Ecuador
Background Country Report

BUILDING MARKETS:
STRATEGIC ALLIANCES:
WIN-WIN OPPORTUNITIES?
INTRODUCTION

One of the biggest challenges Ecuador is facing is the improvement of the productivity and the competitiveness of its products and services, to achieve an overall increase in production, create employment, and enhance exports and to further boost its economy.

Additionally the “dollarization” of our economy forced companies to be more efficient in order to compete in the international market - a development, which made the external limitations even more evident.

Micro enterprises play an important role in the Ecuadorian economy. According to statistics, between 1 and 1.2 million micro enterprises do exist in Ecuador. They employ close to 25 % of the urban work force and their annual sales contribute up to 25.7 % to the GDP. Considering this, it becomes clear why the assistance to this sector has such an important role in contributing to the development of the micro enterprises and why this dynamic sector has received that much attention by bilateral and multilateral agencies.

The Micro, Small and Medium enterprises in Ecuador, that are part of the productive value chain, face the following problems: lack of access to credit, weak organizational structure, low association level, poor level of technological development and lack of productive infrastructure.

In the specific case of the micro enterprises the development of business activities is even harder to stimulate. Main reasons are the lack of standardized production processes and quality controls, a weak articulation towards the market, low business skills and leadership, underdeveloped marketing processes and the difficulty to get access to capacity building and technical assistance.

STRATEGIC ALLIANCES

For our team, an strategic alliance is one in which all parties involved, whether they are from the international community, the private sector, the public sector or the civil society, must add value to it in order to fulfill a common goal, multiplying the normally scarce human and financial resources each party has, to generate a greater impact with their coordinated actions while fulfilling their mandates.

In Ecuador we have successfully implemented a series of different strategic alliances in the Trade and Investment promotion areas. As stated before, through the multiplication of the recourses and activities of the institutions committed to those alliances, a much broader impact and more effective results have been achieved.

We can talk about many interesting combination of alliances between: private sector; public sector; international organizations; Embassies of Ecuador around the world and Foreign Embassies in Ecuador; NGO’s; International and local Universities and other educational institutions; local and international media; TPO’s and BSO’s; and, virtual networks of different international forums, amongst other possibilities.

The simplest one has been between two parties, and the most complex one with up to 10 parties. On the average, we involve between 3 and 5 parties.

We will attempt to provide our colleagues with a short overview and examples of some of those types of alliances that have been established and have been successful:
a.- Alliances between TPO’s or BSO’s and international organizations

CORPEI has a strong experience in the management and administration of projects financed by International Organizations. Between 2000 and 2008 CORPEI would have implemented 50 projects with an overall project volume of 57 million USD, which were funded and co-financed by international donors, government, NGO’s, private institutions, beneficiaries and CORPEI.


b.- Alliances between public and private sector

The Ministry of Foreign Affairs, Trade and Integration and CORPEI entered in a very important and successful strategic alliance in 1999. The objective of this alliance, reflected in an inter-institutional agreement, was to establish a global framework for the cooperation between the Ministry and CORPEI in order to strengthen and promote exports and investment, build Trade and Investment promotion capacities within the Ministry and assist CORPEI in obtaining Technical and non reimbursable cooperation from international institutions. The alliance has proven to be beneficial to both parties.

The agreement permits CORPEI to place Commercial Attaches in selected markets (4), provides the services of carrier diplomats as Commercial Attaches in additional markets (17) and permits us to provide, 40 carrier diplomats each year, with the skills required to become Commercial Attaches.

c.- Alliances between the private sector and local institutions

CORPEI created a local Network of Contacts – REDCO that grows each year. In this network we have the participation of different academic institutions, Chambers of Commerce or Industries, Producers associations, Exporters associations, Development Agencies and – in the future – Provincial and Municipal Councils. The objectives of REDCO are to:

i) Provide the information services of CORPEI in a proactive, decentralized (closer to our customer) and direct manner.

ii) Create capacities within the institutions that are part of REDCO, to enable them to provide other services that CORPEI is now providing, and charge for those services.

The Federation of Exporters – FEDEXPOR is the first and more valued member of our Network. They are our natural ally.

d- Joint projects for the integration of the value chain

Because of the social impact and the importance of these projects, they will be treated in a more extensive way in the next pages.

Associativity as a key factor for competitiveness

Product and service differentiation, value addition and a fair distribution of benefits play an important part in today’s approaches for improving competitiveness. There is no doubt that the concept of strengthening associativity and value chains is one of the key factors in order to strengthen Ecuador’s competitive position in the global markets.
The competitiveness of a company depends to a large degree on the characteristics of the productive and institutional environment in which it is positioned and particularly on the relations established with other productive entities and institutions. Therefore associativity becomes an important instrument to stay competitive and it facilitates the implementation of innovations that are necessary to cope with the fast changing global markets.

CORPEI has successfully implemented several programs which facilitate the integration of SME’s into the local economy and the productive chains. The approach includes increasing the levels of associativity, facilitating access to new markets and strengthening value chains and its respective players. Through this, the following benefits have been put into practice: Market integration of key players in order to give them access to market segments or niche markets; creation of economies of scale; fulfillment of end consumer demand, needs and preferences; higher return on investment through shared investments and shared risks; improvement of information systems; establishment of quality control systems within the value chain; reduction of transaction costs during commercialization; enhancement of market access; sustainability through business skills development and organizational development; improvement of market and trade processes; implementation of more efficient sector and state policies.

**Strengthening associativity in order to meet export goals**

The tendencies mentioned earlier implicate major changes concerning the level of competition and its characteristics on the international market. In other words that: markets tend to be more global; consumers are more sensitive to the integrity of a product, the information that comes with it and its disposition; and the fact that consumers are willing to pay a higher price for added value.

Competition does not only exist with respect to prices. Also other product attributes, created through innovation and service offerings, are taken into account. Technology does not only give path to more efficient production methods. It also opens doors for new product concepts or new processes in logistics and transport. The development of Information Technology (IT) is therefore a key success factor and it will allow significant changes in production and distribution technologies and it will stimulate product innovations.

In many case the advantages given by high economies of scale, which lead to high concentration of market activities, have been utilized. In order to keep on growing, future approaches have to focus at innovation, flexible production and the satisfaction of consumer requirements of different market segments and niches.

In order to address those challenges, CORPEI has launched a series of projects and programs that give assistance to exporting companies that want to establish new strategic alliances, introduce new processes, implement new technologies, adapt their market strategies or introduce new concepts that enable them to fulfill their customer’s demand in an efficient way.

**Instruments**

Depending on the objective, there are different types and concepts of associativity. They all have their own characteristics, strength and weaknesses. In general there are 3 types of associativity: vertical, horizontal and gremial.
### Type | Description | Example
--- | --- | ---
Vertical Associativity | Companies that occupy different consecutive steps or links of the value chain and who associate in order to achieve a competitive advantage (that they could not achieve alone). | − Productive chains  
− Value chains  
− Programs for providers  
− Marketing/sales agreements

Horizontal Associativity | Companies of the same size that occupy the same step or link of a value chain and that produce the same product or service as the associate they are searching for. | − Consortium of exporters / importers  
− Producer associations  
− Networks for learning and innovation

Gremial Associativity | Organizations formed by companies sharing the same objectives. The board or committee is the body to meet the common goals of the associates like joint and coherent representation of interest or the enforcement of postulations. | − Consulting boards  
− Local, regional or national associations  
− Agricultural board or council  
− Sector forums

### a) Value Chains

The illustration induces a sequential approach which starts with the identification of markets. It then proceeds to create productive and associative structures and building the necessary business skills which result in economies of scale and real market access.

CORPEI has been helping different productive sectors, traditional and non-traditional like: cocoa, coffee, aromatic herbs, lactose, bananas, guinea pigs (cuyes), quinoa, amarantho, grain, fruits and fresh vegetables, flowers, wooden furniture, textiles, products of biodiversity, etc.

The strategy for value chains has three important elements:

1. **Segmentation of the chain**: Differentiate and segment markets to identify special market segments and niches
2. **Quality**: Integrated quality control (from table to stable) in order to guaranty the required quality level and to reduce implementation and certification costs
3. **Efficiency**: Optimize processes within the value chain through the implementation of Information Technology (IT), realize economics of scale, increase volumes, improve logistic schemes, establish price mechanisms with the aim to reduce costs and increase the efficiency of the overall chain
b) Development via alliances with the private sector (Public Private Partnership - PPP)

Alliances with the private sector are partnerships between CORPEI and a private company with the aim to channel the business initiatives of a well established firm into positive effects for lesser privileged groups like small producers and SME.

The main goal of the alliance is to jointly solve the real problems that the small Ecuadorian producers and SME are facing. For example in the area of: production, quality, logistics and market access.

Together with the GTZ, CORPEI is developing and co-financing indicatives of national and international companies that are in line with the following objectives:

- Technical assistance and capacity building for SME
- Improve competitiveness and productivity of SME
- Increase exports of SME
- Build commercial relationships between (inter)national companies and SME
- Remove technical problems and improve quality

The projects are planned, financed and implemented jointly. This service is offered to national and international companies who want to invest in Ecuador.

Experiences and results in associativity and value chains in Ecuador

In the following sectors CORPEI has participated as facilitator or has assisted through its own program in order to promote and strengthen associativity in Ecuador: Coffee, cocoa, mango, shrimps, aromatic herbs, medicinal plants, wooden furniture, products of bio-diversity.

The following chart gives an overview of the projects and areas of intervention:
| Establishment of a strategy for competitiveness for fine cacao | Cocoa | Improve access | Improve chains and associativity | Quality and technical norms | Productivity and efficiency | Social responsibility | Institutional development and sector strategies | Services |
|---|---|---|---|---|---|---|---|---|---|
| Improvement of the commercialization of fine cacao | Cocoa | X | X | X | X | X | | | X |
| Improvement of the value chain of agricultural products of 5 associations | Organic horticulture, lactose, grains | X | X | X | X | X | | | |
| Improvement of the value chain of medicinal & aromatic plants and its derivatives | Aromatic herbs | X | X | X | | | | | |
| Strengthening of the software sector | Software | X | X | X | | | | | |
| Profiagro | Fruits and fresh horticulture | | | | X | | | | X |
| Export of wooden furniture and its derivatives | Furniture | X | X | | X | | | | |
| Objects for decoration | Decoration | X | | | | | | | |
| Organizational development and improvement of the quality of coffee | Coffee | X | X | X | X | | | | |
| Market investigation service | Service | X | | | | | | | X |
Success factors for associativity

Associative structures can be established between companies of the same step/link of the value chain or between those of different steps/links. Companies usually have the interest to associate in order to solve a common problem (or to benefit from a common opportunity) and if the level of trust is sufficiently high in order to work together.

Some of the success factors for the implementation of activities that facilitate associativity (vertical and horizontal) are listed in the table below. The table's order is according to soft factors, like aspects of relationship or culture, and hard factors, like the content of the collaboration, organizational topics or the financial base of the partnership.

### Success Factors

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<thead>
<tr>
<th>Relational</th>
<th>Organizational</th>
<th>Financial</th>
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<tr>
<td>Trust between the associates</td>
<td>Choose a method of implementation that focuses on activities that result in short term results</td>
<td>Availability of resources (time and money)</td>
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<td>Clear definition of joint interests (short term and long term)</td>
<td>Constant monitoring and evaluation of project progress</td>
<td>Commitment to the project and the timely delivery of resources needed</td>
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<td>Clear definition of the agreed objectives and their indicators</td>
<td>Keep associates informed</td>
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<td>Encourage activities that build trust</td>
<td>Create a network with organizations that can contribute to the project</td>
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<tr>
<td>Transparency</td>
<td>Clear definition of the associates' roles</td>
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<td>Clear definition of the leadership</td>
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<td>Document commitments in writing</td>
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<td><a href="#">Content related</a></td>
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<tr>
<td>Market tendencies have to be taken into account for the planning of activities</td>
<td>Availability of resources (time and money)</td>
<td></td>
</tr>
<tr>
<td>Business opportunities and Win/Win situations have to be identified</td>
<td>Commitment to the project and the timely delivery of resources needed</td>
<td></td>
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<tr>
<td>Instruments, business procedures and the implementation have to be defined jointly</td>
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### Conclusions

The work done with strategic allies in this field has helped small and medium sized enterprises to create competitiveness, increase productivity and to get access to the market and thus has generated income for the small producers. Between the year 2000 and 2006 the number of beneficiaries sums up to 54,000 families, 17,000 micro enterprises, 1,300 SME and 60 associations. Thereby 13,500 jobs have been created, which also was a significant contribution to the mitigation of poverty and inequity in Ecuador.

We are committed to the development and delivery of business services and innovative instruments that allow the productive sector a real access to the market. We assist in the catenation of the value chain which promotes the development of providers and strengthens SME with export potential.
This work would not have been possible without a series of alliances between the public sector, different development organizations, international and multilateral organization and the help of the network of local institutions. Only through their support our organization was able to multiply its actions and to have a much broader impact.

The alliances with public bodies like the Ministry of Foreign Affairs, Trade and Integration and with private institutions like FEDEXPOR have been of equal importance. Through this partnership we have been able to create an External Network of support for the introduction of Ecuadorian products to international markets, and assist us in creating the exportable offer needed to penetrate those markets.

Likewise we all seeks to implement concepts of Corporate Social Responsibility within micro enterprises and SME that are part of the value chain. All of those efforts have as a common goal to assure the competitiveness and sustainability of the Ecuadorian companies and to make sure that they continue benefiting from existing market opportunities.