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How to Fight Excessive Tax Competition and Harmful Practices – The Case of Ecuador

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Ecuador is an instructive case of a developing country that is vulnerable to excessive tax competition and the use of low-tax jurisdictions. In a series of reforms, Ecuador has tried to tackle tax havens and the abuse of double taxation agreements; it has also been active in global tax reform advocacy. In this case study, we outline the context and outcome of these changes, and draw conclusions for policy-makers.

KEYWORDS

Ecuador, Tax Competition, Tax Havens, Double Taxation Agreements, Advocacy, Referendum, Developing Countries

EXECUTIVE SUMMARY

This case study introduces Ecuador as an example of a developing country that has made wide-ranging changes to its national and international tax affairs. We argue that the reforms in Ecuador were prompted by both underlying economic and political conditions and by specific watershed events. The results have been broadly positive, and lessons can be drawn for policy-makers in other countries. In what follows, we discuss the following:

Background on Tax Competition

Global tax competition is particularly important for developing countries because of the undue burden it places on their economies. The varying definitions of tax havens reflect a lack of consensus about the role of international organizations. The scale of the problem of tax havens has been revealed through the Panama and Paradise Paper leaks. Intended to reduce the tax burden, double taxation agreements are often used for double non-taxation and treaty shopping. Initiatives at the international level - including BEPS, the Financial Secrecy Index, and Model Tax Treaties - have been introduced to tackle tax abuses. Despite support from over 135 countries, there has been no success in creating an international regulatory body for taxation.

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Ecuador as an Instructive Case

Ecuador has many economic and political features common to developing countries. As a country without monetary sovereignty, Ecuador is particularly vulnerable to tax havens and the consequences of double taxation agreements. Like other countries, political instability and international criticisms of the Ecuadorian government have created reputational problems.

Tax Havens

The Banking crisis and leak of the Panama Papers were hugely important in motivating changes relating to tax havens. Regulatory reforms in 2007 (with subsequent amendments) defined tax havens and imposed further restrictions and regulations. In 2017, Ecuador became the first country to hold a nationwide referendum on tax havens, and to adopt a law that forbids all politicians and public servants from holding funds in tax havens. The reforms were successful, and greater tax efficiency allowed Ecuador to increase tax revenues and pursue redistributive policies.

Double Taxation Agreements

Ecuador has 19 double taxation agreements (DTAs). Between 2005 and 2013, no new agreements were signed, likely because of a negative perception of political and economic instability by the international community. One of the DTAs, between Ecuador and Switzerland, was abused by China International Water & Electric Corp (CWE), a subsidiary of the Chinese state-owned company Three Gorges Corporation, through illegal treaty shopping. Following media investigations and a public outcry, the DTA was amended in 2017 by adding an information provision addendum.

Global Tax Debate

Ecuador has pursued an active role in the global tax debate. Ecuador joined the BEPS Framework and is making changes to meet the required tax transparency standards. As president of the G77 plus China, Ecuador emerged as a strong voice in support of the creation of an international tax body. Ecuador remains active in tax advocacy and encourages other countries to replicate its achievements; it promotes the message that it is possible to change the public mindset and build a culture of paying taxes.

Lessons for Policy-Makers

The tax reforms in Ecuador have implications for policy-makers in other countries. Possible lessons include the motivational role played by crisis and scandal, the power of public will in driving change, the use of creative political tools, the importance of international support, and the benefits of improved access to information.

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1 | INTRODUCTION

What can a developing country do to fight tax revenue loss from international tax competition? In this paper, we examine the case of Ecuador, a country that has made effective and wide-ranging changes to its international tax affairs. To understand how tax reform was possible in Ecuador, we analysed several areas: the regulatory reforms and referendum on tax havens, the amendment of the Switzerland-Ecuador double taxation agreement and Ecuador's active role in the international tax debate.

The changes in Ecuador were prompted both by underlying politico-economic conditions and by specific events that brought tax issues into the public eye. The confluence of political and popular will allowed the government to take powerful action. Ecuador serves as a model for effective tax reform, and as an example of global leadership in international tax regulation. It is our hope that lessons can be drawn from this case for other so-called "developing countries".

In this case study, we will first provide background information, including the academic debates about tax competition, terminology, the impact of tax havens and double taxation agreements on developing countries, and international initiatives to combat these problems. Next, we will introduce the case of Ecuador, providing economic and political background. We will discuss the referendum about tax havens and the changes made to tax law. Then, we will discuss the amendment to the Switzerland-Ecuador double taxation agreement. We will identify the underlying conditions that prompted these reforms and assess their effectiveness. Finally, we will examine Ecuador's advocacy about international tax regulation, including its actions as president of the G77. In closing, we will draw lessons for other developing countries.

2 | BACKGROUND

This background section is to be used as a guide for those who are not familiar with tax competition, Tax Havens, Double Taxation Agreements or international tax initiatives. For those with prior knowledge on these topics please proceed to the case study in Section 3.

2.1 | Global Tax Competition

In recent years, there has been a marked increase in research about strategic tax avoidance and tax evasion on a global scale. Substantial efforts have been made, for instance, to measure illicit financial flows, the impact of tax treaties, and the overall economic effects of international tax structures on developing countries [26] [55] [46] [47]. Researchers argue that many of the tax strategies used by multinational corporations – legal or illegal – cause significant problems for the developing world. Multinational corporations and wealthy individuals often circumvent taxation through tax avoidance, and sometimes break the law through tax evasion. Tax competition, also referred to as the "tax war", is a form of regulatory competition in which countries offer tax benefits to corporations and individuals to attract or retain financial resources. This competition interacts with the complex global tax structure to disadvantage poor countries [11] [48] [88] [26] [101]. For decades, countries have raced to offer the best tax incentives, with ever lower tax rates, tax breaks and improved secrecy to attract multinationals and wealthy individuals. Advocacy groups like the Tax Justice Network (TJN) are vocal critics of current international taxation rules. They argue that developing countries are dependent on the revenue from corporate income tax and suffer most from the "race-to-the-bottom" trend in corporate tax rates [101].

Tax revenue from foreign sources is of crucial importance to the developing world. Corporate income tax accounts for 15% of total tax revenue in developing countries and 10% of revenue in OECD countries [58]. Of this, the taxation of foreign direct investment (FDI) is most substantial. To attract FDI, many developing countries offer incentives such as lower corporate income tax rates; unfortunately, this practice is often ineffective because lower tax rates cause the countries to lose out on tax revenue [53] [101] [112]. Research exposes the challenges faced by developing countries as a result of tax competition. For example, a study from the International Centre for Tax and Development showed that developing countries substantially underperform relative to OECD countries in their ability to raise government revenue through taxation [89].

2.2 | Tax Havens

The term “tax haven” has been widely used since the 1950s, but the concept developed as early as the 1880s. According to Ronen Palan (2009), the US states of New Jersey and Delaware were among the first jurisdictions to promote deregulation through “liberal” laws and to offer lower corporate tax rates [85]. After this, other countries began to use similar initiatives. For example, in the 1920s some Swiss cantons relaxed their tax systems with the objective of attracting corporate business. Many other tax havens emerged; over time, due to its political and economic impact, this phenomenon has become an increasingly important policy topic.

2.2.1 | Definition and Criteria

Although tax havens have been active for more than a century, there is still no international consensus about the definition of the term, nor a standardized list of tax havens. Some of the main international organizations, such as the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), and the Tax Justice Network (TJN) have developed their own definitions, highlighting what they see as the most important problems.

The IMF uses the term “Offshore Financial Centers” (OFC). It defines an OFC as “a country or jurisdiction that provides financial services to nonresidents on a scale that is incommensurate with the size and the financing of its domestic economy” [123]. Some additional characteristics are identified, such as jurisdictions that provide a low or zero tax rate, moderate or light financial regulation and bank secrecy or anonymity [80]. The OECD considers a country to be a tax haven in the “classical” sense when it imposes low or no tax and is used by corporations to avoid tax which otherwise would be payable in a high-tax country. According to a 2018 report, tax havens have the following key characteristics: no or only nominal taxes; lack of effective exchange of information; lack of transparency in the operation of the legislative; and legal or administrative provisions [75]. According to the TJN, a tax haven “provides facilities that enable people or entities to escape (and frequently undermine) the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool”. The TJN uses the term “secrecy jurisdiction” (a synonym for tax haven) more frequently, emphasizing the clandestine nature of offshore territories. For example, the British Islands specialize in incorporating offshore companies, while Ireland is a corporate tax haven with low financial regulation. Switzerland and Luxembourg offer secret banking and corporate tax avoidance schemes [107].

These definitions are not without controversy. Although the OECD has made substantial advances in the field of tax competition, the list of countries it considers to be tax havens has been harshly criticized. In a recent report from Oxfam (2017), researchers write that “The OECD exposed itself as opaque in its research for tax transparency. Its approach means the blacklist of uncooperative tax havens is likely to remain near empty and will do little to prevent corporate tax dodging” [83]. Despite criticisms, there is a broad consensus among academics and policy-makers that a unified concept for tax havens is essential. With the creation of a single list of countries that are considered tax havens, it will become

possible to implement practical measures such as sanctions at the international level.

2.2.2 | Scale of the Problem

The financial sector is heavily entangled with tax havens. According to the Bank of International Settlement's (BIS) 2009 statistics, almost half of all international banking assets and liabilities have been held in tax havens since the early 1980s [85]. According to new research from the IMF, Multinational Enterprises have invested \$12 trillion globally in empty shell corporations: corporations without active business operations or significant assets which are generally used illegitimately but that are not "illegal" in strict terms. Moreover, citizens of some financially unstable and oil producing countries hold an unusually large share, with \$7 trillion of personal wealth in tax havens [22].

In Alstadsæter, Johannesen, and Zucman (2017), the authors argue that 10% of world GDP is in tax havens; the stock of offshore wealth ranges from about 4% of GDP in Scandinavia to about 50% of GDP in some oil-producing countries (such as Russia and Saudi Arabia) and in countries that have suffered periods of major financial instability (such as Argentina and Greece) [3]. Cross national patterns suggest that high taxes are not necessarily associated with high levels of offshore tax evasion: for example, the Scandinavian countries have some of the highest income tax rates in the world but have relatively little offshore personal wealth. For a depiction of offshore wealth estimate as a percentage of GDP in different countries, see **Figure 2** in the appendix.

Multinational Enterprises (MNEs) use tax havens to lower their tax bills. Several studies have shown how MNEs with tax haven relations report less income and pay less tax than national companies; they also report less income and pay less tax than MNEs without links to such low tax jurisdictions [17] [110]. Some of the more common practices related to tax havens are price shifting, intra group loans, and price manipulation.

Foreign Direct Investment (FDI) has typically been portrayed positively as a promoter of employment, production, and the transfer of technology and development. Some dispute this assessment: a study by Damgaard, Elkjaer and Johannesen (2017) found that almost 40% of all FDI around the world can be considered "artificial" because it consists of financial investment passing through empty corporate shells with no real activity [22].

Tax havens disproportionately impact developing countries. The IMF estimates that tax havens cost developing countries more than \$200 billion a year, and Oxfam estimates that worldwide there are \$7.6 trillion held in offshore accounts [31]. Alstadsæter, Johannesen and Zucman (2017) consider the rise of tax havens and compare the scale of the problems in different global regions. Around 10% of global GDP is estimated to be held in tax havens, but this is distributed quite heterogeneously, with 60% in the Gulf and Latin America [3]. Zucman (2015) argues that 22% of Latin American financial wealth is held offshore, in contrast to 10% of European wealth and 4% of United States wealth [124].

In the 2015 Base Erosion and Profit Shifting (BEPS) report about Action 11, the OECD calculated the financial impact on governments and emphasized the implications for developing countries:

"The findings of the work performed since 2013 highlight the magnitude of the issue, with global corporate income tax (CIT) revenue losses estimated between 4% and 10% of global CIT revenues, i.e. USD 100 to 240 billion annually. Given developing countries' greater reliance on CIT revenues, estimates of the impact on developing countries, as a percentage of GDP, are higher than for developed countries." (p. 15)[70]

Different countries have different reasons for wanting transparency about tax havens. In the global south, governments are concerned with economic justice and the promise of development from tax receipts. On the other hand, in the EU and North American countries, governments are concerned about funding terrorism or concealing the profits of violent crimes.

2.2.3 | Panama and Paradise Papers

Recent leaks of banking information, including the Panama and Paradise Papers, have revealed how wealthy individuals and multinational corporations have taken advantage of tax havens, engaging in harmful tax avoidance and other unethical practices. To many observers, the scale of the problem revealed through these leaks showed the necessity of taking action against tax havens. The first leak happened in late 2015, when an anonymous source provided data to a German journalist, Bastian Obermayer. These "Panama Papers" included 11.5 million files (2.6 terabytes) of data from Mossack Fonseca, the fourth biggest offshore law firm in the world. The firm itself is headquartered in Panama; however, it had 600 employees in 42 countries, mainly in notorious tax havens [45].

After a thorough analysis of the data by the International Consortium of Investigative Journalists (ICIJ), 143 political figures, including 12 heads of state, were implicated. Among other prominent figures, the Pakistani prime minister (Nawaz Sharif), former Iraqi vice-president (Ayad Allawi), Ukrainian President (Petr Poroshenko), and Icelandic prime minister (Sigmundur David Gunnlaugsson) were revealed as the owners of offshore fortunes [45].

The next leak, the "Paradise Papers", contained 13.4 million files (1.4 terabytes) on the activity of Appleby, an offshore legal firm located in Bermuda. Among owners of offshore companies were Allianz, Apple, Disney, Facebook, Nike, McDonalds, Twitter, Siemens and other prominent corporations [103].

2.3 | Double Taxation Agreements

In the first half of the 20th century, the multinational business sector started to complain about the problem of double taxation, in which the same cross-border income is taxed by more than one country. One of the solutions to this issue is Double Taxation Agreements (DTAs), which are designed to avoid or mitigate double taxation. Bilateral and multilateral treaties became an important tool because they were able to cover a wide range of taxes besides those related to income; many of them also consider inheritance and value added taxes (VAT). These treaties indeed helped to reduce unintended taxes and succeeded in their fight against double taxation, but before long they started going too far [42].

DTAs with tax caps were heavily promoted after the 1970s recession and became a tool to increase foreign investment. Many countries decided to use this strategy and, as a result, started an international competition in which the participating countries tried to win investment by signing more agreements and reducing cross-border income taxes [95]. What was not considered when promoting this technique was that some developing countries have substantial difficulties in tax collection and this competition decreased their chances of obtaining revenue from taxes on foreign investment [92].

2.3.1 | From Avoiding Double Taxation to Allowing Double Non-Taxation

The severity of the problem increased when tax treaties that were meant to avoid double taxation ended up justifying non-taxation in two or more countries. According to a report published by Action Aid International (2016), European tax treaties frequently cause double non-taxation: corporations manage to avoid taxes in the country they are using for their operations and also in the country of origin. Many treaties limit the percentage of tax that can be levied by a developing country. Some even disallow the country from charging tax on the money that investors take to their home country, while the developed country deliberately chooses not to collect this tax [2]. In this situation, the double taxation agreements establish a constraint that only affects the countries with stronger reasons to tax this income, while the countries that already collect sufficient income from taxes don't have to resort to cross-border income taxes and are actually not sacrificing anything in return.

DTAs also opened up the possibility of tax avoidance practices such as "treaty shopping", through which multinational corporations exploit tax treaties. In treaty shopping, a multinational company, resident in a country that doesn't have a tax treaty with the country in which it wants to invest (or is already investing), establishes some of its operations in a second country that does have a tax treaty with the target country. This allows multinational businesses to minimize the amount of tax that they have to pay when the money generated abroad travels to their home country. Despite the development of laws to discourage this practice, the problem persists because there are many strategies that can be used for treaty shopping. Treaty networks can become incredibly complicated and indirect investment routes are not always easy to identify. Some countries are trying to stop this practice while others benefit from it: intermediate jurisdictions with lax regulation and many tax treaties have become the perfect spots for tax avoidance [47].

2.3.2 | Scale of the Problem

Double taxation agreements form the basis of the international tax system and cover approximately 96% of FDI. Based on the previous discussion, these agreements are understandably at the core of the debate about tax avoidance by multinational companies [49]. The central question concerns the method of taxation for MNEs and its impact on the distribution of taxing rights between developing and developed countries: should source or residence-based taxation be used? According to researchers, in the majority of cases the language and structure of DTAs benefits the country of residence for MNEs and restricts the taxation rights of developing countries [13] [21] [47] [48] [49] [50] [93]. Martin Hearson has done extensive research on this subject, especially in Sub-Saharan Africa, and notes that qualitative studies often attribute negative outcomes to knowledge asymmetries, power politics or bargaining capacities [50]. Hearson argues that the debate about DTAs has been largely avoided by the OECD and G20, who provide model treaties that have been primarily drafted by developed countries, and upon which most DTAs are still based [49] [93]. These treaties are discussed in the next section.

An important piece of research in this area is the ActionAid Tax Treaties Dataset, a compilation of 519 tax treaties signed by low- and lower-middle-income countries in Africa and Asia. This dataset shows how DTAs have changed over time [2]. Although it has led to some important conclusions, for example that in some cases emerging economies do have more possibilities to tax FDI, it also raises many new questions and points to large gaps in existing research and data collection [47].

Some academic literature argues that double taxation agreements are harmful for developing countries by making the task of obtaining tax revenue more difficult for their governments. As mentioned, DTAs can be used as networks that allow companies to claim tax advantages that were not intended by the countries that originally signed each treaty. Many developing countries cannot carry out some of their basic government functions due to a lack of tax revenue. The decision to sacrifice part of foreign tax revenue to promote higher levels of investment could be a good one if, for example, it gives them the possibility of financing basic government programs in the health sector. However, with so many capital importing and exporting countries deciding to diminish their cross-border income taxes, using this technique to solve tax collection problems became ineffective for developing countries. Over time, the effect of DTAs was not only decreasing double taxation but actually relieving taxes for companies that reside in developed countries. International organizations, private enterprises, governments, academics and others have promoted double taxation agreements with more strength and confidence than they should have [92].

2.4 | International Initiatives

2.4.1 | Model Tax Treaties

The OECD and UN have each developed model tax treaties. These models are intended to be used as a fair basis for double taxation agreements and are explicitly aimed at policy makers. The two models are broadly similar with the same primary goal: to eliminate double taxation on income and capital while preventing non-taxation (through tax evasion or avoidance) and treaty shopping [72] [114].

Despite their similarities, the OECD and UN models differ in their application of source state taxation. In the OECD model, the “source state” (where income is earned) may tax business profits earned from activities there. The state of “tax residence” is not allowed to tax these profits, therefore preventing double taxation. In the UN model, the “source state” may tax a wider range of profits earned from activities there, increasing tax revenue. In practice, the “source state” is a developing country. Among the broader criteria are possible tax obligations related to building sites, services provision, deliveries, stock maintenance and insurance [61]. As legal expert Wisse (2012) explains, the wider definition of source state taxation means that “...the developing country can tax a larger portion of the profits and thus earns a relatively large portion for its national budget.” [120]

Underlying this technical distinction is a deep conceptual difference between the OECD and UN approaches. The OECD model was drafted by industrialized countries and therefore reflects an industrialized perspective. By contrast, the UN model was explicitly designed for use in developing countries, as indicated by its full title: “United Nations Model Double Taxation Convention between Developed and Developing Countries”. The UN describes its model as “...designed especially for developing countries and countries with economies in transition.” [114] The difference in source state taxation rules in the UN model is a way of expressing the economic differences between developed and developing countries, allowing the developing “source state” countries to benefit from more tax revenues [120]. This model seeks to protect and preserve taxation rights for developing countries.

There has been some controversy about the relationship between the two model treaties. The OECD model remains dominant, but the UN model has received substantial attention in recent years. Within international organizations, many are concerned about consistency. The UN Committee of Experts on International Cooperation in Tax Matters has discussed the relationship between the OECD model and the UN model, asking whether different interpretations were possible despite their similarities. They concluded that it cannot be assumed that, without direct quotation, the two models are in agreement [91].

According to some authors, both initiatives still fail to correct for the inequalities in the international tax structure [62] [117]. Indeed, some activists and academics object to model tax treaties in general, arguing that the international norms for DTAs protect multinationals at the expense of developing countries. As just one example, Lee Sheppard (2013) argues strongly against signing model tax treaties: “When you sign onto the international consensus, you sign on to a bunch of consequences that have very deleterious effects on what we call a Source Country: that is, a market country.” [102]

2.4.2 | Base Erosion and Profit Shifting (BEPS)

To address the challenges caused by international tax competition, initiatives and tools have been created to help developing countries to secure their tax base and protect against exploitation. Chief among these is the OECD's and G20's Base Erosion and Profit Shifting (BEPS) Framework [77]. According to the OECD (2019), BEPS refers to the use of “tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity”. Although some of these practices are illegal (tax evasion), many are not

(tax avoidance). There are two primary concerns about these practices: first, that they give multinational companies an unfair competitive advantage over domestic companies; second, that they encourage a culture of avoidance among individual taxpayers. Signatories to the Framework adopt 15 Actions as part of the “BEPS Package”, providing tools for governments and businesses to fight BEPS [77].

2.4.3 | Financial Secrecy Index

Given how large tax havens have become in economic terms, many international organizations have begun to confront the problem. One of the strongest and best known initiatives, developed by the Tax Justice Network, is the Financial Secrecy Index. Based on independent research, this index ranks jurisdictions according to their secrecy and the scale of the offshore financial activities. The ranking is politically neutral and is intended to help readers understand global financial secrecy, tax havens and illicit financial flows or capital flight through an impartial lens. The Financial Secrecy Index considers the unfair competitiveness of tax havens, which base their attractiveness on secrecy and opacity and promote tax evasion, avoidance, corruption and even money laundering [107]. For a current list of countries by financial secrecy ranking, see **Table 2** in the appendix.

Despite its wide use, the Financial Secrecy Index has limitations; in particular, it imperfectly captures corporate tax havens. The Tax Justice Network is currently working on a new index called the “Corporate Tax Haven Index”. Still under development, this index will be a “global cross-country dataset of profit based tax incentives that can be used to compare and assess countries’ tax strategies at global level.” [108]

Researchers believe that better information can help governments to tackle tax havens. For example, Zucman (2015) argues that a key policy should be the creation of a world financial wealth record to eliminate opacity and information secrecy; this record can be maintained through information exchange between financial institutions in tax havens and tax administration offices. He also argues that jurisdictions promoting tax avoidance and evasion behaviours should be targets of commercial sanctions; these sanctions should be based on the governmental tax revenue losses by other countries [124].

2.4.4 | International Taxation Body

A growing number of researchers and tax equality advocates support the notion of an international tax regime or organization that has the power to tackle inequalities. Such an organization would replace the current network of approximately 3,000 DTAs, which they argue is unclear and unjust, with a comprehensive global framework [25] [49] [93].

There have been attempts to create an international decision-making and rule setting body for taxation. The topic was first raised in 2011 by the G77 countries plus China, with an initiative called International Cooperation in Tax Matters. The G77 recognized that there is no global norm-setting body for international tax cooperation at the intergovernmental level and they wanted to strengthen institutional agreements with the goal of international cooperation in tax matters [43]. The original idea was to change the status of the Committee of Experts on Tax Matters, transforming it into an intergovernmental universal body of the United Nations, with different experts representing their own governments. Equal representation would ensure that all member States would have an equal say on issues related to taxation. They saw the United Nations, the only true global forum with universal relevance, as the only appropriate intergovernmental body which could guide international cooperation in tax matters [44]. In the same year, a community of fourteen Member States of the Caribbean (CARICOM) gave its support for the initiative (UN, 2011). Since then, more countries have joined the initiative: Brazil, India, Egypt, Africa Group, Colombia, Bangladesh, Panama,

and South Africa [40].

Despite the support of over 135 countries for a UN Tax Body, there are other countries which oppose the idea. These include Australia, Canada, the European Union, Japan, Liechtenstein, New Zealand, Singapore, Switzerland, and the United States. The opposition raised misgivings about cost and effectiveness:

"[...] a cost-benefit analysis is needed; there is no guarantee of a representative body; upgrading would duplicate the OECD's work and could lead to the establishment of multiple and mutually-inconsistent international standards for tax; there is a risk of redundancy in work carried out (the OECD has already made sufficient progress in the area of tax cooperation); the Committee must ensure that the existing Committee function[s] in the most effective way...[through] comprehensive evaluation and prioritization of the work performed under the existing Committee before an upgrade could be considered; and it is unclear how a change in status would allow the UN Committee to more efficiently meet its mandate." [1]

In general, the G77 countries support the proposal while OECD and EU countries oppose strengthening and upgrading the UN Tax Committee. At the 2015 Addis Ababa Financing for Development summit, the G77 plus China fought hard but in the end were unsuccessful. Although more countries support the measure, the balance of power lies with countries which are not in favor. Currently, there are no active discussions about creating an intergovernmental tax body. Although it has no binding powers, the UN Committee of Experts on International Cooperation in Tax Matters provides a framework for dialogue between countries, aiming to promote cooperation between national tax authorities. It continues to develop guidelines, recommendations, and risk management tools for the fight against tax evasion [116].

2.4.5 | Local Initiatives

Efforts to reform the global tax system have also emerged locally. Noting the negative impact on their progress and overall development agendas, some developing countries have begun to question the use of disadvantageous corporate tax strategies and double taxation agreements [39] [49]. Industrialized countries took notice: some EU member states, for example, have started to reevaluate a few of their DTAs with developing countries [49].

Although many researchers are investigating the impact of the international tax structure on developing countries, there is little research on the underlying political conditions in developing countries and a shortage of ideas about how countries themselves can promote change and feasible tax policy [48]. It is of crucial importance to evaluate the tools developing countries can use to tackle these problems independently.

3 | ECUADOR

In this paper, we will use the nation of Ecuador as a case study to explore the topic of tax competition further. Ecuador is a developing country in Latin America that has taken strong measures to address the negative impacts of DTAs and tax havens. It is an instructive example because of its active approach to these issues and the ongoing impact of political scandals and public support for reform.

3.1 | Economic Background

In economic terms, Ecuador is middling relative to its neighbors. Ecuador has a GDP of approximately \$100 billion with a GDP per capita (PPP) of approximately \$11,000. Since 2000, Ecuador's official currency has been the US Dollar (USD); it does not have foreign exchange control [121]. Ecuador has a relatively high Human Development Index (health, education and GNI), in line with the rest of South America [115]. To see Ecuador's GDP in comparison to other countries in Latin America and the Caribbean, see **Table 3** in the appendix; for a depiction of the value of international trade in the region, see **Figure 8**.

Ecuador adopted the US dollar as the official currency in January 2000, following political struggles and a widespread banking crisis. The main consequence of using another currency is that the Ecuadorian government cannot use foreign exchange policies to make the national currency more competitive, and must instead rely on attracting foreign capital. As a country without monetary sovereignty, Ecuador is also more vulnerable to international capital markets and the advantages offered by tax havens [41].

In terms of foreign direct investment (FDI), the largest and most important sector in Ecuador is oil, according to roughly 80% of investment. Because FDI is strongly tied to the oil industry, the level of investment is very sensitive to market fluctuations: lower oil prices correlate with lower investment. Investment peaked in 2015 with \$1.3 billion, the highest level in a decade. The following years saw a decrease in the amount of FDI, with 2017 bringing in \$606 million, a 50% decrease from 2015 [5]. Ecuador has difficult and complex government regulations that often discourage investment; it is ranked 123rd out of 190 countries by the Doing Business Report (2019) [122]. For a depiction of FDI flows to Ecuador, see **Figure 6** in the appendix.

In recent years, China has become the largest foreign direct investor in Ecuador. Their relationship demonstrates the shift in global politics as China seeks to expand its influence in Latin America. Analysts argue that China's investment in Ecuador is part of a strategy of geographic diversification and access to energy supplies, as well as a route into South American markets [66]. Ecuador has seen a sharp increase in its obligations to China: in 2010, Ecuador held 1.2% of its GDP in debt to China; by 2016 that percentage rose to 8% [96].

3.1.1 | Tax Laws

Ecuador obtains most of its tax revenues from a 12% value added tax (VAT) that is attached to most consumer items. Ecuador has a progressive income tax that ranges from 5% to 35%. An individual's first \$8,570 of income is not taxed. There is a capital gains tax on buying and selling property. Tax administration of Ecuador operates on a minimum alternate tax (MAT) based on gross assets. A MAT is a tax that is applicable to the corporate or business sector as a whole. The Ecuadorian IRS has increasingly imposed greater tax reporting obligations for corporate and non-corporate taxpayers, and even individuals [14].

The principal business entities in Ecuador are corporations (SA), limited liability companies (Cía. Ltda.) and branches of a foreign company. A company is considered a resident when it is incorporated in Ecuador. For taxing income, Ecuador applies the residence (or personalistic) principle, i.e. tax is levied on

"[...] 1. Income from an Ecuadorian source obtained by way of gift or for valuable consideration arising from work, capital, or both sources, in the form of money, in-kind items or services; and 2. Income obtained abroad by individuals residing in the country or by national companies [...]" (Section 2 of the Internal Tax Regime Law) [56]

This is already curious since most developing countries rely on the territorial principle, in which

"[...] the country to be taxed is that where the source of production of income is located, that is to say, the country where the source's funds are generated. It may be the place where goods are located or where taxpayers carry out their productive activity, completely irrespective of domicile, residence or nationality." [118]

Under section 37 of the Internal Tax Regime Law (LRTI), the tax rate for companies was 25% until 2010; it then dropped 1% each year, to 24% in 2011, 23% in 2012, and 22% from 2013 onwards. Since then, the corporate tax rate has risen again to 25% in 2018, with an increased rate of 28% (since 2016) for companies that are owned by shareholders resident in tax havens or low-tax jurisdictions [56].

Like many developing nations, Ecuador struggles to achieve high tax revenue and to optimize tax payer compliance. One problem is trying to find a productive way to increase the amount of tax collected by promoting a culture of paying taxes within the society.

3.2 | Political Background

Ecuador's legislative branch is the National Assembly, which consists of 137 assemblymen elected for four-year terms. Ecuador is divided into 24 provinces, each with its own administrative capital. The three largest parties are PAIS Alliance (center-left social democrats), Creating Opportunities-CREO (right, conservative), and the Social Christian Party (right). For a depiction of the results of the latest election (2017), see **Figure 1** in the appendix.

Ecuador had one of the most volatile election track records in South America [90]. In 2007, the election of President Rafael Correa brought about a so called "Citizens revolution" that sought to achieve social and economic changes in Ecuador. This was a response to the large-scale privatization and neoliberal austerity measures that were implemented by the preceding governments [19]. Correa's government argued that these policies contributed to high levels of unemployment, poverty and inequality in the country. At that time, 56% of the total population lived in poverty and approximately 2 million people left Ecuador between 1998 and 2003 [19].

Supporters of Correa's government point to positive economic and social changes in Ecuador during his leadership. In an effort to improve the national economy, the Ecuadorian government dismissed numerous loans from IMF and the World Bank. They succeeded in diversifying the economy and in 2010 renegotiated oil export contracts with external partners. Among other factors, these actions contributed to a rise in annual growth of 4.2% between 2007 and 2015. During the last ten years, Ecuador experienced one of the highest rates of economic growth in Latin America. The minimum wage rose from \$170 to \$375 per month. Moreover, Ecuador successfully fought income inequality, reducing the gap between rich and poor [19]. Despite these improvements, Ecuador was highly criticized for its dependence on oil reserves, a dependence that continues to threaten sustainable development in the long-run.

The Current President, Lenin Moreno, has pledged to further develop Correa's social policies. Elected in 2017, Moreno (Alianza PAIS Movement – center-left social democrats) promised a democratic rebound [111]. As a part of his political campaign, Moreno promised a major social housing construction programme that would create a million new jobs, alongside higher subsidies for the poor. He also campaigned for greater financial accountability for the Ecuadorian government [8].

4 | ECUADOR AND TAX HAVENS

Between 2007 and 2017, Ecuador introduced innovative national and international policy initiatives to fight harmful tax practices. One of the main targets for the government and regulatory institutions was the implementation of policies to fight capital flight, tax evasion and avoidance (including tax havens).¹

The Ecuadorian government has introduced redistributive policies in the most unequal continent on Earth. Government officials argue that Ecuador the improvements in living standards are a result of major economic reforms. In less than 10 years, Ecuador managed to substantially increase the tax revenue collected. This increase came from greater efficiency, transparency and building a new culture of paying taxes. The remarkable expansion of tax collection capacity contributed positively to stability and the ability to fight poverty [119].

In 2007, Ecuador introduced The Tax Equality Act. The Act defined the term "tax haven" (paraíso fiscal) in national legislation and implemented wide-ranging regulatory changes to tackle tax avoidance and evasion relating to tax havens. Subsequent amendments helped to address concerns specific to Ecuador and its economy.

In 2017, Ecuador was the first country to hold a nationwide referendum on tax havens, and the first to adopt a law banning all politicians and public servants from having bank accounts or companies in tax havens. Any public official or politician who is found to have connections to these 89 countries will be removed from their position [99].

4.1 | Scale of the Problem

As previously mentioned, Ecuador lacks monetary sovereignty and is therefore economically sensitive to changes in the flows of foreign direct investment; therefore, it is also particularly vulnerable to the tax advantages offered by tax havens. According to Freire (2018), there are 2,114 offshore entities connected with Ecuador [41]. For a full list, see **Table 4** in the appendix.

Ecuadorian banks, businesses and politicians were heavily implicated in the use of tax havens. Below, we will describe how the Banking Crisis in 1999 and the release of the Panama Papers in 2015 motivated political change. For a depiction of the direct participation of tax havens and preferential tax regimes in Ecuadorian companies with foreign shareholders, see **Figure 3** in the appendix.

4.2 | Ecuadorian Banking Crisis

The absence of financial supervision in Ecuador in the 1990s made it possible for Ecuadorian banks to participate in profitable offshore banking, using primarily US dollars. As a result, the financial sector became "dollarized": the foreign currency (USD) was used in addition to, and often instead of, the domestic currency (Ecuadorian sucre). Consequently, the sucre suffered from severe inflation in what was known as the 1999 Banking Crisis. To stabilize the economic situation, the Ecuadorian president Jamil Mahuad announced the adoption of the US dollar as the national currency in 2000 [64].

The banking crisis caused a loss of \$8 billion and even higher social losses. After the crisis, international audit companies exposed to the public that some of the biggest Ecuadorian banks used offshore sites to carry out unethical practices. Ultimately, it was revealed that a large proportion of investments were held offshore: equal to two thirds of all onshore assets [84]. The banking crisis contributed to the 1998-99 Ecuador Financial Crisis, in conjunction with a currency and sovereign debt crisis.

¹We are indebted to Andrés Arauz, an Ecuadorian researcher and advocator against tax avoidance, for providing general information and specialized data about tax havens through informal interviews.

4.3 | Tax Equality Act

The Ecuadorian banking crisis in 1999-2000 provided political motivation for change, leading to the first steps towards restrictions for tax havens. In 2000, regulatory agencies were given the legal ability to prohibit Ecuadorian Banks from having offshore subsidiaries. However, it wasn't until 2007 that practical and hard-hitting interventions were introduced to limit and discourage investment practices based in tax havens [4]. The Tax Equality Act (2007) in Ecuador defined the term tax haven (*paraiso fiscal*) in national legislation and implemented adjustments in relation to these jurisdictions. According to Freire (2018), the main anti-tax-haven regulations from the regulatory changes included: a definition and list of tax havens; exemptions, benefits and nondeductible expenses; treatment of commodities; residence, closely related parties, aggressive tax planning and banking secrecy; and international initiatives [41].

4.3.1 | Definition of Tax Havens

The Ecuadorian Internal Revenue Service, Servicio de Rentas Internas (SRI), defines tax havens as “jurisdictions that protect and promote harmful tax competition, attracting capital regardless of its origin, offering little or no transparency and having no other requirements of substance that need to be met for a company or transactions to be covered by its tax regimes” [99].

Before 2007, the Organic Law of Tax Regime allowed the SRI to use OECD and Financial Action Task Force criteria to determine which jurisdictions should be considered tax havens; in reality, they took little action. Following changes in 2007, the term “tax haven” was defined as a jurisdiction that protects and promotes harmful tax competition, attracting capital regardless of its origin, offering little or no transparency and having no other substantive requirements for a company or transaction to be covered by its tax regimes. According to Orellana (2009), the parameters used to characterize tax havens were:

- No or low tax;
- Lack of effective exchange of information;
- Minimal requirements to Incorporation (Inc.) creation with no substantial economic activity;
- Jurisdiction where there is a particular tax regime for non-residents that has benefits or advantages that excludes residents;
- Jurisdictions that promote themselves as places to be used to avoid national regimes; and
- Jurisdiction not willing to exchange information of beneficiaries with no or low tax rates. [81]

In addition, the terms “jurisdiction with low tax rates” and “preferential tax regimes” were included to allow more flexibility. Ecuadorian law stipulates that tax havens are those countries and jurisdictions with an effective rate of income (or analogous) tax below 60% of the rate applied in Ecuador. In current terms, countries with a tax rate of 13.2% or lower are considered to be tax havens [56].

In 2008, the SRI was given power by congress to compile and publish the list of the jurisdictions considered to be tax havens. The list is updated every year according to the same criteria. There are currently 89 countries on the list; an update was recently issued using the 60% rule. New additions include Estonia, Bulgaria, Macedonia, Ireland, Montenegro, Serbia, the US states of Delaware, Nevada, Wyoming and Florida, and specific jurisdictions in the Netherlands, United Kingdom, New Zealand and Costa Rica (For the current list see <http://www.sri.gob.ec/web/guest/fiscalidad-internacional>).

4.3.2 | Exemptions and Benefits

Because the lack of monetary sovereignty in Ecuador restricts its use of monetary policy, the inflow of money (dollars) is of crucial importance. In a 2008 amendment to the regulatory framework, income generated outside the country was considered tax exempt when subject to tax in another country. Before the change, this income was added to overall income and a tax credit was given to the beneficiary equal to the value of tax paid in the other country. This policy change was an attempt to incentivize national income generation at the international level to increase the flow of money into the country [97]. It does not apply to income generated in tax havens; even when tax has been paid in a tax haven, under Ecuadorian law the income is taxable and no tax credits are recognized.

As well as monetary inflows, the outflows of currency are also important for the Ecuadorian economy. In 2007, a tax on overseas remittances was implemented, with some amendments to the base amount and exemptions depending on the reason for the remittance. Currently, the tax rate is 5% on money that leaves the country. When expenditures are made through a credit or debit card a base amount of \$5,000 is considered tax exempt. Foreigners who have been in the country for 90 days or less are exempt from this tax, as are expenditures regarding education or other special cases established in the law. Since 2008, dividend transfers to tax havens, jurisdictions with low tax rates and preferential tax regimes are subject to the 5% tax [56] [100].

More arrangements were introduced in the years that followed, including a tax benefit for trusts. Income generated from trusts with economic activities or ongoing business operations are exempt from tax, but when a related member of the trust (e.g. a founder or a beneficiary) has a link or relationship with a tax haven or a jurisdiction with low tax rates, the trust becomes subject to the tax.

Historically, tax payers have deducted expenses to reduce their total tax bill. To improve tax compliance, many specific articles were established at the national level to incentivize the population, including asking for physical evidence (in addition to online evidence) of their transactions with commercial agents. They introduced restrictions on payments related to international commercial leasing arrangements, where the beneficiary resides in a tax haven, disallowing them as deducting expenses. There were also new restrictions relating to interest paid on loans outside the country and granted by non-financial institutions, indirect expenses and bonuses [56] [100]. The government helped to provide more information to the tax administration about tax practices in the commercial sector.

4.3.3 | Treatment of Commodities

Ecuador is still a commodities-based export economy. Three sets of products and their derivatives represent a high percent of exports in the country: oil, bananas and minerals. Other products such as shrimp, roses and cacao are also economically relevant. Therefore, the government introduced special considerations regarding the tax treatment for these products in relation to tax havens. In this case, specific technical measures and methods were implemented to prevent the abuse of transfer pricing. It is important to note that these measures are only implemented when transactions are either directly involved with a beneficiary domiciled in a tax haven or indirectly linked through an intermediary that is not in Ecuador or in the country that is importing the goods [41].

Additional incentives to avoid the abuse of tax havens have also been implemented. In the context of withholding tax, payments to countries considered tax havens are treated differently than other countries. For instance, when dividends are issued by an entity that doesn't apply for exemptions and the payment is made in a tax haven jurisdiction, a 10% tax is implemented and 0% when the payment is made in other jurisdictions. When the issuing entity applies for an exemption and pays in a tax haven jurisdiction, a 35% tax is charged and 0% to other countries. Insurance premiums and foreign remittances for withholding tax are also subject to a 35% tax in these jurisdictions and 22% for the countries not

classified as tax havens [56] [100].

4.3.4 | Financial System Regulations

The Ecuadorian financial system is now being scrutinized because of its relationship with tax havens; policy-makers consider it to be one of the main economic actors to control and regulate. According to Arauz (forthcoming), there is a lack of literature about the business models (modus operandi) of the offshore banking system; in general, only macroeconomic aggregates are used to determine capital flight [4]. Offshore banking in Ecuador grew substantially during 1980s and 1990s following the Washington Consensus which incentivized deregulation of the financial market. According to Paez Perez (2004) this trend started in 1986 with the flexibilization of interest rates and the development of new financial products, culminating dramatically in the mid 1990s with a complicated reform effort alongside an exchange-rate based stabilization program and weak legal framework [84].

During these years, 27 offshore subsidiaries were created, mainly in Panama and the Bahamas. After the 2000 banking crisis and subsequent regulations, there are still 6 subsidiaries remaining in Panama with a very low number of employees, offices and ATMS [4]. The low numbers in service facilities create the suspicion that these subsidiaries do not provide true financial services to citizens of the hosting country, but rather serve other less benign purposes.

In 2009, Ecuador began to address these problems by imposing a tax on assets held abroad by financial institutions. The tax rate was increased from 0.08% to 0.25% for investments made abroad and 0.35% for investments in tax havens. In addition, some prohibitions were introduced for financial institutions regarding their relationship with tax havens. It was made illegal to have the main domicile of a foreign financial entity in a tax haven, to be a direct shareholder in a financial entity domiciled in a tax haven, or to be an indirect shareholder in a tax haven. The government gave financial institutions a year to comply with all the needed disinvestments [4].

Of particular interest for the Ecuadorian authorities was credit in relation to financial institutions in tax havens. In 2017, Ecuadorian financial institutions were prohibited from forming agreements with financial institutions in tax havens to grant credits or raise funds. They were also prohibited from conducting credit operations and buying lending portfolios granted to people or companies domiciled in tax havens or jurisdictions with low tax rates [41].

4.3.5 | Tax residence, closely related parties, and banking secrecy

The 2008 tax reforms included a definition for closely related parties which established rules and limits to the tax benefits and deductions allowable when transactions and operations are conducted between parties (for example, debt limits, indirect expenses and bonuses). Another important advance made during this period was lifting banking secrecy for the SRI, allowing the institution to demand bank information about transactions that were made relating to tax havens [56] [100].

After a period of adjustment following the 2007 tax reforms, some evidence emerged that creative new methods and processes were skirting the law. To tackle this, amendments to the Tax Regime Law were made in 2014, including new laws about tax residence for persons or companies. For example, when the majority of assets and income is directly or indirectly recorded in Ecuador this person or company is considered an Ecuadorian tax resident [41].

4.4 | Panama Papers Scandal

The leak of the Panama Papers in 2015 caused a political scandal and also revealed the scale of the problem of tax havens. The Panama Papers implicated high level governmental officials like the Attorney General, the Governor of the

central bank and even the President [57]. One prominent case was when the Panama Papers prompted an investigation into Petroecuador, a state-owned petroleum company, raising allegations of money laundering and corruption against top officials, including Jorge Glas, the former Vice President. Investigators discovered that officials were overcharging for contracts and siphoning off the extra money. The new Petroecuador refinery in Esmeralda, for example, was shown to be \$1 billion over budget and clouded in corruption [6]. This case highlighted a growing problem: Ecuadorian money being illegally hidden and mismanaged.

According to the Ecuadorian Internal Revenue Service (SRI), 79 consortiums from the 215 biggest economic groups in Ecuador have links with tax havens and 41 these groups are implicated in the Panama Papers. The groups accounted for 37% of total sales in 2016 and 76% have international shareholders of which 49% are in tax havens [98]. In addition, some \$30,000 million went to tax havens from Ecuador since 1970, a number which represents a third of the Ecuadorian economy [107]. According to data from the SRI, between January 2014 and December 2017, a total of \$6,213 million has left the country to tax havens; based on estimates from the Ministry of Finance, this money is enough for more than 20 fully equipped hospitals or more than 100 millennial public schools (new generation infrastructure public schools) that could benefit 6.38 million people in the country [63].

In a prominent investigation in 2016, the SRI identified the existence of 509 “ghost companies” with an additional 301 identified in 2017, for whom privacy was lifted; a list is now public available on the SRI website [98]. These companies issued “fake invoices” for a total of \$2,700 million (\$2,100 million in 2016 and \$600 million in 2017) to 19,890 clients with a hit to governmental revenue of \$835 million (Income Tax \$513 million and VAT \$322 million). According to Freire (2018), it was discovered that tax havens were used to erode the tax base through the use of practices such as transfer pricing, where companies with a related party in a tax haven would exchange goods or services but artificially change the price in order to pay less tax. Other techniques included undercapitalization, where companies pretend not to have enough capital or even show losses (hiding them in tax havens) in their reports in order to pay tax based on a lower tax base and the simulation of transactions. Such practices have been punished with more than \$1 billion in fines [41].

According to information from the Panama Papers, there are 16 jurisdictions that have offshore entities created in relation to Ecuador. Of these, Panama, the British Virgin Islands, Nevada and British Anguilla are the jurisdictions with the most connections, representing more than 90% of the total number of entities. The discovery of such scandals prompted the President and Ecuadorian government to become more proactive in trying to curb the flow of illicit funds out of the country and to protect the interests of the Ecuadorian people.

4.5 | Executive Decree 973

In 2016, Ecuador’s president issued Executive Decree 973, which amended the Ecuadorian Tax law. The Decree states that for everything not covered by the SRI’s resolutions, laws and treaties, the most recent version of OECD’s Transfer Pricing Guidelines must be used as a technical reference [37]. The Ecuadorian courts have created a Specialist Tax Division of the National Court of Justice for reviewing and developing strategies to try to increase accountability and tax revenue [23].

4.6 | Referendum on Tax Havens

In Ecuador, the most innovative and important political initiative to fight tax competition at the international level was a Referendum in February 2017 regarding tax havens. It was the first Referendum of its kind. The public was asked: “Do you agree that, for those holding a popularly elected office or for public servants, there should be a prohibition on

holding assets or capital, of any nature, in tax havens?”. Alongside this question, Ecuadorians also voted for president, congress and other dignitaries.

4.6.1 | Political Campaigns

During election years, the tax system and related national initiatives become an important political topic in Ecuador. In favor of the referendum initiative was Alianza Pais, the left-leaning political party in power, alongside at least 12 identified parties, social, national and international organizations who strongly supported the referendum. Those in favor of implementing the tax haven initiative were called the “Ethical Pact”. On the other side, a strong opposition formed on the right with 9 parties including CREO (“Believe” in Spanish) and PSC (Partido Social Cristiano, the Social Christian Party). Here, the most prominent political actor was Guillermo Lasso, owner of the second largest bank in Ecuador (Banco de Guayaquil) and presidential candidate for the 2017 elections for the CREO party.

Before the referendum, the Financial and Monetary Code already established the prohibition for national financial institutions to have subsidiaries in tax havens or even similar direct and indirect shareholders. According to Arauz (forthcoming), one paradigmatic episode occurred when Lasso admitted after an interview that he was the owner of offshore subsidiaries, publicly admitting his illegal actions [4]. In response, the Ecuadorian Bank Superintendent began an investigation, but due to lack of evidence – the Panama Superintendent argued that financial information could not be given because of secrecy – it could not progress further. In another example, Jaime Nebot, the Mayor of Guayaquil (the most populated city) also appeared in the Panama Papers as the owner of a trust that allows ownership changes on specific goods without paying taxes. Economic elite groups opposed the reforms, first against the referendum and afterwards against implementation [4].

According to supporters of the referendum and the main political actor, president Rafael Correa, a fundamental requirement for individuals campaigning for an elected position is to trust their own nation by keeping their wealth inside the country and paying taxes. They also argued that it wasn’t fair for the Ecuadorian population living abroad and sending remittances if the richest groups in Ecuador were taking their money out of the country. The opposition argued that the only intention of the referendum question was electoral: it was not an honest fight against tax havens. They argued that after 10 years in power the timing of this decision did not make sense. The opposition also argued that individuals should be free to hold their wealth where they think is best and that the only ethical pact for them should be with the people [9].

4.6.2 | Results and Enforcement

After months of intense campaigning, the referendum was held on February 19th. The results were 55.12% in favor and 44.88% against. The results were important in terms of the real fight against tax havens because Moreno (the presidential candidate for Alianza Pais) obtained only 39% of the popular vote, indicating a popular consensus about prohibiting elected officials and public servants from having relations with tax havens. According to several political actors who were in favor of the referendum but not necessarily in favor of Alianza Pais - including Pablo Iturralde, Ramiro Gonzalez and Ivan Espinel - the vote was a good way to allow people to decide what kind of society they wanted [34]. It also allowed voters to separate political and economic power from the decision-making process. According to Alex Cobham, director of the Tax Justice Network, the Ecuadorian referendum helped to raise awareness that the use of financial secrecy is a form of economic and political corruption [54].

In July of the same year, the National Assembly approved the Tax Havens Law with 107 votes in favor and 18 against; the only party against was the right leaning CREO. The Law has been enforced through coordination between

three institutions: Servicio de Rentas Internas (SRI), Contraloría General del Estado (General Comptroller of State, in charge of prosecuting corruption cases) and the Bank Superintendent. The lifting of banking secrecy allowed the SRI to access all financial information from elected officials and public servants; they discovered that more than 800 public servants had some kind of relationship with tax havens, including accounts or board positions of a company created in this jurisdiction. The financial flows were substantial: 20,288 inflow and outflow transactions; of which 3,266 (16.1%) were from personal accounts. To date, 8 people have been removed from their positions and 238 are still under investigation by the Contraloría General del Estado [35].

4.6.3 | International Reaction

The Ecuadorian Referendum was highly acclaimed by intergovernmental bodies and institutions. Mark Weisbrot, an American economist and co-director of the Centre for Economic and Policy Research (CEPR), cited Ecuador as an example for the United States to follow because Ecuador showed it was possible to implement fundamental reforms in finance and regulation. According to Weisbrot, the tax referendum is an innovative tool that should also be used in the US [24]. Echoing this sentiment, Elise Bean, former Staff Director and Chief Counsel of the United States Senate Permanent Subcommittee on Investigations, commented on the Ecuadorian referendum:

“One of the really interesting things is about how Ecuador is giving us an example about how if you strengthen the capacity to collect taxes it really contributes to stability, to the ability to fight poverty. This culture of paying taxes is a remarkable achievement and is something that should be studied and I think we should try to replicate it elsewhere.” [24]

Overall, experts in the economic community greeted the referendum, hailing it as a ground-breaking step for reforming the contemporary institutional tax structure.

4.7 | Results of Tax Reforms

Over the last several years following the appearance of the Panama Papers, Ecuador has made the fight against tax havens not just a Servicio de Rentas Internas (SRI) issue but also a matter of State policy. To make measures against tax havens more efficient, they have improved coordination between governmental agencies, including information exchange protocols between the SRI, Central Bank, Prosecution Agency, Bank Superintendent and Anti-money Laundering Agency in addition to the creation within the SRI of a specific working group to tackle fraud and money laundering activities [98].

Following implementation of the new policies and reforms during this period, the Ecuadorian government tripled the tax revenue generated (in monetary terms) from \$3.5 billion in 2006 to \$19.6 billion in 2014; the increased revenue rose from 9.6% to 12.7% of GDP. Tax revenue relative to GDP is now close to the average level for Latin America and the Caribbean countries (13.9%) [97]. According to the SRI, 81% of the improvement was thanks to better administrative capabilities and tax agency work and 19% was due to the legal reforms that were established. This shows the importance of a well-structured tax authority in achieving a fairer and more efficient tax system. Tax revenues represented 66% of social investment; from this, 27.1% went to the health sector and 46.5% to education [97]. For a depiction of the change in tax revenues in Ecuador, see **Figure 7** in the appendix; for a description of the importance of taxes for social investment, see **Figure 5**.

In 2006 and 2007, only 3 out every 10 corporations paid timely income tax and 6 out every 10 paid VAT; between

2016 and 2017, 9 out of 10 paid on time. Because of the exemption of interests and other policies implemented to improve tax compliance, a total of \$794.9 million was recovered in 2016 and \$880.1 million in 2017. Currently, 97% of tax obligations are paid on time by individuals and corporations [97]. In addition, thanks to the release of the Panama Papers, a total of \$408 million was recovered from the 810 “ghost corporations” (\$102 million in 2016 and \$306 million in 2017). In terms of enforcement, 25,639 persuasive (initiated by individual taxpayer) and executive (initiated by institution through legal procedure) controls were taken and 9,356 taxpayers were regularized [97]. In the financial system, higher liquidity is now held in Ecuador by financial institutions, which makes the economy more internally dynamic and reduces the risk of liquidity problems. Financial institutions have been forced to reduce their interactions with tax havens due to harsher legal controls and barriers to disinvesting from offshore subsidiaries, increasing income flows to Ecuador.

The regulatory reforms and policy advances to tackle tax avoidance and evasion are not entirely socially accepted in Ecuador. According to Chiliquina & Villacreses (2017), the tax system and tax policies become prominent topics in Ecuador, hotly debated during electoral campaigns [16]. Unfortunately, ignorance and disinformation was common among the general public, causing negative attitudes toward tax reforms. Some scholars argue that recent reforms, intended to increase the tax base and improve the tax culture, have not had the positive effects that Ecuador anticipated [14].

Despite these hurdles, there has been acceptance and enthusiasm among the public in Ecuador about specific topics. The government has highlighted positive changes, including a rise in government revenue and reduced inequality as indicated by a lower GINI coefficient from 53.9 in 2004 to 45 in 2016 [121]. Following initiatives taken by the government to promote a clearer understanding of how tax havens hurt the economy, there was also wide acceptance of the message that tax havens are negative and harmful. Therefore, although the general public still has a negative perception of tax in general, it opposes the use of tax havens.

5 | ECUADOR AND DOUBLE TAXATION AGREEMENTS

Ecuador has signed a total of 19 DTAs with 21 different countries. The dominant OECD model was used for these agreements [60]. Eight DTAs have been signed with European countries, five with Latin American countries, four with Asian countries and two with North American countries. Of these, ten countries are part of the OECD group (“industrialized countries”) and eleven are not. Ecuador signed a multipart agreement with Comunidad Andina, The Andean Community of Nations (Bolivia, Columbia, Ecuador, and Peru). Most recently, Ecuador signed a new tax treaty with Japan on 15th January 2019 [12]. A selected timeline is depicted below. For a map of countries that have signed DTAs with Ecuador, see **Figure 4** in the appendix.



5.1 | Why were no DTAs Signed 2005-2013?

A curious gap emerges when scrutinizing the DTAs signed by Ecuador: between 2005 and 2013, no new treaties were signed. Through investigating this gap, a broader political and economic context is revealed. Although it is impossible to know the exact causes, it is likely that a lack of political and economic confidence is to blame.

Taxation agreements are complex and require a high level of political and economic cooperation, reflected in other indicators such as foreign direct investment. The process can take a long time. For example, for the past decade China has been a leading investor in Ecuador, but the two countries did not sign a DTA until 2015. Between 2005 and 2013, there were many reasons why Ecuador was perceived as unstable and hostile to investors, especially from the perspective of industrialized countries.

First, there is the political context. In 2004, Lucio Gutiérrez was President of Ecuador. Despite an initial alliance with leftist parties, Gutiérrez allied himself with industrialized countries through support of the Free Trade Area of the Americas (FTAA) and increased economic bonds with the US. Furious about the perceived betrayal, in November that year his former supporters on the left began an impeachment attempt on the grounds of embezzlement and jeopardizing state security. Without the requisite votes, this attempt failed. 2005 saw widespread demonstrations against Gutiérrez, which prompted a special meeting of the Congress of Ecuador. The Congress voted 60-2, on the grounds of abandonment of constitutional duties, to remove Gutiérrez from office (although 38 members did not vote). The Vice President, Alfredo Palacio González, was installed as president [7]. Following the removal of President Lucio Gutierrez, Rafael Correa was elected president in 2006. Correa, an economist and Democratic Socialist who openly criticized the political and economic elites. As President, Correa supported left-wing policies such as poverty reduction, a higher minimum wage and increased standard of living. His government was openly critical of the IMF and World Bank, and resisted attempts at economic monitoring [87].

It is unsurprising that industrialized countries would balk at the shift from a centrist President who cooperated with western powers to a left-wing progressive who was openly hostile to international economic organizations. Alongside expensive social projects and wealth redistribution, President Correa proclaimed the end of neoliberalism in Ecuador. His policies alarmed wealthy Ecuadorians and foreign investors [59].

Also important is the economic context. At the end of 2008, President Correa announced that Ecuador would intentionally default on its national debt, and that he was prepared to fight creditors in the international courts. \$3.2 billion of bonds were declared “illegitimate” because of irregularities in the negotiation of debt restructuring, blamed on despotic regimes [109]. It came as a surprise to many when Ecuador successfully negotiated the debt, buying back 91% of its defaulted foreign bonds at only 35% of face value. Perhaps even more surprising was that financial markets received the news reasonably well. According to *The Economist*, Ecuador’s bond buyback “represents a rare instance of a country that did not repay its debt even though it had the resources to do so. It was also one of the least contentious in the history of Latin American sovereign defaults.” [109]

The combination of political instability, high government spending and debt renegotiation had a dampening effect on Ecuador’s credit rating and on foreign direct investment, which declined 77% between 2004 (\$837m) and 2007 (\$195m) [5]. In the period between 2005 and 2013, Ecuador’s credit rating was volatile, ranging from CCC- (vulnerable) in 2008 to B+ (able to meet commitments) in 2014. The rating was lowered to SD (selective default) in December 2008 following the intentional default. An SD rating is issued when Standard and Poors “believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner.” Since 2014, the credit rating has been mostly stable, with a high of B in 2015 and low of B- in 2018 [104].

5.2 | Ecuador-Switzerland DTA

On 22 December 1995, the Double Taxation Agreement (DTA) between Ecuador and Switzerland entered into force. It contained provisions to avoid double taxation on income and property. The treaty applied to those residing in one or both countries and included profits derived from the transfer of movable or immovable property, taxes on the total amount of the salaries or wages paid by the companies, and taxes on capital gains [29]. The DTA did help Ecuador to attract foreign investment but it sacrificed a good deal of tax revenue in exchange. According to researchers, in the period from 2009 to 2011 Ecuador lost \$12.8 million because of this treaty, while the amount of money that was gained through foreign investment related to the treaty remains unclear [60]. Over this time, there have also been underlying losses for other reasons.

As previously mentioned, DTAs may also be used for double non-taxation and to establish treaty networks. The Ecuador-Switzerland DTA is a good example of this because the deal blocks Ecuador from taxing the money that was generated within the country but that Swiss companies have decided to take to the home country. Switzerland also chooses not to tax this money; therefore, multinational enterprises get the benefits of double non-taxation. At the same time, the Ecuadorian government misses out on revenue that could be used for investments in the public sector, especially in areas where the private industry does not participate in the market. Furthermore, of all the treaties that Ecuador has signed, the treaty with Switzerland is the only one that did not have an information exchange clause, which is necessary to obtain information upon request [105].

5.2.1 | Abuse of Ecuador-Switzerland DTA

The Ecuador-Switzerland DTA came under intense criticism after it was used for treaty shopping. In 2010, the China International Water & Electric Corp (CWE), a subsidiary of the Chinese state-owned company Three Gorges Corporation (specializing in construction, engineering and consultancy), came to Ecuador and established contracts with the Ecuadorian Government to construct a hydropower plant, a flood control system, a neighborhood and student residences. In 2014, CWE faked a \$32.8 million consultancy contract with the Swiss enterprise YouSeeAG under the advice of the Ecuadorian company Tributum. They selected a Swiss company to take advantage of the DTA between Switzerland and Ecuador, allowing the subsidiary CWE to be exempt from the usual 22% tax that Ecuador charges when a national company pays a foreign enterprise for technical fees [36].

The abuses by CWE included both treaty shopping and illegal practices because the contract they established in Switzerland was actually fake. The Chinese public enterprise was interested in Ecuador but not really in Switzerland. This is a common situation and usually it's also possible to avoid taxes legally by following this same process and establishing real operations on a third country with the intention of not paying taxes.

Although treaty shopping is not usually covered by the media, the public scandal caused by the release of the Panama Papers prompted intense interest. With information obtained through the Panama Papers, the press uncovered CWE's deceit because Tributum has among its members part of the logistics of the Panamanian company Mossack Fonseca. Different media outlets such as El Universo, Trouw and Het Financieele Dagblad broke the story. Most interesting, the public popularity of the case was one of the reasons behind making changes to the original Swiss-Ecuador DTA.

5.2.2 | Amendment of the treaty between Switzerland and Ecuador

On 26 July 2017, Ecuador and Switzerland signed an amendment to their DTA with the intention of complying with the international standard of introducing a provision to exchange information upon request [30]. The original model

protocol on exchange of information in tax matters was developed by the OECD to promote international cooperation and address harmful tax practices under the assumption that transparency and information are key to identifying and stopping tax avoidance.

Switzerland and Ecuador followed a similar approach and established this provision without contravening the legislation of both countries and as a last resort once all other options were exhausted. The information provision was motivated in part by the scandal with CWE. The Ecuadorian government reasoned that illegal practices would diminish if those that carry them out fear that their practices could be discovered and those committing abuses might be caught. However, the amendment only considered modifying the treaty in terms of information exchange and did not modify anything else directly. Considering that China abused the treaty by establishing a tax avoidance network through a Swiss company, at a time when China didn't have a treaty with Ecuador (tax avoidance started before 2015), it was likely that measures would be introduced to diminish the possibility of a third country abusing the system. Not adhering to such measures under the assumption that China and Ecuador now have a tax treaty is insufficient as a justification because many other countries that don't hold DTAs with Ecuador might still be able to abuse its treaties.

The Panama Papers made these amendments easier for Ecuador, thanks to the information that became available. In 2016, the SRI was able to complain to Ecuadorian representatives and the Chinese company Three Gorges Corp. Adding the provision about exchange of information could serve a similar purpose in other countries to help in the fight against tax avoidance; however, it is still likely that other abuses will happen in the future and perfecting double taxation agreements is a process that still continues.

6 | ECUADOR AND THE GLOBAL TAX DEBATE

6.1 | Base Erosion and Profit Shifting Framework

Ecuador started the process of joining the BEPS project and is currently reforming its laws and implementing the required tax transparency standards [71]. The most recent measures were applied in October 2018 when Ecuador signed two agreements with the OECD. Ecuador became the 126th country to join the Convention on Mutual Administrative Assistance in Tax Matters and the 104th country to sign the CRS Multilateral Competent Authority Agreement [74]. The first Convention provides all forms of administrative assistance in tax matters and it guarantees extensive safeguards for the protection of taxpayers' rights. The second agreement is key for implementing the automatic exchange of financial accounts information under the Convention [78]. These agreements are instruments for implementation of the next milestone: the Standard for Automatic Exchange of Financial Account Information in Tax Matters (CRS). This standard will enable Ecuador to automatically exchange offshore financial accounts with all other signatory countries and is a powerful tool in the fight against illicit financial flows [69].

Since 2016, the Ecuadorian government has organized seminars and workshops to educate the public about the benefits of BEPS and how Ecuador can prepare to implement these regulations in the upcoming years [94] [37].

6.2 | Tax Advocacy

Ecuador has expressed a wish to replicate its achievements in other countries and show that it's possible to build a culture of paying taxes. Its goal is to end the global scourge of tax havens. Scholars estimate that in Latin America, over 32 million people would be able to escape poverty if the hidden capital in tax havens would pay its corresponding income tax [24].

By gaining momentum on a national level, Ecuador wanted to revive the old idea of fighting tax avoidance worldwide.

During the reform process and implementation of the new tax policies, the Ecuadorian tax agency and related actors came to understand that although efforts can be made at the national level to fight tax havens with some positive results, there is an urgent need for coordination at the international level [24].

In 2016, Ecuador was selected as president of the G77 plus China, the biggest group at the UN in terms of nations (with 134 members). As president, Ecuador was a vocal participant in the debate about tax regulation and established action against tax havens as an agenda priority. Ecuador declared that creating a United Nations Tax Body with a state-level mandate to pursue tax justice was a key priority. The proposed UN body would be made up of member states and be empowered to shut down tax havens and expose corrupt elite who are avoiding paying tax in their home countries. Setting up a UN body to regulate tax, they claimed, would help end the destructive tax competition between countries [24].

During the 71st UN General Assembly, Ecuadorian Minister of Foreign Affairs Guillaume Long urged the Assembly to create a UN tax body to regulate money flows and expose corrupt businesses. He proposed the creation of an intergovernmental body under the UN umbrella including a proposal [28] for the elimination of tax havens and an ethics agreement. This initiative was supported by the Economic Commission for Latin America and the Caribbean (CEPAL in Spanish). Long stressed that all the countries have a common interest: to implement a greater degree of transparency regarding tax havens. Everyone would benefit: poorer countries would have greater revenues to fund economic development and justice, and, the European Union and North America would gain from information transparency revealing data about terrorism funding and profit concealment [52]. As part of the Ecuadorian strategy, the initiative was presented to and approved by the Decolonization group of the U.N. [33]. In June 2017, Ecuador also got the support from the 47 countries who are part of the Human Rights Council [28].

Critics of the common UN tax body called the proposal utopian; however, Guillaume Long used the Ecuadorian case as an example of successful fight against secrecy jurisdictions. In 2006 Ecuadorian tax returns reached \$3.5 billion; only 8 years later, following reforms, tax returns amounted over \$14.5 billion. Moreover, according to Long, the increase is not due to a higher tax rate alone: “92% of this increase is from greater efficiency, through greater transparency, and through fighting tax evasion and tax dodging.” [119]

In the same year, Ecuador’s president was the only president to sign a letter coordinated by the NGO Oxfam, advocating for the building and establishment of a new international agreement to address the problem of transparency regarding the real ownership of corporations. The letter mentions that there is no economic justification for allowing tax havens to continue, urges an end to offshore financial secrecy. It came ahead of the UK Government’s summit on offshore corruption in London, which politicians from 40 countries as well as World Bank and IMF representatives were expected to attend [82]. Here the intention was to build basic elements at the international level to create binding norms for all countries regarding the control of capital flows to tax havens, but this goal was not reached.

7 | LESSONS FOR POLICY-MAKERS

Ecuador is not unique among developing countries, nor are its reforms the most substantial. Other countries, for example, have renegotiated or exited double taxation agreements, while Ecuador merely tacked on an addendum which is standard under the OECD model tax treaty [72]. However, Ecuador does have interesting features, and some lessons may be drawn for other developing countries.

7.1 | Role of Crisis and Scandal

In Ecuador, tax reform was consistently preceded by a dramatic political or economic event. Issues relating to tax havens were first scrutinized during the 1999 banking crisis, contributing to development of the Tax Equality Act in 2007. The leak of the Panama Papers in 2015 revealed a connection between leading political figures, state enterprises and tax havens, leading to the referendum on tax havens in 2017. The treaty shopping abuse of the Switzerland-Ecuador DTA by China International Water & Electric Corp (CWE) motivated the addendum about information provision.

These causal connections are no doubt overly simplified, but there is merit in examining the relationship between crisis or scandal and the demand for change. In these cases, the link between the problem and solution is clear: change the law to prevent future abuses. Other developing countries may note these patterns. Disruption can perhaps provide a “window of opportunity” to make hard-hitting reforms.

7.2 | Public Will for Change

Changes to the tax laws in Ecuador were bolstered by public support for reform. Ecuadorian citizens were enraged about the abuses committed by businesses and politicians and demanded transparency and accountability. Crisis and scandal uncovered significant information: for example, the Panama Papers showed not only the economic relevance of tax havens, but also the political relevance through the connections of top officials with these jurisdictions. The role of the media in reporting these cases should not be understated. For instance, press coverage of the CWE treaty shopping led to a public outcry.

The effectiveness of tax policy changes is also due in part to public backing. This is demonstrated by the cultural changes in Ecuador: although many citizens are still skeptical about taxation, there is widespread rejection of tax havens as demonstrated through the referendum result. Alongside the media, the Ecuadorian government also helped to raise awareness of tax issues through educational campaigns. A widespread change in cultural attitudes has been one of the most successful outcomes of tax reform.

Although it is impossible to know the alternative outcomes, it is fair to say that public support can help to both motivate and implement reforms. Other developing countries would be wise to recognize that public support and buy-in are key for meaningful change.

7.3 | Use of Creative Political Tools

The 2017 referendum on tax havens was internationally hailed as an innovative and effective means of public feedback, providing a mandate for reform. Alongside the general election vote, citizens were given the opportunity to directly express their views about the issue of tax havens. The referendum had the benefits of improved public awareness, participation and political accountability. Moreover, it asked a specific question that could be translated into law: the results were used as a direct authorization for policy-makers to pursue tax reforms.

Other developing countries may note the possibility of a referendum to motivate change in the difficult area of tax reform. However, the use of referendums as a political tool has recently come under criticism. Even in industrialized countries such as the United Kingdom, a poorly-phrased question and misinformation can lead to unfortunate consequences.

In addition, the Ecuadorian government made creative efforts to show the positive impacts of reform, such as the taxation of remittances, prohibitions for banks or financial institutions to have subsidiaries in tax havens and reduction of benefits to corporations that have a relationship with these jurisdictions. This can also be taken as example for

developing countries to promote an alternative to the “race to the bottom”.

7.4 | International Support

Ecuador perhaps serves as an example of the importance of international support. During the period between 2005 and 2013, no new DTAs were signed, likely because of a negative international perspective towards Ecuador. The left-wing political climate, high public spending and refusal to pay foreign debts contributed to lower levels of foreign direct investment and lower estimations of creditworthiness. Like many developing countries, Ecuador is reliant on foreign investment, and therefore suffered during this period.

Another example of this is the lack of progress in establishing an international tax regulatory body. Although more countries are in favor than against, the powerful OECD countries generally oppose the idea and have effectively prevented it from moving ahead. Other developing countries may note that tax reform on an international scale typically requires the support of the “major players” in industrialized countries.

7.5 | Improved Access to Information

Throughout our discussion, access to information has been a major theme. Good data reveals the scale of taxation problems and the major culprits, allowing countries to produce effective, targeted reforms. Although industrialized countries often have access to information - the US transparency law FATCA is one example - developing countries may struggle to retrieve the relevant information. The release of the Panama Papers was a major revelation in the fight against tax havens in Ecuador, providing a hugely beneficial tool for its government and policy-makers.

From within Ecuador, new research about the scale and scope of the problem will improve information further. Academic researchers such as Andres Arauz are using novel techniques to identify the provenance of financial flows and to compile relevant information into indices [4].

Other developing countries increasingly have access to high-quality information about international tax affairs, and can encourage efforts within their academic communities to further improve and expand the available tools and data. The Ecuadorian move to lift banking secrecy in relation to tax havens is a prominent step towards clear information provision: data from the SRI webpage can now be used by researchers, media and the public in other developing countries to identify individuals and companies with ties to tax havens.

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8 | APPENDIX

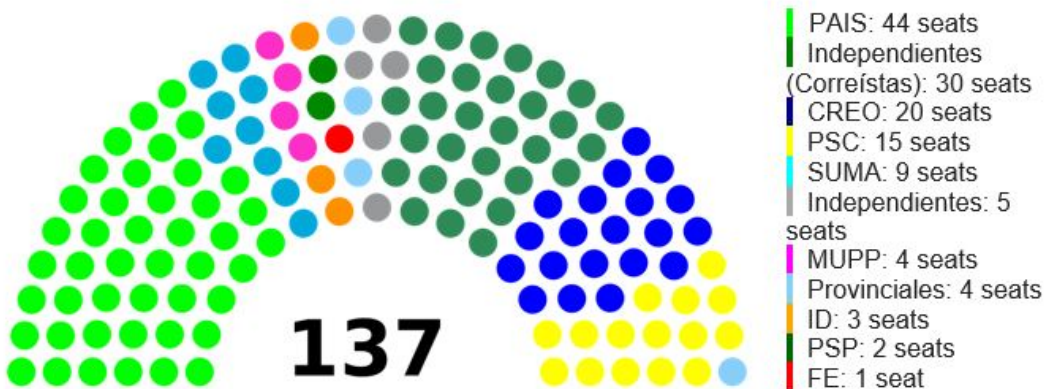


FIGURE 1 Results of the 2017 General Election in Ecuador (Source: *Election Guide*, 2017)

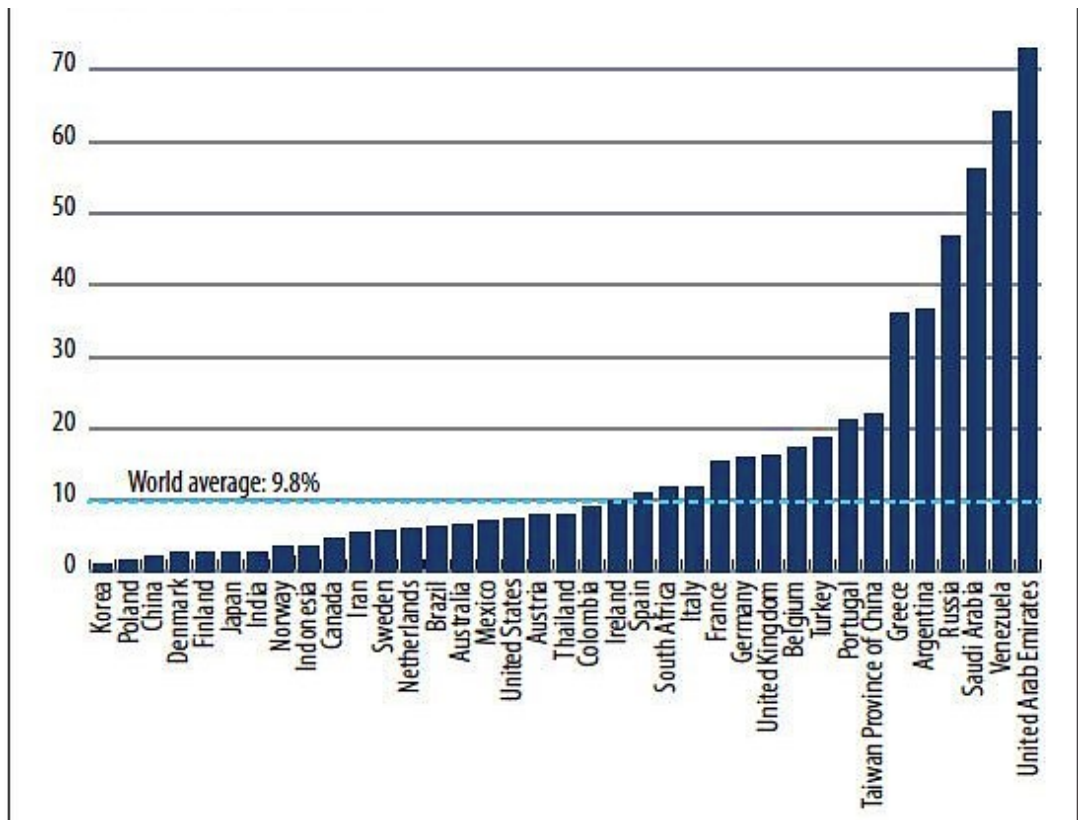


FIGURE 2 Offshore Wealth as a Percentage of GDP (Source: Alstadsæter, Johannesen, and Zucman, 2018)

TABLE 1 Illicit Financial Flows from Developing Countries.

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative	Average
Ecuador	3,346	2,684	1,371	1,523	3,028	3,331	3,818	2,328	2,589	1,948	25,966	2,597
Panama	1,177	1,816	1,680	1,918	2,463	2,613	2,622	1,767	2,377	2,604	21,038	2,104
Honduras	4,465	4,328	4,639	4,787	4,806	4,034	4,761	4,776	4,760	5,579	46,935	4,694
Brazil	15,741	17,171	10,599	16,430	21,926	22,061	30,770	31,057	32,727	28,185	226,667	22,667
Chile	2,815	4,688	5,016	4,394	7,954	3,399	5,895	5,755	5,355	9,725	54,995	5,500
Argentina	6,116	4,992	3,747	5,391	9,586	4,179	5,265	9,460	10,634	17,171	76,540	7,654
Nicaragua	1,737	1,834	2,490	2,552	2,493	2,562	2,870	4,119	4,771	4,846	30,273	3,027
Paraguay	3,588	4,313	4,514	2,461	4,563	2,879	2,653	3,828	4,585	4,116	37,501	3,750
Venezuela	19,601	25,467	10,546	18,349	7,154	9,549	7,863	10,037	6,207	9,162	123,936	12,394
Sub-Saharan Africa	32,550	51,874	56,351	77,012	78,599	85,002	78,038	74,281	66,678	74,593	674,977	67,498
Asia	174,612	191,888	209,112	236,485	277,530	277,124	381,729	361,101	456,709	481,988	3,048,278	304,828
Developing Europe	107,277	118,404	133,758	190,551	233,753	204,852	221,845	295,463	242,530	250,437	1,998,870	199,887
MENA+AP	29,920	31,007	33,324	57,426	80,315	51,926	52,992	81,093	68,227	70,266	556,496	55,650
Western Hemisphere	120,910	131,414	110,979	137,672	157,761	128,123	172,027	195,806	201,761	212,846	1,569,299	156,930
All Developing Countries	465,269	524,588	543,524	699,145	827,959	747,026	906,631	1,007,744	1,035,904	1,090,130	7,847,921	784,792

Source: Kar, D., and Spanjers, J., 2015.

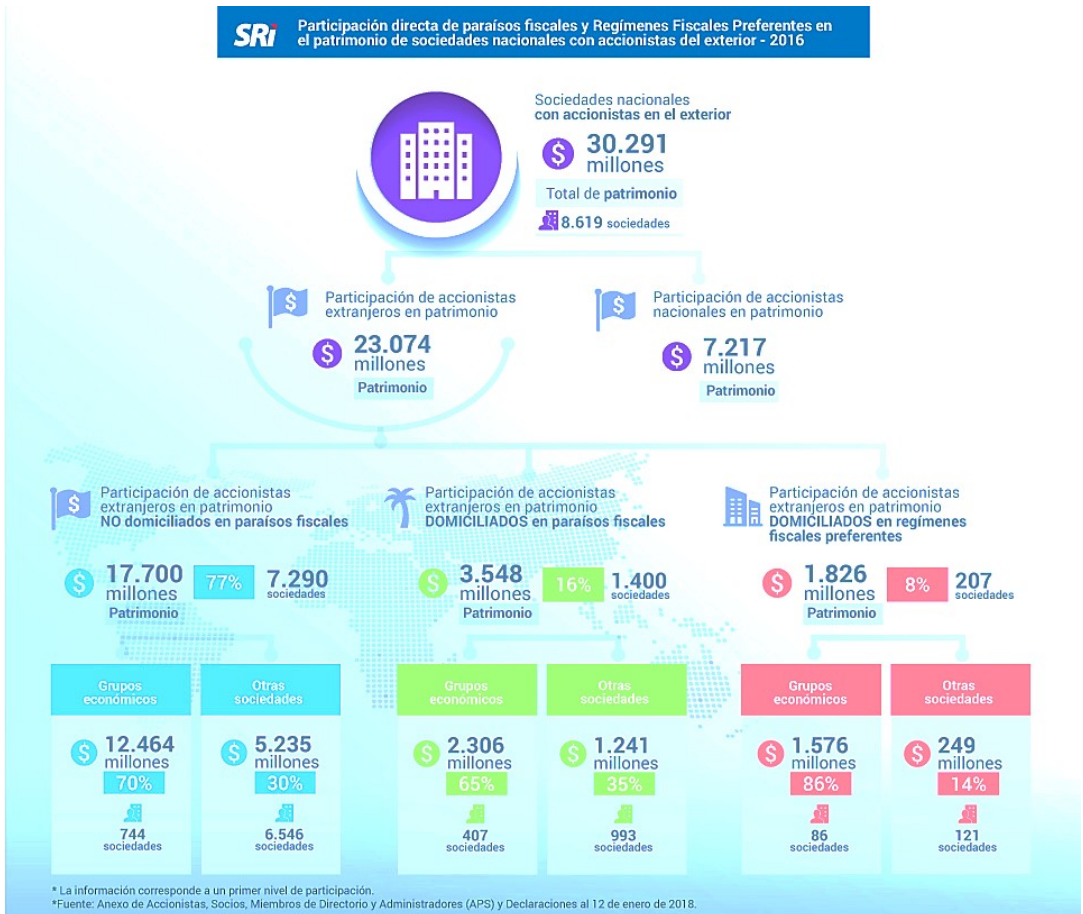


FIGURE 3 National Companies' Direct Participation in Tax Havens and Preferential Tax Regimes (Source: Servicio de Rentas Internas del Ecuador, 2016)

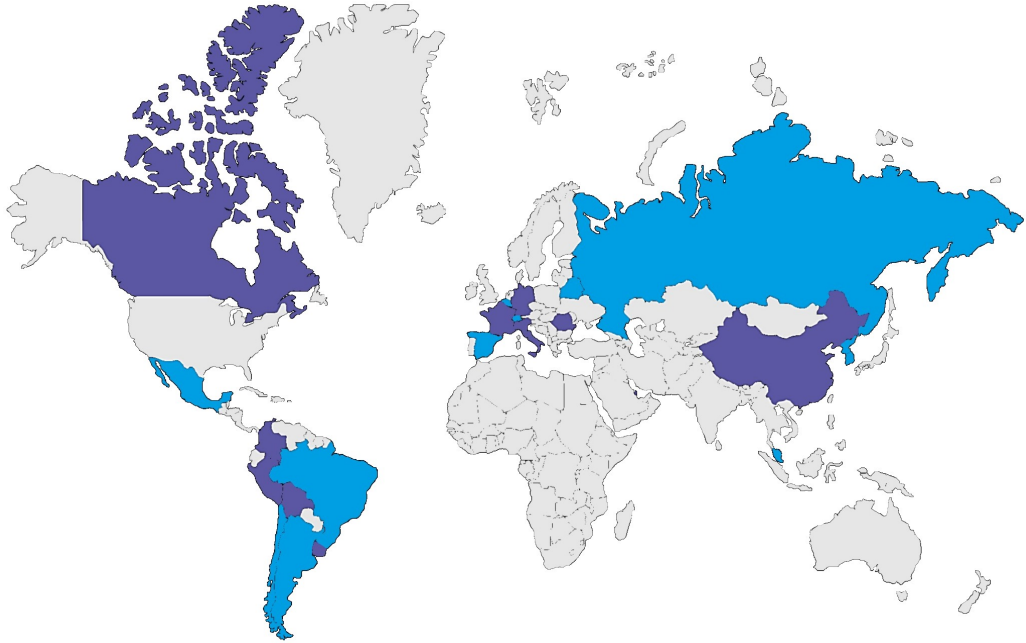


FIGURE 4 Map of Ecuador's Double Taxation Agreements (Source: Servicio de Rentas Internas del Ecuador, 2019)



FIGURE 5 Importance of Taxes for Social Investment (Source: Servicio de Rentas Internas del Ecuador, 2019)



FIGURE 6 Foreign Direct Investment in Ecuador, 2007-2017 (Source: Banco Central del Ecuador, 2019)

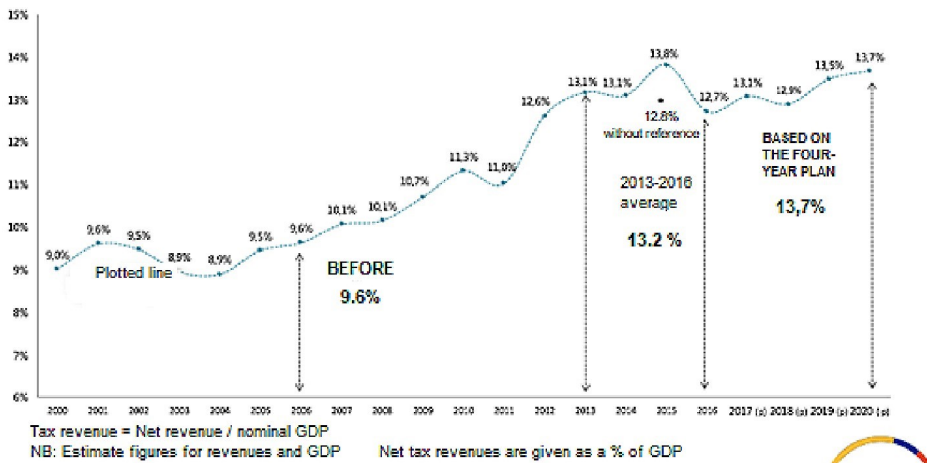


FIGURE 7 Change in Tax Revenues in Ecuador (%) (Source: Servicio de Rentas Internas del Ecuador, 2019)

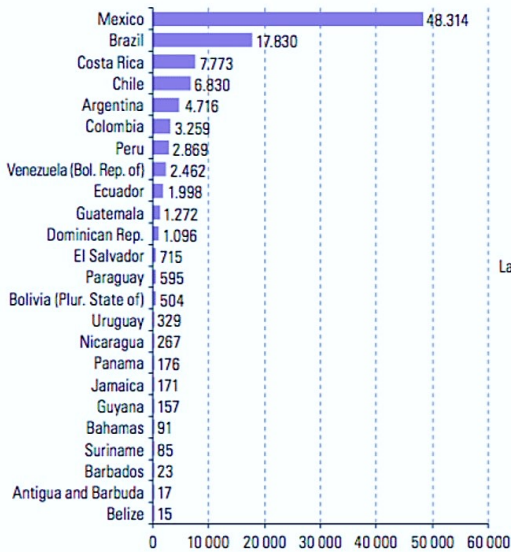
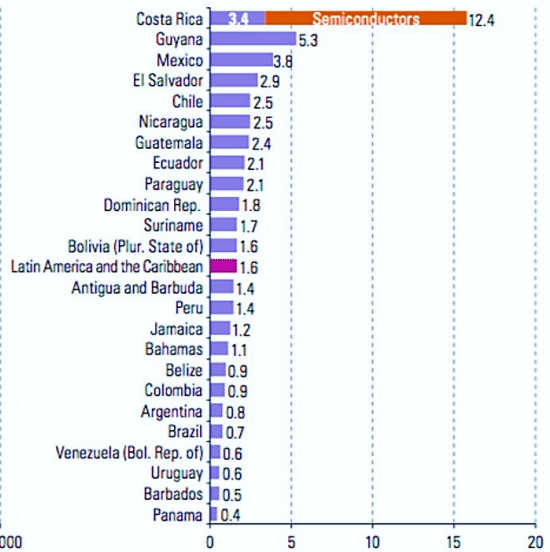
A. Billions of dollars**B. Percentages of GDP**

FIGURE 8 Latin America and the Caribbean: Estimated Value of International Goods Trade Price Manipulation, 2013 (Source: Economic Commission for Latin America and the Caribbean, 2016)

TABLE 2 Financial Secrecy Rankings, 2018

Rank	Jurisdiction	FSI Value	FSI Share	Secrecy Score	Global Scale Weight
1	Switzerland	1589.57	5.01%	76.45	4.50%
2	USA	1298.47	4.09%	59.83	22.30%
3	Cayman Islands	1267.68	4.00%	72.28	3.79%
4	Hong Kong	1243.68	3.92%	71.05	4.17%
5	Singapore	1081.98	3.41%	67.13	4.58%
6	Luxembourg	975.92	3.08%	58.20	12.13%
7	Germany	768.95	2.42%	59.10	5.17%
8	Taiwan	743.38	2.34%	75.75	0.50%
9	United Arab Emirates (Dubai)	661.15	2.08%	83.85	0.14%
10	Guernsey	658.92	2.08%	72.45	0.52%
11	Lebanon	644.41	2.03%	72.03	0.51%
12	Panama	625.84	1.97%	76.63	0.27%
13	Japan	623.92	1.97%	60.50	2.24%
14	Netherlands	598.81	1.89%	66.03	0.90%
15	Thailand	550.60	1.74%	79.88	0.13%
16	British Virgin Islands	502.76	1.59%	68.65	0.38%
17	Bahrain	490.71	1.55%	77.80	0.11%
18	Jersey	438.22	1.38%	65.45	0.38%
19	Bahamas	429.00	1.35%	84.50	0.04%
20	Malta	426.31	1.34%	60.52	0.71%
21	Canada	425.84	1.34%	54.75	1.75%
22	Macao	424.92	1.34%	68.25	0.24%
23	United Kingdom	423.76	1.34%	42.35	17.37%
24	Cyprus	404.44	1.28%	61.25	0.55%
25	France	404.18	1.27%	51.65	2.52%
26	Ireland	387.94	1.22%	50.65	2.66%
27	Kenya	378.35	1.19%	80.05	0.04%
28	China	372.58	1.17%	60.08	0.51%
29	Russia	361.16	1.14%	63.98	0.26%
30	Turkey	353.89	1.12%	67.98	0.14%

Source: Tax Justice Network, 2018.

TABLE 3 Latin America and The Caribbean by GDP (PPP), 2018

Rank	Country	GDP (PPP) millions USD	GDP (PPP) per capita USD
1	Brazil	3,524,064	16,727
2	Mexico	2,696,454	21,412
3	Argentina	922,951	20,482
4	Colombia	791,995	17,105
5	Chile	507,939	27,059
6	Peru	487,417	14,999
7	Venezuela	107,611	3,300
8	Ecuador	205,457	11,898
9	Dominican Republic	201,918	19,452
10	Guatemala	153,433	8,711

Source: IMF, 2018.

TABLE 4 Offshore Entities Connected with Ecuador (by Country of Domicile)

Offshore Country	Number of Offshore Entities Created	% of Holding
Panama	1,258	59.51%
British Virgin Islands	307	14.52%
Nevada	210	9.93%
British Anguilla	153	7.24%
Bahamas	66	3.12%
Seychelles	36	1.70%
Samoa	23	1.09%
Niue	18	0.85%
United Kingdom	11	0.52%
Costa Rica	8	0.38%
New Zealand	8	0.38%
Belize	5	0.24%
Uruguay	4	0.19%
Hong Kong	2	0.09%
Cyprus	1	0.05%
Unknown	4	0.19%
Total	2,114	100%

Source: Freire, 2018.