THE PENNSYLVANIA STATE UNIVERSITY
SCHREYER HONORS COLLEGE

DEPARTMENT OF FINANCE

UNDERSTANDING THE BARRIERS AND DEVELOPMENT OF A VENTURE CAPITAL AND SEED FUNDING ECOSYSTEM IN ECUADOR

JUAN JOSE CASTRO

Spring 2012

A thesis
submitted in partial fulfillment
of the requirements for
a baccalaureate degree
in Finance and Economics
with honors in Finance

Reviewed and approved* by the following:

James Miles
Professor of Finance
Honors Advisor / Thesis Supervisor

Joseph Randall Woolridge
Professor of Finance
Thesis Reader

* Signatures are on file in the Schreyer Honors College.

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ABSTRACT

UNDERSTANDING THE BARRIERS AND DEVELOPMENT OF A VENTURE CAPITAL AND SEED FUNDING ECOSYSTEM IN ECUADOR

JUAN JOSE CASTRO

South America has experienced significant growth in the venture capital and seed funding industry during the last decades. This industry is critical to finance new projects as financial and capital markets become more important in the region. However, Ecuador is a country that has lagged this development, a fact that generates a competitive disadvantage for local entrepreneurs and investors. The study analyzes some of the venture capital and seed funding programs throughout South America and within Ecuador to illustrate the dynamics of the market. It then develops a framework of barriers that exist in Ecuador for the development of the industry which includes legal, political, economic, and cultural barriers. Once the dynamics and barriers are identified, the study analyzes some of the potential solutions that could transform and develop the ecosystem of seed capital in Ecuador. These initiatives comprise an angel network to facilitate investments, educational programs that change the culture of entrepreneurs, and fiscal incentives. The study concludes that even though there are important barriers for the development of the seed capital industry, there are programs that could give Ecuador the tools to boost innovation and economic growth.

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Chapter I: Introduction to equity funding

Entrepreneurship is one of the sources of innovation and economic growth for countries in South America. One of the main problems that entrepreneurs face in this region is the access to external capital, which is used to finance their projects. Until recent decades, the typical strategy for entrepreneurs in South America was to go to a commercial bank and request a loan in exchange for capital to invest in the company. The interest rates in these loans were usually high because of the riskiness of the start-ups, the asymmetric information, and the uncertainty of the cash flows of the firm; therefore some entrepreneurs were left without capital to finance their ideas.

In the last decade, there has been a shift from the debt financing strategy and entrepreneurs in South America are increasingly using different alternatives to finance their start-ups. The industry of equity financing has experienced a significant development in the region, and it is one of the primary sources of funds for a start-up company. Countries like Chile, Brazil, Colombia and Peru have developed networks of angel investors, seed funding programs, venture capital funds and business plan contests organized by the government in order to foster the equity financing industry and boost economic growth.

Even though seed funding has developed significantly in South America, there are a handful of countries like Ecuador and Venezuela that are being left behind. Private investors do not have the incentive to develop programs that support financing for start-up firms and public initiatives have not been efficient. As a result, local entrepreneurs have a huge disadvantage when undertaking new projects because of the difficulty to access external capital, which results in a lack of innovation and economic growth in the private sector. Entrepreneurs in these countries only rely on their savings and the support of their family and friends. This lack of development in seed funding is due to several aspects of the countries including the legal structure, political instability, and financial ignorance from citizens.

Equity vs. debt financing

Equity investments consist of external investors putting money into a firm in exchange of a percentage of the equity. During the last decades, an increasing number of investors have focused on unlocking the value of a start-up project by investing in its equity. These investments take different names depending on the stage of the firm that is being funded. Angel investing refers to investments in start-ups at a planning stage, while venture capital refers to investments in young firms that already have a well-developed product or service. All these different names for equity financing are focused on investing capital in a project at an early stage in order to boost its growth.

One of the most appealing attributes of this early stage capital for an entrepreneur is that there are no fixed costs of capital associated with the investment. Unlike a bank loan, equity investments are focused in the ownership of a project, rather than making a loan. This gives the entrepreneur an incentive to pursue seed capital rather than raise debt, because he does not have to make fixed payments and the success of the equity investors depends on the success of the firm itself.

Another important difference between debt and equity financing is the seniority of the investment. If the start-up does not perform well and eventually dissolves, the debt holders are paid first. If there is no money left after the company pays its debt, the equity investors are left with nothing. This additional risk exists because of the unlimited potential returns for equity investors. If the start-up performs well, the debt holders are paid a fixed return and the rest of the earnings are for the equity holders of the firm.

Public seed capital in South America

In addition to the equity financing from private investors in exchange for ownership in a start-up project, South American governments have public programs that provide seed capital to entrepreneurs. Most of these programs are characterized by taking the form of competitions in which entrepreneurs apply with their projects and the government selects the most viable ones to provide funding. In addition, the programs involve certain type of consulting services for the selected projects. The entrepreneurs are subject to completing the requirements and processes that the government states in the competitions. These requirements might include: business plans, covenants for shareholders, minimum safety standards, among others.

According to Josh Lerner in his book *Boulevard of Broken Dreams*, these public initiatives created to boost funding for start-ups are critical for innovation and new ventures development. In addition, he argues that governments need to create an economic environment that fosters the growth of new firms; otherwise the public initiatives will not be successful.[1] Two great examples of countries with substantial public initiatives for seed funding have been Chile and Brazil, which have developed a

[1] Lerner, Josh. *Boulevard of Broken Dreams*. First ed. Princeton: Princeton University Press, 2009. N. pag. Print.

venture-friendly legal environment and well-structured programs to boost the potential of local start-ups.

Seed funding and venture capital in Ecuador

Even though it has developed throughout South America, the seed funding and venture capital ecosystem has been left behind in Ecuador. Private investors lack the right incentives to deploy capital in the country, and local entrepreneurs do not have the knowledge of other types of financing rather than a bank loan. The lack of innovation and entrepreneurship that results from not having access to seed capital is a detrimental factor for the Ecuadorian economy. According to the report *Doing Business* which is published by the World Bank, Ecuador ranks 164 of 183 in the category of starting a business. In the same report, Ecuador ranks 133 in the category of protecting private investors.[2]

There have been several initiatives that try to enhance the seed capital ecosystem in Ecuador, but without the right incentives these initiatives are not successful. One example is the $10 million venture capital fund *Fondo Pais Ecuador*, which was started by Banco de Guayaquil and the Corporación Andina de Fomento in 2004. There is also a public seed capital initiative created by the Secretary of Production and Employment. The program is called *EmprendEcuador* and it serves as a project accelerator and funding alternative for start-ups in the country.

[2] Business, Doing. *Doing Business in a More Transparent World*. First ed. Washington D.C.: The World Bank, 2012. 90-95. Print.

Chapter II: Programs throughout South America

Start-up Chile: the bridge between Santiago and Silicon Valley

One of the most promising seed capital programs in South America is *Start-up Chile* which was an initiative from the Chilean government executed by *Corfo*, an executive agency focused on enhancing innovation and entrepreneurship in the country.[3] The program consists in attracting international high-potential entrepreneurs to form their ventures in Chile. It started in 2010 by bringing 22 start-ups from 14 different countries to Chile, providing them with $40,000 of free-equity seed capital and a one-year visa to develop their projects in the country for six months.

The year 2010 was the base to develop an improved program for the next year. During the first application process of 2011 *Start-up Chile* received 330 applications and selected 87 entrepreneurs from 30 different countries to start working on their start-ups. The second application process of 2011 resulted in more than 600 applications, from which 100 projects were selected for the program. All the projects were approved by Silicon Valley experts and a Chilean Innovation board, which acts as a filter of quality. This rapid growth demonstrates the attractiveness and potential of the project, which has the long-term goal of transforming Chile into the entrepreneurial hub of Latin America.

The selection process used by the program is divided into three categories: human capital, project, and environment. Human capital refers to the quality and the commitment demonstrated by the team members during the application process.

[3] *The Program - Start-Up Chile*. Corfo, 24 May 2011. Web. 15 Jan. 2012. <http://www.startupchile.org/about/the-program/>.

Project refers to the business plan, the strategy, and the innovation factors that the project proposes. Finally, environment refers to the potential impact of the project to the Chilean entrepreneurship ecosystem. Each category is weighted equally by the judges and graded in a scale of 1 to 10. The projects are then passed to Corfo's Innovation Subcommittee for a final judging round. The members of selected projects receive an invitation to the program via email with all the information of the process.[4]

According to the terms and conditions worksheet of the program, the selected participants have to comply with certain requirements to demonstrate their commitment with enhancing the local entrepreneurship environment:

- Stay in Chile for at least 24 weeks in order to develop the project
- Use the capital provided within the 24 weeks, with the option to extend the capital one additional month
- Incorporate in Chile as a formal business with intentions on continuing operations after the 24 weeks
- Hire local talent and mentor local entrepreneurs
- Attend meetings with private investors with the idea of raising capital

Start-up Chile has gained much attention from international entrepreneurs, universities, and press. BBC News wrote an article titled *Starting up in Chile, not Silicon Valley* in which they address the impact that international entrepreneurs are bringing to the Chilean economy.[5] One example is the story of George Cadena, an electrical

[4] *Apply - Start-Up Chile*. Corfo, 24 May 2011. Web. 14 Jan. 2012. <http://www.startupchile.org/about/apply/>.
[5] Manning, Katie. "Starting up in Chile, not Silicon Valley." *BBC News* 24 Dec. (2011). Web. 16 Jan. 2012. <http://www.bbc.co.uk/news/business-15887000>.

engineer from Caltech University. He started a solar panel venture called *Aeterna Sol* and was selected to participate in *Start-up Chile* in 2010. Mr. Cadena told BBC News that one of the main reasons for staying was the network of international entrepreneurs within the program.

The entrepreneurs are located in a Silicon Valley-type mansion in Santiago, in which they have access to modern technology and useful resources. They usually help each other in solving a technical problem, finding the right person to talk to, or any other issue. George Cadena stayed in Chile to start a program called *De Emprendedores, Para Emprendedores* with five other *Start-up Chile* participants. The program consists of entrepreneurship classes and seminars to students of local universities who are interested in starting a venture. This is a great example of the impact that *Start-up Chile* has in the economic growth and job creation of the country.

Chile is one of the most developed economies of South America, and it continues to launch programs that enhance innovation, entrepreneurship and economic growth. The Chilean government and private investors are contributing to solve the problem of access to capital by entrepreneurs by providing seed capital and raising venture capital funds. This is a great example that Ecuador and other countries in South America should follow.

Wayra: A venture capital initiative

Another promising program that will provide seed capital to entrepreneurs in South America is Wayra, which means “wind” in the Quechua language. Wayra is an initiative backed by Telefónica, one of the leading telecommunication companies in

Spain and the world. Wayra consists of choosing ventures that have high potential to grow, investing in them in exchange of equity ownership, and providing them with the necessary resources for six months to accelerate their development. The program was introduced in 2011 in Colombia, and it already has operations in Chile, Perú, Brazil, Argentina, and Venezuela.

Wayra operates under the idea that South America is one of the main sources of innovation and ideas, but entrepreneurs often lack the access to capital and resources to develop their ventures.[6] Wayra will attempt to solve this problem by providing the necessary venture capital to entrepreneurs and have a positive effect in South American economies. The program will select 10 projects and create Wayra centers in each of the countries, which will be interconnected to form an international network of ventures. The centers will be equipped with ultimate technology and all the resources necessary for the start-ups to compete with ventures anywhere in the world.

The program has one call date per year for each country in which all participants apply. Wayra then selects 30 projects, which participate in a "Wayra Week", an intense week of working in a presentation for the juries. After the presentation, the jury selects 10 projects to participate in the Wayra program. The selected 10 teams sign a contract in which they are required to work for six months in one of the Wayra centers, with the following benefits:

- Equity financing between $30,000 and $70,000
- Legal and strategic marketing advice provided by Telefónica's partners

[6] *Qué te ofrecemos? - Wayra*. Telefónica, 16 July 2011. Web. 21 Jan. 2012. <http://wayra.org/es/que-te-ofrecemos>.

- ➢ Insight to Telefónica’s know-how and technology
- ➢ Connection with networks of angel investors and venture capitalists

The inauguration of Wayra Colombia in June of 2011, the pilot program of Wayra, was covered by the leading media channels of the country. The program received more than 200 business plans, from which it selected 10 to be part of the business acceleration process. In August, the 10 projects were offered access to the local Wayra center, equipped with the latest technology for connectivity and project development. One of the most promising projects selected by Wayra Colombia is called “Detección de Celo Bovino” which consists on developing a technology that determines the estrous cycle of cattle. According to Edgar Lopez, its CEO, this technology could have a tremendous impact in local and international livestock. Lopez said that the support provided by Wayra has been extremely helpful.

Another example of a Wayra project is Nisu.pe, an e-commerce venture started in 2011 that sells fashion clothes and footwear throughout Peru. According to Nisu.pe’s website, their main objective is to create happiness in every customer and inspire them with Nisu.pe’s philosophy.[7] It is a firm that drives its strategy around customer service and the impact it can have in society. In an interview with Peruvian newspaper *La Gestión*, Nisu.pe’s founder Nicolas Mendoza stated that the firm started operations by selling 5 different brands of clothes.[8] Currently the firm offers 15 different brands and it expects to have $15,000 of revenue in July of 2012, less than one year after the firm started.

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[7] *Nisu.pe*. N.p., 18 Oct. 2010. Web. 2 Feb. 2012. <http://www.nisu.pe/us.php>.
[8] "Nisu.pe proyecta duplicar ventas a S/. 40 mil por mes hasta julio." *La Gestión* 24 Feb. 2012. Web. 26 Jan. 2012.

In January of 2012, Wayra established a critical partnership that will enhance its potential for accelerating ventures in South America. It signed an agreement with the Massachusetts Institute of Technology in which the university will provide support to Wayra. MIT established the *Wayra Entrepreneurship Lab @ MIT* after the agreement was signed. The entrepreneurship lab will have direct contributions to the business plan and technology development of Wayra start-ups. In addition, the start-ups will receive mentoring and strategic advice from MIT professionals.

Initiatives in Ecuador

Ecuador has been lagging in the development of an integrated start-up financing industry. Despite this fact, there have been some private and public initiatives that have tried to boost this development. There is definitively interest from young executives, recognized entrepreneurs, and government officials to start developing an ecosystem that allows start-ups to access equity funding. People are starting to realize that this ecosystem is critical for the economic development of the country, innovation, and job creation. Without this industry, Ecuadorian entrepreneurs are in disadvantage with regional competitors. There are two initiatives that could be extremely successful, but currently they are isolated in the entrepreneurial environment of the country.

<u>Fondo País</u>

The first initiative is a venture capital fund called Fondo País, which was started by Banco de Guayaquil and Corporación Andina de Fomento. The fund, started in 2004, had the initial purpose of investing in equity of start-up companies. The initial investment was $8 million, with the goal of reaching $20 million by the end of the fund's life, which is in 2014. After the 10 years, all the shares have to be sold in the capital markets, according to the Financial Securities Law. Fondo País is administered by the Investment Fund and Trust Administrator BG S.A., a subsidiary of Banco de Guayaquil. The managers stated that it was a medium and long-term fund, which would invest in private companies of industries that contribute to the economic development of the country.

The fund was presented during November of 2004 in the city of Cuenca. Edison Ortiz, one of the advisors of the fund, established a set of guidelines by which Fondo País would operate. These guidelines serve as part of the fund's prospectus, and the most important are the following:[9]

- Fondo País will invest in prospective exporting companies with annual sales between $2 – 20 million and with high growth potential
- Each individual investment will be between $500,000 and $1 million
- Ownership of the companies will be between 25% and 49% because the idea is not to have a majority stake but to assist to the development of the start-up
- Investments will be limited to the following industries: Information technology, biotechnology, agriculture, turism, oil and derivatives, new materials, forestry, and renewable energy

Even though the fund was started by well-known executives with successful investment experience, it did not achieve the predicted success. Fondo País was not able to attract more investors, and total capital is currently less than $10 million. In

[9] Valdivieso, Julio. "Se presenta Fondo Pais Ecuador." *El Mercurio* 13 Nov. 2004. Print.

addition, the fund has deployed less than 20% of its capital, and managers are analyzing its termination. After asking Guillermo Lasso, who is one of the managers of the fund, he mentioned that the lack of investments and success of the fund was due to the enormous barriers that exist in the country for the development of investment funds.[10] After 2009, managers stopped looking for additional investment opportunities and decide to take a passive management approach.

EmprendEcuador

The Department of Production, Employment, and Competition of Ecuador is implementing a program to support local entrepreneurs. EmprendEcuador is a program focused in providing the necessary resources for entrepreneurs with innovative or high-growth projects to develop their ventures. The program started in 2010 and it expects to become the main reference for entrepreneurship in the country. One of the objectives is to advise and develop every initiative that arises from local entrepreneurs. For doing this, EmprendEcuador has developed a team with public officials and private executives with experience in the area.

The program operates in three stages. During the first stage, entrepreneurs apply in a regional basis with an idea for a start-up. The judges of the program select the best projects in order to advance to the national program. Once every region in the country has its winners, there is a national competition. During the national competition entrepreneurs present their projects to a panel of experts, who then proceed to pick a

[10] Lasso, Guillermo. Personal interview. 6 Jan. 2012.

number of projects to continue in the program. At this point, EmprendEcuador provides financing for market assessment and the creation of a business plan.

The second phase starts with the elaboration of the business plan. The entrepreneurs are assigned one mentor, who advises and tracks the developments of the project. During this phase, EmprendEcuador provides funding for marketing plans, specialized market analysis, and legal assistance. During three months the entrepreneurs need to develop a professional business plan with a clear perspective of the business. In the third phase, EmprendEcuador provides the entrepreneurs with a network of potential investors, which includes venture funds and angel investors.

Even though every entrepreneur is encouraged to apply to the program, EmprendEcuador has the following list of prioritized industries:

- Renewable energies
- Chemicals and pharmaceuticals
- Biotechnology and information technology

The program has been successful and more than 500 applications have been received. In addition, the Ecuadorian government created a T.V. reality show where entrepreneurs from the program present their ideas to a panel of public officials, including the Ecuadorian President Rafael Correa. EmprendEcuador is expanding its reach to every province in the country, and not just the major cities. By doing this, it expects to increase the number of applications and quality of the projects. The success of this program is tied to the development of the venture financing industry because it provides investors with a constant project flow for investments.

Chapter III: Barriers for the development of seed capital in Ecuador

As mentioned before, there has been a strong development of venture capital, angel investing, and public seed funding in South America during the last decade. Initiatives like Start-Up Chile and Wayra are becoming popular in the region, and other countries are using their models for developing their seed capital infrastructure. However, Ecuador is one of the countries that has lagged in this development and does not offer many funding alternatives for start-ups. In the long run, this lack of development will put the Ecuadorian economy at a disadvantage in terms of innovation and economic growth. There are four main categories of barriers for the development of seed capital in Ecuador: legal, political, economic, and cultural barriers.

Legal barriers

Ecuador has experienced a shift in its legal environment during the last decade. There have been numerous laws modified by the government, and even the Constitution was changed in 2008. Since the Constitution of 2008 was established, the executive and legislative branches of government have modified more than 50 laws in the Ecuadorian legislation.[11] Some of these laws have been detrimental for private investments and the profitability of corporations. They have limited the protection of private investments for corporations and have eliminated the incentives for investors to privately fund start-ups or other types of businesses.

[11] *Asamblea Nacional de Ecuador - Leyes publicadas*. Asamblea Nacional de Ecuador, 2 Feb. 2012. Web. 23 Feb. 2012. <http://asambleanacional.gob.ec/leyes-asamblea-nacional.html>.

Tax law

One of the most controversial topics discussed in entrepreneurship books is taxes. Innovative and entrepreneurial places like Abu Dhabi and Israel are characterized with having favorable tax incentives for entrepreneurs and venture investors. In some cases, tax deductions are used to protect small firms in order for them to grow and expand their business. In Ecuador, the tax code has the objective of maximizing government funds, and does not consider the impact it has on its firms. The article 37 of the 2012 domestic tax code included a 23% income tax for all the legal entities, such as partnerships and corporations.[12]

In addition to the 23% income tax, corporations need to pay a portion of their earnings to its employees. The article 97 of the Ecuadorian *Working Code* states that 15% of the earnings from a corporation have to be distributed to its employees.[13] 10% has to be paid directly to each employee, without considering time in the company or salary. The remaining 5% is paid according to the number of dependents that each employee has. This type of policy is uncommon in most countries and could be detrimental for a start-up company, especially for its equity investors.

Another tax that was established by the Ecuadorian government is a capital outflows tax. According to a reform in the article 162 of the local tax law, every person and legal entity has the obligation to pay a 5% tax for transactions made outside the country. This includes money transfer, checks, cash payments, and dividend distributions. This tax affects the investors that want to keep their capital outside the

[12] *Ley de Regimen Tributario Interno*. Montecristi: Asamblea Nacional Constituyente, 2012. N. pag. Print.
[13] *Código de Trabajo*. Quito: Ministerio de Producción, 2012. N. pag. Print.

country because of the legal instability. The only exception is for dividend distributions for foreign companies that do not have shareholders who reside in Ecuador.

If you take the tax burden for corporations as a whole, it is a significant portion of its earnings. Local businesses that want to keep their capital outside the country have to pay an overall burden of almost 45%. This number is far above the world median. The Ecuadorian government has made reforms to the tax code, and every year the burden increases. This results in a lack of interest from investors, who take a risk when funding local companies because of the tax code. In the specific case of venture capital funding, the risk is higher because of the uncertainty of the firm's future.

Labor law

Since the President Rafael Correa assumed power, he has significantly enhanced the worker's benefits. Even though in principle this initiative is moral, sometimes it comes at the expense of corporations. Current severance pay packages are very high and the cost of firing an employee could be too high for a start-up company. According to the article 188 of the *Working Code* if a corporation fires an employee it has to pay him three months of salary and one extra month for every year the employee has been in the firm.[14] In addition, a firm with less than 20 employees cannot fire more than two employees each month.

The code is biased towards the benefits of employees rather than the benefits of the employer. This came as a result of the traditional capitalism that has ruled in Ecuador during the last decade. Throughout this period, the owners of private firms

[14] *Código de Trabajo*. Quito: Ministerio de Producción, 2012. N. pag. Print.

could exploit and fire employees without major legal consequences. The old labor code did not have major protections for the employees, and when Rafael Correa assumed power, it was one of the first modifications he made. These clauses included in the labor law of the country add to the risk of an investor. If a start-up does not perform as expected, it might need to reduce its workforce, which is costly under the Ecuadorian jurisdiction.

Corporate law

Another source of barriers for the development of the venture capital industry is the Ecuadorian Corporations Code. The article 210 of that code states that all the actions or shareholder agreements that limit or prohibit additional financing rounds are not valid.[15] Shareholder agreements are common in venture-backed firms because the investors do not want to dilute their ownership in the start-up. Usually they limit the number of financing rounds as a strategy to preserve capital. With this limitation in the Ecuadorian law, investors are not protected against capital or ownership dilution.

The limitations for stockholders are even present in the Ecuadorian Constitution of 2008. During a referendum solicited by Rafael Correa in 2011, the Ecuadorian people accepted a proposal that limits shareholders of financial institutions and communication firms to invest in other industries. Since then, the article 312 of the Constitution states that the executives and major shareholders of financial institutions and private communication firms are not allowed to hold stocks in companies that operate outside of their respective industries.[16] The argument for this proposal is that there is a conflict

[15] *Ley de Compañías*. Montecristi: Asamblea Nacional Constituyente, 2012. N. pag. Print.
[16] *Constitución del Ecuador*. Montecristi: Asamblea Nacional Constituyente, 2012. N. pag. Print.

of interest in the interaction of financial institutions with other corporations. The same argument applies for private communication firms.

This referendum is relevant in the Ecuadorian context of venture capital because the people that were undertaking initiatives for venture funds were associated with one of the two limited industries. One of these investors is Guillermo Lasso, who is a major shareholder in one of the largest banks of Ecuador. Lasso was supporting the venture fund *Fondo País*, but he had to step away after this resolution. The base of angel investors also decreases substantially, due to the active involvement of successful executives with major banks or communication firms.

Political barriers

Another important barrier for the seed capital development in Ecuador is the political system. As most of the developing countries in South America, Ecuador has had politicians that lack the education and integrity necessary to efficiently rule a country. The country has suffered from presidents and legislators that only care about their well-being even at the expense of the country. In addition, governments have not provided the necessary support for start-ups and their investors.

One of the critical steps for the seed capital development is the support of the government. As Josh Lerner states in Boulevard of Broken Dreams, “there is no venture capital environment that has been created in the vacuum”. To demonstrate his argument, he uses the formation of Silicon Valley as a hub for entrepreneurs and venture capitalists. Contemporary to the development of Silicon Valley was the creation of the *Small Business Investment Companies* (SBIC) network. The SBIC was an initiative from the U.S. Small Business Administration, an administrative agency.

The goal of the SBIC is to improve and stimulate the national economy and small businesses by stimulating and supplementing the flow of private equity capital and long term loan funds for the sound financing, growth, expansion and modernization of small business operations.[17] The support of the government through this organization is one of the reasons for the success of Silicon Valley. Companies like Federal Express, Cray Research, and Teledyne are among the companies supported and financed by the SBIC.

Political instability

One of the main reasons for which there is a lack of support from the government for start-up funding and innovation growth is the political instability. Without a consistent government, there could be no long-term plans implemented for the economic growth of the country. Start-ups can take more than five years to reach an equilibrium point in which they start to generate profits and become sustainable. In Ecuador, the overthrow of presidents before their ruling period ends has made that consistency impossible. Every president ascends to power with completely different plans, which includes the elimination of previous policies. For a start-up and its investors, this is reflected in the lack of constant support from the government.

There have been more than 10 presidents in the last 15 years in Ecuador. This political instability started after the ruling period of Sixto Durán-Ballén, which ended in

[17] *Office of Investment SBA.gov*. U.S. Small Business Administration, n.d. Web. 24 Feb. 2012. <http://www.sba.gov/about-offices-content/1/2890>.

1996. In the following 12 years, none of the presidents were able to finish their ruling periods without a coup d'état. In 1997, the President Abdalá Bucaram was declared mentally incompetent to rule and was succeeded by Rosalía Arteaga, his vice-president. Arteaga was in the power for only two days, before being replaced by the opposition candidate Fabián Alarcón.

In 1998, Jamil Mahuad rose to power after another overthrow. This was a critical development for the Ecuadorian democracy. Mahuad, a believer of free markets and capitalism, proposed changes for the Ecuadorian Constitution. These changes were approved immediately after he rose to power, and the most senior law in the country changed dramatically. During his presidency, Ecuador suffered one of its most severe financial crisis, which caused the bankruptcy of the biggest banks and the devaluation of the local currency. Mahuad was overthrown by a military force in 2000, after making the American dollar the official currency in Ecuador.

After Mahuad's demise, his vice-president Gustavo Noboa assumed power. Noboa was the president for three years, and in 2002 Lucio Gutiérrez won the general elections. Gutiérrez was the person who led the military strike in 2000 that took the power away from Mahuad. His leftist presidency was known for corruption, nepotism, and a lack of efficiency when signing international agreements. The Ecuadorian Congress voted for the destitution of Gutiérrez in 2005. At the same time, a rebellious group called "The Forajidos" organized an attack to the Presidential Palace of

Carondelet, from which Gutiérrez had to exit in a helicopter.[18] His successor was the vice-president Alfredo Palacio.

Palacio's presidency was calmed in terms of rebellion activism and he finished the rest of Gutiérrez's presidential period. The following elections were in 2006, won by Rafael Correa with 56% of the votes.[19] Correa is a leftist politician supporter of the philosophy of Socialism of the XXI Century. One of his major policies was the drafting on a new Constitution that would substitute the one from 1998. The new Constitution was approved in 2008 and was based in leftist principles. During my personal interview with Xavier Castro, Ecuadorian representative of Baker & McKenzie, he mentioned that a Constitution should not have any political affiliation and the new Constitution could be detrimental for the Ecuadorian democracy.[20] Rafael Correa continues to be the President of Ecuador and is ruling under the principles of the Constitution of 2008.

The Economic Intelligence Unit develops and publishes a ranking of 165 countries based on the political instability called the *Political Instability Index.* The ranking encompasses the risk of economic distress and underlying vulnerability to unrest. In the last index publication in 2010, Ecuador ranked 14 and was awarded the "high risk" distinction.[21] Ecuador had an index of 7.7 on a scale of 10, compared with a 6.7 in 2007. This index demonstrates the seriousness of the problems that political instability creates in Ecuador. This could have a negative effect in the economic growth, start-up financing, and innovation of the country.

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[18] Leiter, Benjamin. "The Rebellion of the Forajidos." *Manchester College Peace Studies Institute* Nov. (2005). Web. 27 Feb. 2012.
[19] "Gana Correa." *El Universo* 27 Nov. 2006 *[Quito]* : A1. Print.
[20] Castro, Xavier. Personal interview. 2 Feb. 2012.
[21] "Political Instability Index." *The Economist* 17 Jan. 2011. Web. 27 Feb. 2012.

The political instability in the country is extremely relevant for the entrepreneurial and venture capital environment in Ecuador. Investors lack the confidence to invest in Ecuador because of its political system. Because of the constant overthrows and strikes, local laws are constantly changing, and every new president restructures the legal system to its own convenience. The fact that the Ecuadorian Constitution has been changed two times in the last ten years is unacceptable. Angel investors and venture capitalists are not investing in the country because of the uncertainty that the rules of the game can change in any day.

Lack of the rule of law

Another important source of confidence for investors is the degree of law abiding in the country. Some developing countries like Venezuela, Bolivia, and Lybia have been known for having powerful governments that take their power to a higher degree than the one established in the law. This phenomenon acts as a discouragement for start-up financing. If the executive branch of government disapproves a new project that is being funded, the investors and entrepreneurs can be accused in civil and criminal trials, without any legal argument. Therefore, the countries that have the highest development of seed funding and venture capital are the same as the ones that have a strong legal system.

Since Rafael Correa assumed the executive power as President of Ecuador, there has been controversy about his respect for the law. During his first public appearances as President in 2007, Correa identified several categories of people as his enemies; the rich people, the independent press, and the bankers. Four years later, people in all these groups have been legally sentenced by the Ecuadorian judicial authorities. According to Gabriela Calderón, in Ecuador there is no legislative or judicial power that serves as counterweight for the executive power.[22] This is the abuse of power that deters investors, including venture capitalists, to fund projects because of legal fears.

One of the most controversial legal cases during Correa's presidency is the criminal case against Diario El Universo, the leading newspaper in the country. The publication that started the case was an article published in the newspaper by Emilio Palacio called *No a las mentiras*, which translates into *No to the lies*. In the article, Palacio referred to the events of September 30 of 2010, when the President Correa allowed open fire to a hospital with civilians. Correa accused Palacio and the directors of El Universo on March 22 of 2011 for defamation and was seeking a fine of $80 million and three years of jail sentence for Palacio and three directors of El Universo.

During the process of the case, there were several inconsistencies. In the trial stage, some of the judges appointed with the case were fired or resigned. The temporary judge appointed to dictate the sentence was a supporter of the government. Surprisingly, the sentence was written 13 hours later than the last hearing. The sentence was a fine of $40 million and three years of prison for Palacio and the three directors of the newspaper. The judge that dictated the sentence is now being accused of ideological falsehood, because sources suggest that the sentence was written by Correa's lawyers.

[22] Calderon, Gabriela. "Ecuador - El unico limite que le queda al poder." *Offnews para el desarrollo sostenible*. N.p., 22 Aug. 2009. Web. 28 Feb. 2012.

During the appealing process, there were more suspicious processes involved with the case. The National Supreme Court confirmed the sentence on February 15 of 2012 even though it violated one of the principles of the Ecuadorian criminal law, which states that there is no law by analogy. The trial judge applied analogy because he dictated an order of imprisonment to a legal entity based on the Ecuadorian Civil Code because the Criminal Code does not state that a legal entity can commit a crime. As a result, Palacio and the three directors had to ask for political asylum in different countries.

After exhausting the national legal system, Diario El Universo started filing the case with international courts. The Inter-American Court of Human Rights, a branch of the Organization of American States, asked for precautionary measures to the President Rafael Correa. On February 27 of 2012 Correa announced the pardon and elimination of the sentence, because of the international pressure. The most relevant part of this case in the understanding of the barriers for the development of seed funding and venture capital is the $40 million fine. The excessive amount of the fine was sufficient to send the newspaper to bankruptcy, and probably liquidation. This has been the case for several TV channels, magazines, and other businesses that Correa has sent to trial.

From the investors' point of view, the lack of legal security in Ecuador can be a deciding factor for not investing in a start-up project that the executive power could question. In the El Universo case, the newspaper investors would have seen the bankruptcy of its business if they had to pay the $40 million fine. According to Richard Thaler, the lack of incentives can be strong enough to deter an investor to undertake a project.[23] Venture capitalists have to include this lack of legal security into their financial models, which affects the discount rate of the project, therefore lowering the valuation of a start-up in Ecaudor.

Economic barriers

In addition to the political system, the economic activity and development is critical for the venture financing industry. If a country achieves real economic growth, new industries could form and investors could be attracted to invest capital into the system. Economic growth also serves as an incentive for entrepreneurs to start new ventures, because their projections are enhanced by the economic conditions of the country. Two indicators of the economic growth and health of the economic system in a country are the equity and debt capital markets. These markets fluctuate in accordance with the economic cycle, and they reflect the attitude of investors.

Ecuador has experience a decline in the health of its financial markets in the last decade. During 1994, when Sixto Durán-Ballén was President, the local capital markets started experiencing a relevant expansion. The capitalist government started to privatize numerous companies in industries that were previously owned by the government. As a result, these companies started to be quoted in the stock market, which attracted investments and liquidity in the capital markets. It seemed like the beginning of a new era for the country, aiming to achieve economic growth and development of capital markets. Unfortunately, the era only lasted until the next crisis. Since then, capital

[23] Thaler, Richard H., and Cass R. Sunstein. *Nudge*. First ed. New York: Penguin Group, 2008. Print.

markets, especially equity markets, have suffered from a lack of development and liquidity.

There are two major exchanges in the country: Quito's and Guayaquil's stock exchanges. These two exchanges are inactive and do not have enough liquidity to operate regularly. In addition, 95% of the transactions of both exchanges are for fixed income securities. Equity securities trade sporadically and there could be no transactions in more than one week.[24] In the Guayaquil stock exchange there are only 20 corporations that trade their stocks. The number of traded companies in the Quito stock exchange is 43, but 7 of these companies are also traded in Guayaquil.[25] In Perú, there are more than 200 companies traded in the major exchange, which is called Lima Stock Exchange. This demonstrates the lack of development and liquidity of the Ecuadorian capital markets.

Capital markets negatively affect the development of venture capital and seed funding because they are the most viable exit opportunity for venture investors. The typical funding process for a start-up starts with angel investments and ends with an initial public offering (IPO) through capital markets. According to a report by the Inter-American Development Bank, most of the venture investors want to exit through an IPO. Since Ecuador does not have active capital markets, investors are discouraged to provide funding for start-ups, because it is hard to exit the investments. Below is a graph with the typical stages of financing for start-ups.

[24] *BVG - Productos*. Bolsa de Valores de Guayaquil, 19 Jan. 2012. Web. 9 Dec. 2011. <https://www.mundobvg.com/bvgsite/productos.htm>.
[25] *Renta Variable - Bolsa de Valores Quito*. Bolsa de Valores Quito, 16 Feb. 2012. Web. 9 Dec. 2011. <http://www.bolsadequito.info/emisores/renta-variable/>.

Marcos Lopez, former President of Ecuador's Central Bank, stated in my personal interview that the development of the financial markets in a country follows a standard process.[26] The first market to develop is the fixed income market, because it does not require complex knowledge by investors and it offers limited risk. Then the stock market appears because corporations understand the benefits of raising capital through the public. Once these two are established, the financial system might experience a development in hedge funds, venture capital funds, and angel investments. This development will not occur until both the fixed income and stock market are well established and provide enough liquidity to investors.

Cultural barriers

Every country has a combination of education, beliefs, and general knowledge that are reflected in the country culture. In the case of most developing countries, there is a lack of education and general knowledge that is transmitted into political, economic, and financial ignorance by the general population. Universities lack the infrastructure and support to teach entrepreneurs about equity financing opportunities. Investors lack the knowledge and incentives to pool their money into a venture fund. This cultural problem affects both the supply of funds by investors and the demand for funds by entrepreneurs. Guillermo Lasso, President of Banco de Guayaquil, stated that the cultural issues are the most important barriers for the development of venture capital in Ecuador.

<u>Entrepreneurs' ignorance</u>

[26] Lopez, Marcos. Personal interview. 26 Jan. 2012.

The entrepreneurs act as the demand side of the venture capital and seed funding markets. They develop an idea and if they lack the necessary funds to implement it, they need to raise capital through debt or equity. It is an obligation for entrepreneurs to know about the different types of financing that they can obtain. They need to be able to analyze the positives and negatives of raising capital through each alternative, and make the best decision for their projects. In Ecuador, most of the local entrepreneurs lack this knowledge. This gives them a disadvantage in terms of growing their start-ups and financing their projects.

According to Lasso, who has experience as a banker and entrepreneur, Ecuadorian entrepreneurs are not aware of the possibility of equity investments in order to finance their projects. Most of the local entrepreneurs believe that the only way to access external funding is through a bank loan or a government program. In part, this is because capital markets in Ecuador are not well-developed. This eliminates the possibility of obtaining angel investments, venture capital, and other types of seed funding. If entrepreneurs can only access funding through a bank loan at an extremely high rate, the valuation of their projects will decrease significantly, and the long-term objectives might not be accomplished.

The education of entrepreneurs about financing alternatives should start during their college career. Entrepreneurship classes in Ecuadorian universities do not spend enough time teaching entrepreneurs about different ways to access external funding, especially equity investments. In response to this issue Felipe Rendón, the director of entrepreneurship at Universidad Espíritu Santo, stated in a personal interview that the university is responsible for teaching students the basics and general aspects of entrepreneurship.[27] According to him this general concepts do not include equity financing, and entrepreneurs should learn these concepts by themselves.

According to Marcos López in my personal interview, the biggest cultural barrier for equity investments is the laziness of entrepreneurs to disclose information. López stated that Ecuadorian entrepreneurs are used to provide the minimum information required to develop a project. It is easier for them to access a loan from a bank, even with the high interest rates, than to prepare business plans and diligence required for angel funding or venture capital. Because entrepreneurs have to disclose less information with a loan, they might prefer that alternative even if it is expensive. This is another disadvantage that they have when competing with international competition.

Investors' mindset

The other part of the cultural problem comes from the supply of funds for seed capital. Private capital is concentrated in very limited groups of people in Ecuador. In addition, these groups of people are not used to pooling their money into a commercial trust in order for another person to manage it. According to Guillermo Lasso, the idea of a venture fund violates the basic notion of the typical Ecuadorian investor trying to grow a business. Ecuadorian investors are used to have full ownership of a business, or invest with a group of partners. Lasso mentioned that these investors want to have full control of their money and the strategic decisions of the start-ups. This mindset limits the development of the equity financing industry, because it does not accept the idea of having a minority or shared interest in a business.

[27] Rendón, Felipe. Personal interview. 17 Feb. 2012.

Another component of the investor mindset has to do with the necessity of an intermediary of funds for a start-up company. Since the independence of the country, most of the new businesses created have not had an intermediary of funds. Usually, the person with the education and knowledge necessary to develop an idea is the same as the person with the capital. If an entrepreneur lacks either the idea or the capital in Ecuador, he will probably fail in starting a business. As a result, investors are not looking to fund someone else's project. They are developing their own ideas and funding them with the support of their friends and families.

There is also a lack of trust in Ecuador for investors that manage other people's money. There is a wide history in the country of usurers who have taken advantage of this fiduciary responsibility. As a result, fund managers who want to devote capital to invest in start-ups are having hard times raising money. When I interviewed Ricardo Noboa, executive of Losning Business Solutions, he mentioned that he believes the culture of the Ecuadorian investors is to manage their own money.[28] By doing that they do not have to pay commissions or trust a third party with their capital. Noboa has attempted to raise capital for a venture fund numerous times, without obtaining the desired results. However, he noted that the culture has to change because of competition, and he believes investors will start to broaden their alternatives.

[28] Noboa, Ricardo. Personal interview. 1 Mar. 2012.

Chapter IV: Programs for the future

Given the numerous barriers that Ecuador has for developing a venture capital and seed funding environment, the country needs profound changes that need to be implemented in order to pass this barriers and efficiently develop an ecosystem of equity funding for start-ups. Some of these changes involve a shift in the legal structure and philosophy of Ecuadorian political leaders. These changes include providing the adequate incentives for investors and entrepreneurs in order for them to create more start-ups and finance them. The other category of changes is to break the Ecuadorian culture and level the competition of local entrepreneurs and investors with international ones.

Angel network

Given the culture of Ecuadorian investors, it is more reasonable to start developing an angel investing ecosystem before a venture capital industry. These investments do not require a financial intermediary and a fund manager, but are rather personal investments by groups of people with capital. With this model, investors will have a more active involvement with the decisions of the start-ups that they finance. Angel investments solve the cultural problem that involves a lack of trust to fund managers, and also gives the investors more flexibility for making decisions. Felipe Vergara stated that in the angel framework, the active involvement of the investors, their contacts, advice, and experience are equally valuable as the capital deployed in the business.[29]

A common tool for developing an angel investing ecosystem in a developing country is to create an angel network. This network consists of an organization that gathers several angel investors, provides them with project flows and investment opportunities, and organizes constant meetings between the group members. During the meetings, there will be presentations for investment opportunities to the members, or lectures about topics within the angel investing community. The incentives for an investor to join the network are the project flow, the connection with other investors, and the knowledge from the lectures.

The project incubator Octantis developed the first angel network in Chile, with the financial support from the World Bank. Octantis established a framework that became a model for other networks throughout South America.[30] The first step in the formation of this angel network was to identify potential and real investors. The methodology is to look for successful executives, analyze their past experiences, and link that to their investment interests. In Ecuador, this model could be successful. There are numerous executives that have sold their family businesses, and are willing to invest their capital. Given the lack of project flow in the country, they tend to direct that capital to the stock market in the United States.

[29] Quesada, Charo. "Will angels descend on Latin America?" *IDBAmerica* 10 Mar. 2008. Web. 2 Mar. 2012. <http://www.iadb.org/idbamerica/index.cfm?thisid=3585>.
[30] Echecopar, German. *Capital semilla para el financiamiento de las nuevas empresas*. Washington D.C.: Inter-American Development Bank, 2006. Web. 2 Dec. 2011.

After identifying the investors, the next step is to benchmark the organization. For doing this, the Ecuadorian angel network executives should develop a database with the best practices of angel networks throughout the world. This will increase the efficiency of the dynamics within the organization. Given the culture of investors and entrepreneurs in Ecuador, this research should be adapted to the local social and economic norms. Once the organization decides the methodology and dynamics of the network, it needs to attract the potential investors. One way of doing this is by organizing preliminary meetings and information sessions, which will discuss the nature of the network and include a space for questions by the executives invited.

After the organization has attracted the investors, it needs to establish partnerships to assure the constant project flow. There are two key partnerships that should arise in this step; universities and project incubators. Through universities, the organization will have access to ideas and start-ups that are developed by students in case competitions and entrepreneurship classes. This partnership could also serve to enhance the knowledge of students about financing opportunities. The three universities that have the most developed entrepreneurial cultures are: Universidad San Francisco de Quito, Universidad de Especialidades Espíritu Santo, and Universidad Casa Grande. The latter two are located in Guayaquil.

The project incubators, which could be public or private, serve as another source for access to start-ups. A key player in this industry is EmprendEcuador, the public initiative that was mentioned earlier in the report. EmprendEcuador is constantly filtering ideas for businesses and entrepreneurs from all over the country are trying to participate. The partnership would be a *quid pro quo* agreement; the angel network will be benefited with the project flow, while EmprendEcuador will have access to alternative sources of funding for participants. At this point, the angel network should start presenting the project flow to the investors it attracted previously.

For presenting the projects, it is recommended that the network offers a forum in which each entrepreneur has the opportunity to deliver a presentation to the investors. The optimal time for each project would be from 20 to 30 minutes, followed by a Q&A space. In addition, the presentations should be followed by a dinner in which the entrepreneurs can personally meet with the angel investors. According to Ricardo Noboa this personal time is critical for establishing a relationship. After this initial forum, the network should provide the necessary resources for future conversations between investors and entrepreneurs.

Besides the investment presentations, the angel network should organize discussion forums and lectures. One efficient tool is to hire an expert in start-up financing from the region, so he can talk about his experiences with the network members. The members will also have the opportunity to actively participate in the meetings, ask questions, and collaborate with contributions on the topic. All the meetings should be complemented with a networking time, in which members can meet between themselves or with the lecturing guests.

In the same way as Octantis, the angel network will need a Project Evaluation Committee, a Board of Directors, and an Operations Manager. The Project Evaluation Committee will be in charge of evaluating the projects that are presented to the investors, and also decide what projects will be presented in future meetings. The Board of Directors needs to gather feedback and plan future meetings, discussion forums and initiatives promoted by the angel network. Finally, the Operations Manager will have the duty of attracting additional investor members, develop and maintain relationships with partners, and coordinate the logistics of the meetings. This organizational structure has demonstrated to be effective throughout South America, according to the Inter-American Development Bank.

The main problem that Octantis initially had was due to its funding. It was subsidized by CORFO until it established itself in the region and was able to independently finance its operations. The first step in the financing process is to look for a subsidy from the Ecuadorian government. In addition, the angel network could be originally sponsored by an organization that deploys capital into the initiative. Once the network is well recognized and has obtained a fair success, it can start charging memberships or monthly fees to its members. It could also act as a financial intermediary, by charging the entrepreneurs a percentage of the transactions and investments that it facilitates.

One of the long-term proposals for the angel network after it has established in Ecuador is to integrate with another angel network from South America. The benefit from doing this would be an increase in the project flow, which could serve as diversification for the investors. If an Ecuadorian angel investor believes that another country offers better investment alternatives, this partnership would allow him to access these opportunities more efficiently. In addition, the two angel networks would be benefited by the additional know-how acquired. Some of the potential networks for future integration are: Southern Angels, Angeles de los Andes, Octantis, and Angeles Invesrionistas de Lima.

University programs to change the culture

After my interview with entrepreneurship professor Felipe Rendón of the Universidad de Especialidades Espíritu Santo, he demonstrated the lack of programs in the university consisting of equity funding for student entrepreneurs. The second proposal for a development of the venture capital and angel funding industry in Ecuador is the creation of a seed funding program through a local university. Through this program, a university could partner with national corporations and develop business plan competitions. After the competition is created, the university needs to establish a prize for the winners. This prize could take the form of equity financing for the entrepreneurs. In addition, the partners of the competition could serve as mentors of the young firms.

The partners needed for this project are the local university and corporate partners. The university would ensure the constant flow of projects and organize the mentoring sessions, while the partners would serve as investors. In an optimal case, the university could also serve as an investor through its endowment. The program would be supported by seminars and classes emphasized on creating a venture, which includes a boot camp on different topics that are critical for venture development.

The program could be structured in three phases. During the first phase, students with venture ideas apply to the competition by submitting a business plan. A panel of judges is formed, which decides what ideas are the most promising. The requirements for the application should include the following:

- Business plan with details about the product, market and competition
- Compromised team of students with capabilities of running necessary divisions
- Preliminary legal and organizational structure
- More than four months working in the idea

In the second phase, the selected winners will be part of an entrepreneur boot camp organized by the university. This boot camp is a 6-weekend program in which the entrepreneurs are given seminars about raising capital, innovation, strategy, leadership, team working and marketing. There will be professors in different areas that lecture these seminars. After the boot camp, the entrepreneurs will present an investor pitch with another panel of judges, including professors and experienced executives. During this round, the panel will select three winners who would receive a prize of $1,500 to develop their ventures. In addition, the partners will approach this finalist to engage in negotiations for additional equity financing.

The third phase of the program is the organization of an *investor event*. In this event, the finalist ventures will present the same investor pitch to an invited group of angel investors and venture capital managers. This is an additional opportunity for the students to receive funding and develop their projects. The event will be organized in the university, with the college or department of entrepreneurship as its main sponsor. This event is the closing round of the business plan competition, which would run once every year.

The annual business case competition, entrepreneur boot camp and investor event will incorporate the culture of venture creation and financing in the local universities. As the program becomes more popular, other universities could develop the same program. Once it has enough universities participating, there could be a national competition among the winners of each university, and boot camp sessions taught by the most prestigious teachers in each area. If the national program is achieved, it could be a significant development for the Ecuadorian venture capital industry. It could attract more investors, and prepare entrepreneurs more efficiently.

Chapter V: Conclusion

Venture capital, angel funding, and other types of equity financing are developing at a fast pace throughout the world. Economists have concluded that it is critical for countries to develop this industry, which serves as an alternative for debt financing. In South America, the industry has experience a robust growth. Most countries already have public seed funding programs, venture capital funds, and networks of angel investors. Together, they improve the opportunities for entrepreneurs, which could result in economic growth and innovation. Countries like Chile, Colombia, Brazil and Peru have implemented strategies from the developed world.

At the same time that South America has experienced the growth mentioned above, Ecuador is in a tough situation. The political structure and the ruling of Rafael Correa have implemented changes that affect the environment for investors. The law modifications and current tax code do not provide the incentives for investors and entrepreneurs to develop and finance ventures. In addition, the rule of law is not well established in the country. The executive power can modify legislation and judicial processes to obtain any desired results.

The culture of the country is also detrimental for the venture capital environment. Since Ecuador has always been an underdeveloped country, entrepreneurs are not educated in certain areas that are critical for developing a firm. At the same time, Ecuadorian investors are used to invest in their own ideas, not in other people's ideas, while maintaining 100% of the ownership of a business. In addition, the country does not have well structured financial markets, which affects the exit opportunities of venture capital and angel investors.

Despite the problems and limitations that exist in Ecuador for the development of a venture capital and angel investing industry, there are some initiatives that move the country towards development. There are also programs proposed for the future that could change the culture of investors and entrepreneurs, and solve other problems. These programs have been modified to fit the current legislation and political structure of the country, but providing incentives to both investors and entrepreneurs. Venture capital and angel investing is a sustainable way of obtaining start-up capital, and could bring Ecuador numerous benefits. If the right incentives and programs are implemented, Ecuador might have the potential to position itself in a more favorable area that boosts innovation, job creation and economic growth.

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ACADEMIC VITA of Juan José Castro

Juan J Castro
1901 Brickell Ave B-1707
Miami, FL 33129
jjc5239@gmail.com

Education:	Bachelor of Science Degree in Finance, Penn State University, Spring 2012 Bachelor of Science Degree in Economics, Penn State University, Spring 2012 Honors in Finance Thesis Title: Understanding the barriers and development of a venture capital and seed funding ecosystem in Ecuador Thesis supervisor: James Miles
Experience:	J.P. Morgan Chase & Co. Investment Banking Summer Analyst – Summer 2011 Tutobienes S.A. Finance Analyst – Summer 2010 Losning Business Solutions Junior Analyst – Summer 2009
Awards:	Smeal College of Business Finance Department Student Marshal J.P. Morgan Launching Leaders Scholarship President’s Freshman Award President’s Sparks Award Evan Pugh Scholar Award (Junior and Senior) Bunton Waller Scholarship
Activities:	Nittany Lion Fund, LLC Associate Analyst – Consumer Staples Sector Innoblue Consulting Group Director SHC Consulting Group Project Leader Smeal Trading Group Analyst – FactSet Group Dannon TRUST Challenge (National Finalist) PricewaterhouseCoopers xACT Case Competition (Finalist)