(0.33)	(0.35)	(0.27)

Source: BCE and the author's calculations

The following actors participate in the programme: *i)* the CAF, which as a financial institution receives the programme funds, and also acts as the programme's technical secretariat; *ii)* a two-country, Spanish-Ecuadorian committee composed of representatives from Ecuador's

23 www.minhac.es/Portal/Areas+Tematicas/Internacional/Financiacion+internacional/Gestion+Deuda+Externa/Programas+de+conversion.htm

Ministry of Economics and Finance, Ecuador's Ministry of Foreign Relations, the MEH (through the Directorate General of International Financing) and the Spanish Embassy's Economic and Trade Council. This committee meets approximately once every six months to decide which projects will receive programme resources; *iii*) a management committee, comprising the CAF (with a voice but no vote), INECI, the Deputy Secretariat for Public Credit of the Ministry of Economics and Finance, SENPLADES, the Ecuadorian NGO CLD, AECI, the Spanish Embassy's Economic and Trade Council, and the NGO Ayuda en Acción. This committee, which meets weekly, pre-evaluates projects and sends its judgement to the two-country committee; *iv*) a management committee for each project profile, which examines, assesses and handles tracking of the profiles; and *v*) a tracking unit to perform these functions.

As of December 2008, money has been paid to fund 22 projects, in compliance with the commitment to allot USD 20 million to educational programmes. However, the hydropower projects for which the remaining USD 30 million were allocated have been cancelled, and so these funds have not yet been disbursed. This reflects a change in the Ecuadorian authorities' priorities. Thus, new debt-swap projects, which presumably will include a major social component, are still pending approval.

When the hydropower projects were still being negotiated, some controversy arose about their possible tied nature. Clearly, in principle, the programme sought to offer Spanish business certain advantages, but not to the point of tying aid to the purchase of Spanish goods or services. Thus, rules under which the two-country committee operated state that the goods and services will be Spanish "whenever possible": all things being equal, contracts would be awarded to Spanish companies. We have already pointed out that tied aid has the disadvantage of displacing local production and fuelling imports while untied repayable aid could produce a knock-on effect in the recipient economy. But we have also seen that where trade is concerned, Spain, through European institutions, is supporting the process of the Andean countries' integration. This support arises not only in multilateral negotiations with the CAN over an association agreement, but also in the growing concentration of EU co-operation in projects to support regional economic integration. In this context, the priority given to Andean companies over Spanish companies in awarding contracts for the projects still to be allocated would align Spain's debt-swap policy with that country's own trade priorities, creating greater coherence between trade policies and foreign-debt management.

In short, the Spanish government's role in managing Ecuador's foreign debt focuses on the bilateral debt embodied in development-related debt-conversion programmes. There is no international programme to manage the multilateral debt of highly indebted middle-income countries. The HIPC Initiative and the MDRI focus on the foreign debt of LDCs. However, we have seen that, in spite of the isolated improvement in recent years, Ecuador's traditional levels of foreign debt are hard to sustain, and much of that debt was contracted with multilateral bodies, particularly the IMF. Then again, given the abrupt drop in crude oil prices in recent years and the expected drop in remittances from Spain and the United States as a result of the worldwide economic crisis, we cannot rule out a new growth in foreign debt over the medium term. Besides, this entire situation is repeated in numerous Latin American countries that receive Spanish aid and that have suffered recurring crises since the debt crisis of the 1980s. In this

regard, the Spanish government could consider, through its representatives in the IMF and World Bank, promoting a programme to deal with multilateral debt for highly indebted MICs, perhaps even broadening the scope of the HIPC Initiative itself. Although MICs are excluded from a number of the international community's development co-operation initiatives on the rationale that, with their higher per-capital income, they have the resources to manage problems such as foreign debt, it would be appropriate to conduct a more detailed analysis of the differentiated needs of approximately a hundred countries considered MICs, excluding the special case of emerging economies²⁴.

In addition, in the context of multilateral debt, in the broader report on the Spanish government in general (Olivié and Sorroza, 2006b), we recommended renewed support for international initiatives involving a more equitable distribution of the costs of a default in payment, along the lines of the struggling SDRM proposal. In spite of the scant success, in its day, of this proposal from Krueger, the international situation seems to suggest that at this time, Spain's representatives in the main international bodies could consider the viability of relaunching this type of proposal.

In a bilateral context, given Ecuador's levels of foreign indebtedness, it seems appropriate to recommend some kind of programme to prevent and manage foreign debt. In this regard, the Bank of Spain is developing technical assistance projects for various Latin American central banks. Officials of the BCE and of the Superintendency of Banks reported that the Bank of Spain's technical assistance projects had taken the form of a payment system.

24 For a more developed version of this argument, see Olivié (2004).

III. RECOMMENDATIONS

III.1. Institutional framework for greater policy coherence

Economic relations between Spain and Ecuador lack an institutional framework. There are no strategies or any other type of document to comprehensively frame these economic relations. In fact, there are more partial documents that affect international development co-operation (the Master Plan and the CSP) but neither trade nor the investments are backed by a bilateral or supra-governmental arrangement. To attain greater development policy coherence, it is therefore appropriate to recommend, first of all, providing an overall institutional framework for relations between the two countries; an institutional framework that would mainly affect the EU in the context of trade relations. It bears repeating that defining a bilateral agenda to promote development in Ecuador is highly contingent on the existence of a long-term development agenda in the Andean country.

III.2. Progress in tariff reduction

It is important for progress to be made in the area of market access for products like bananas, which are subject to a quota whose modification has been a major obstacle to Ecuadorian exports.

III.3. Respect for rules agreed to in multilateral forums

In this particular case, respect for the rules agreed to in multilateral forums also avoids the filing of complaints by countries receiving aid, leading to slow, costly proceedings.

III.4. Better information on the transmittal of remittances and their use in the recipient country

The design and implementation of co-development programmes that include remittances requires a prior in-depth analysis of this flow, at the national and local level, taking into account both transmittal and use.

III.5. Reducing remittal transfer costs

There seems to be room for further cost reductions for transfers. One solution is for the transfers to take place through formal or semiformal channels. And it would seem that the Fondo de Concesión de Microcréditos (Micro-Credit Granting Fund) at AECID can play a meaningful

role in this context, supporting the formalisation or semiformalisation of microfinance institutions that can channel the migrants' savings to their country of origin, while bearing in mind the impact of formalisation on the scope of microfinance programmes. Similarly, specific programs could also be put in place to lower transfer costs.

III.6. Support for Spanish businesses' direct investment subject to development criteria in the recipient country

Regarding financial aid instruments, these criteria would apply to FAD loans, COFIDES financial instruments (FIEX and FONPYME) and support instruments from ICO and CESCE. In general terms, greater coherence would be achieved by bolstering the coherence between the factors affecting the impact of FDI on development gathered under the general framework (labour intensiveness, crowding-in effect, structural change, knock-on effects, etc.) and the criteria for granting instruments to promote Spanish business abroad. It is also crucial to modify the criteria for FDI to comply with the priorities set in this area by the recipient country.

Also, if a situation of cheap financing arose again, non-financial support instruments could prove very useful, such as workshops, seminars or entrepreneurs' forums to allow networking among entrepreneurs and sharing of Spanish entrepreneurs' knowledge of the country's economic situation and the real options for investment.

III.7. More effective relief of the burden of foreign debt through international initiatives

The Spanish government could go beyond using its participation in multilateral forums to try to streamline the procedures necessary to alleviate Ecuador's bilateral foreign debt through the Paris Club. It could also assess the options for implementing an initiative to forgive or convert the multilateral debt of Latin American countries that are chronically highly indebted. This potential initiative should pay special attention to the problems of conditionality, discretion, slowness, too few countries involved and too small a volume of debt forgiven, which are frequently cited as shortcomings of the HIPC Initiative.

In the same context, one should consider a viable approach to payback of FAD debt, which remains high.

III.8. Reduction of repayable aid

As for development aid, it seems that greater restraint is needed in granting repayable aid to Ecuador (FAD loans or micro-credit) given the country's level of foreign debt and the existence of compensatory mechanisms on the part of Spanish co-operation (debt conversion programmes).

III.9. No negotiation of a new financial programme of FAD loans

More specifically, we advise against Ecuador and Spain negotiating a new financial programme for the granting of FAD loans. Such loans not only fuel higher levels of indebtedness,

but also impede development of a country's productivity through their tied nature. They also fuel imports into the country receiving aid, thus putting pressure on its trade balance.

III.10. General support for the conditions for the impact of FDI on development

The programmes offered by AECID, CECO and ICEX, many of them co-ordinated with MIGA, are aimed specifically at helping to bring about factors to promote the impact of FDI on development. Some thought could be given to these programmes to support the conditions necessary to maximise the potential impact of FDI on development.

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