

Mercados y Negocios

1665-7039 printed

2594-0163 on line

Year 25, n. 52, May-August (2024)

Artisanal Businesses: Historical and Economic Context

Empresas artesanales: contexto histórico y económico

<https://doi.org/10.32870/myn.vi52.7732>

Franci Daniela Alonso Aguilar

Universidad de Vigo (España)

francialonsoa@gmail.com

<https://orcid.org/0000-0003-4733-7770>

Tania Elena González Alvarado

Universidad de Guadalajara (México)

tania.gonzalez@cucea.udg.mx

<https://orcid.org/0000-0002-3062-9665>

Pablo Cabanelas Lorenzo

Universidad de Vigo (España)

pcabanelas@uvigo.gal

<https://orcid.org/0000-0002-4661-0141>

Received: March 23, 2024

Accepted: April 28, 2024

ABSTRACT

This paper aims to examine the unique features of artisan enterprises in Ecuador and how cooperation programs and national peculiarities have influenced their development. Through descriptive and conceptual analysis, we can better understand how these organizations have evolved within the historical and economic context of rural regions in Ecuador. The primary findings suggest that poverty alleviation and control measures have significantly impacted the definition of artisan enterprises in Ecuador, which now closely resemble micro-enterprises. Development cooperation efforts in Ecuador have prioritized preserving artisanal production rather than replacing it with industrial production, promoting micro-enterprises growth as artisanal workshops.

Keywords: international cooperation, micro-enterprise, artisanal enterprise, taxation, business, competitiveness.

JEL code: R11, O23, O50



RESUMEN

Este artículo tiene como objetivo examinar las características únicas de las empresas artesanales en Ecuador y cómo los programas de cooperación y las peculiaridades nacionales han influido en su desarrollo. A través del análisis descriptivo y conceptual, podemos comprender mejor cómo han evolucionado estas organizaciones dentro del contexto histórico y económico de las regiones rurales del Ecuador. Los principales hallazgos sugieren que las medidas de control y alivio de la pobreza han impactado significativamente la definición de empresas artesanales en Ecuador, que ahora se parecen mucho a las microempresas. Los esfuerzos de cooperación al desarrollo en Ecuador han priorizado preservar la producción artesanal en lugar de reemplazarla con producción industrial, promoviendo el crecimiento de microempresas como talleres artesanales.

Palabras clave: Cooperación internacional, microempresa, empresa artesanal, tributación, negocios, competitividad.

Código JEL: R11, O23, O50

INTRODUCTION

International cooperation aimed at developing countries has not yielded the same positive results as in Europe during the post-war reconstruction period (Durán & Balestro, 2023; Sauvart & Hasenpflug, 2019; Fischer & Thomas, 1995; Higgins, 1992). Developing countries face problems such as deep-rooted historical issues, significant structural differences, and internal disarticulation. They also have unequal external dependencies and often carry a substantial external debt that causes them to contribute net resources to developed countries (Bresser & Oreiro, 2023; Ulcuango et al., 2021; Hopenhayn & Rojo, 1990; Marshall, 1986).

The Republic of Ecuador has been receiving development cooperation programs, but the country's overall condition still needs improvement. Although the right environment for Foreign Direct Investment has been maintained, it has not directly impacted poverty reduction or improved the standard of living for the population as a whole (Emako et al., 2023). However, it is worth noting that poverty would have been worse without these programs. The Ecuadorian business structure still reflects colonial traits and artisanal work is more prevalent than industrial work (Ayala, 2008; Contreras, 1990). This situation has led to confusion between artisanal and non-artisanal economic units.

The artisanal sector is experiencing weakness and needs more information on its requirements and priorities for technical assistance, product promotion, and training. In today's times, competitiveness is limited (Narvaez, 2004). Support programs and tax exemptions add to the confusion. Micro-enterprises require clear guidance regarding artisan workshops or artisans. This situation is of no concern as long as it facilitates the creation of jobs and a secure income for the most vulnerable, especially during economic instability. In other words, the main objective of the support programs for artisanal activity in the Republic of Ecuador is to guarantee an income to the most vulnerable members of the population in addition to the conservation of cultural heritage expressed in the creation of crafts (McGowan, 2021; Yang et al., 2018). At this point, it is crucial to indicate that for countries like Ecuador, the path towards industrialization in pursuit of development becomes impossible since it would mean losing the cultural wealth that it represents.

Moreover, the cost to the population in terms of poverty would be high. Programs aimed at transforming the Ecuadorian business fabric through assimilation and technology transfer have yet to yield favorable results (Quezada et al., 2018). These programs have only allowed enterprises to survive for generations, not their transformation (Flor et al., 2018).

This article aims to analyze the characteristics of Ecuadorian artisanal enterprises and the benefits of development cooperation. Additionally, it examines the fiscal incentives of these enterprises while indicating their positive and negative aspects. The article also outlines the limitations and the scope of recent institutional lines of action. The approach to this work is descriptive and conceptual but with a critical focus on the role of Ecuador's artisanal enterprise and the measures being promoted to improve it.

The article is divided into three parts. The first deals with development cooperation aimed at Ecuador, which preserves artisanal work without favoring the industrialization of local businesses in its efforts to reduce inequality and alleviate poverty. The second part analyses artisanal enterprises in recent years, the fiscal incentives that have contributed to preserving artisanal activity, and the confusion of artisanal workshops and artisans with micro-enterprises. Finally, the paper outlines the main environmental characteristics of the Ecuadorian definition of an artisan enterprise. This definition derives the implications of merging a microenterprise and an artisan workshop.

DEVELOPMENT COOPERATION IN ECUADOR: INEQUALITY AND POVERTY REDUCTION

56

Development economics emerged during the Cold War. Its objective was to transfer the experiences of advanced industrial countries to relatively backward countries; the term economic growth became synonymous with development. Nowadays, it implies the goal of reaching the current state of advanced capitalism (Malgesini, 1997).

Smaller enterprises with incipient technology and artisanal transformation processes characterize a lower degree of capitalism. These enterprises are expected to act locally and focus on satisfying the population's basic needs (Fajnzylber, 1976). These localities have highly diversified, labor-intensive activities with no market leaders, high production costs, and a lack of capacity to compete with imports from industrialized countries. This type of economy, of which Ecuador is no exception, requires high protectionism to survive in the long term, which makes it unsustainable.

Therefore, providing financial and technical support to less developed countries is crucial. Financial and technical assistance involves sharing fundamental technology, capital, and knowledge to foster growth and development (Malgesini, 1997). This type of cooperation requires significant funds that the recipient nations still need to repay. As a result, this form of aid was primarily restricted to "first-generation" agreements aimed at countries with lower levels of development. The proposal for this aid was based on the gradual technological transformation of the productive system, with a close connection to foreign companies that would make the international market the ultimate destination for products and services.

Financial and technical cooperation aimed at developing the rural sector, improving food security, and improving the economic, legal, and social environment for the private sector. The financial and technical cooperation included support for smaller enterprises, protection of the environment, particularly tropical forests, and projects related to democracy, efficient and fair public administration, human rights, and the fight against drugs, among other things. (Conde & Hurtado, 2000).

In the last century, a formal approach to financial and technical cooperation has been proposed and remains unchanged. This approach presents a very ambitious picture. Recipient countries prioritize only those elements that facilitate the stability required for Foreign Direct Investment.

Global crises, external debt burdens, and climate change challenges have forced countries to sacrifice local economic development to maintain macroeconomic stability (ECLAC, 2022). Therefore, it is crucial to enhance efforts to achieve better outcomes related to poverty reduction, diminishing inequalities, and creating innovative environments that promote international competitiveness.

Ecuador and other countries have faced challenges, and while international cooperation has helped mitigate negative impacts, it has also reduced their political freedom and autonomy to address their priority problems (Barberis, 2003). One approach is decentralizing aid distribution to increase Ecuador's autonomy despite its international commitments.

Over the last decade, Ecuador has faced various challenges balancing poverty alleviation and industrialization. Unfortunately, there have been limited alternatives available to the government. The decline in metal and mineral prices starting from 2011 and the collapse in crude oil during 2014-2015 have significantly impacted the government's revenue. However, Ecuador has responded with tax reforms and other measures that have resulted in over one percentage point increase in revenue collection. According to the Economic Commission for Latin America and the Caribbean (ECLAC, 2020), this information is available.

In recent decades, Ecuador's growth strategy brought about significant social progress. However, this progress was accompanied by macroeconomic imbalances due to the country's dollarized economy and the fall in oil prices, as indicated by the World Bank (2019). To address this, the World Bank proposed measures to increase the efficiency of public investment and fiscal consolidation while protecting vulnerable groups through targeted social programs. With the outbreak of the pandemic, Ecuador released additional funds to strengthen social safety nets and increase support for people living with HIV and AIDS. The government also provided extraordinary and temporary monthly bonuses ranging from USD

40 to 345 for the most vulnerable households. The Banco del Instituto Ecuatoriano de Seguridad Social (BIESS) also provided soft loans for the elderly. These efforts were reported by ECLAC (2020).

Ecuador borrowed a total of USD 1.987 billion from various multilateral financing institutions to help alleviate the effects of the COVID-19 pandemic. In May 2020, the IMF granted it USD 643 million, the World Bank provided a loan of USD 500 million to strengthen its health system through the COVID-19 Fast-Track Facility, and the Inter-American Development Bank made available USD 2 billion to contain the effects of the pandemic for USD 794 million. The Development Bank of Latin America (CAF) also granted USD 50 million (ECLAC, 2020). However, the aid was received when poverty alleviation was a priority, and the country needed more trained personnel to manage it. Since 2008, the management of international cooperation has been the exclusive responsibility of Autonomous decentralized governments rather than the central government (Monje, 2014).

Decentralized governments have benefitted primarily from cooperation with multilateral organizations, NGOs, or private entities (Monje, 2014). However, the decentralized autonomous governments in Ecuador - mainly municipal and parish governments - require additional tools, specialized units within their organizational structure, and trained personnel to effectively manage and fulfill their responsibilities in receiving international cooperation (Monje, 2014).

It has been reported that the decrease in oil prices and the COVID-19 pandemic have hindered social progress for several years, as stated by ECLAC in 2021. Ecuador faces four significant challenges, according to the World Bank's report (WB, 2019). Firstly, 60% of the country's poor population resides in rural areas. Secondly, more than 250,000 Venezuelans have migrated to Ecuador. Thirdly, social development issues disproportionately affect women and ethnic minorities. Lastly, the country faces high exposure to natural disasters and the adverse impacts of climate change, as per the World Bank's report in 2019.

In 2020, the impact of the health crisis was felt significantly in the job market. It resulted in a significant increase in precarious and informal employment and further widened the existing gender gaps. In less than a year, the pandemic undid the progress made in the social sphere over the previous decade, as reported by ECLAC (2021). Artisanal activities become crucial in addressing poverty and inequality in such a scenario.

THE ROLE OF ARTISANAL ACTIVITY IN ECUADOR IN THE FACE OF INEQUALITY AND POVERTY

Artisanal activity has been appreciated and recognized as the primary mechanism for coping with difficult times in Ecuador's economic history. For this reason, the government created institutions, norms, and support programs to encourage craft training in the community and link it to work. It even incorporated artisans as workshop teachers into the training and certification process (JNDA, 2021). For this nation, the work of the artisan is art. "Craftsmanship is not just the manual production of objects of practical or decorative utility. It is much more than that. It is part of our culture" (PRE, 2022).

The National Board for the Defence of Artisans has identified 186 branches of activity that are maintained by tradition or family inheritance and passed on from parents to children. The most significant risk is that the transmission of craft knowledge will be interrupted, thus causing the loss of valuable ancestral knowledge and techniques (PRE, 2022). Poverty alleviation merges with cultural heritage conservation. In the words of Bravo (2020: p.35):

"The artisan's activity is a symbiosis that combines production with an ideological charge. In other words, they are ambassadors of knowledge and traditions, part of the cultural ecosystem of a country. Their hands create culture, and their voice conveys history and identity".

In this perspective, the National Board for the Defence of Artisans identified 186 activity branches maintained by tradition or family inheritance and passed down from parents to children. The most significant risk for the nation is that the transmission of craft knowledge will be interrupted, thus losing valuable ancestral knowledge and techniques (PRE, 2022). It is how Ecuador is divided between the preservation of crafts and the industrialization of its activities. In Ecuador, this action is seen as positive for the socio-economic context. Contradictorily, they seek greater competitiveness through artisanal activity. They believe that artisans can be competitive if they adapt their activities to changes in the economic, productive, and service environment (JNDA, 2021).

The government aims for artisans to be aware of their capacities and potential, training them to self-manage and generate projects to improve the different branches of artisan work. Preparing artisans to be aware of the socio-economic importance of their activity in the Ecuadorian economy is considered a key factor. Values such as solidarity, cooperation, conservation of natural resources, and environmental respect are also relevant for training competitive artisans (JNDA, 2021).

Artisanal Businesses: Historical and Economic Context

The management of external aid seeks greater competitiveness in artisanal activity (JNDA, 2021). It needs to be clarified because competitiveness is achieved with low costs and technological innovation in production processes (Dosi et al., 2015; Chursin et al., 2016).

On the other hand, Narváez (2004), in his study on the Ecuadorian handicraft sector, makes the following points: It occupies a privileged place in the history of Ecuador for being the first to produce products, not only for self-consumption but also for export. It also serves as a means of survival for Ecuadorians in both urban and rural areas in the absence of jobs in industry. However, there is no study on the requirements and priorities for technical assistance, product promotion, and training; furthermore, it has demonstrated its limited capacity to be competitive, being a weak sector with limited capacity to influence state policies.

Any economic survival unit is profiled as artisanal. It only needs to be made up of family members of a smaller size or lacking specialized technology to be qualified as such. It contradicts what the Ecuadorian government has declared and what multilateral organizations propose. The explanation for this confusion can be found in the fiscal measures created to maintain macroeconomic equilibrium.

HISTORY OF THE ECUADORIAN HANDICRAFT COMPANY

Artisan workshops for the free market are considered smaller enterprises. Artisans who export or receive government support register their workshops as economic units (enterprises). Such registration does not industrialize the work done in the workshops; instead, they maintain the traditional mode of production while inserting themselves into the global economy (González & Córdova, 2020). Therefore, drawing on history and culture is vital to understanding what happens in Ecuador's artisanal workshops (artisanal enterprises).

Crafts is a labor-intensive activity, so any sector promotion quickly becomes an employment strategy, particularly in large areas of Ecuador. In Ecuador, there are settlements whose population is entirely linked to the handicraft sector (Cuvi, 1985). There is no place in the Republic of Ecuador without handicraft products and manifestations of famous art (Cuvi, 1985). As Cuvi (1985) puts it, in the times of

[...] pre-Inca, in the weavers of fine clothes for the Inca and his family, in the farm workshop and among the peasantry, is where the first groups of rural artisans were born.

During colonial times until the beginning of the 18th century, textile production in the Royal Court of Quito fed demand in Peru, Colombia, Panama, and Chile. Even when the farm workshops were closed due to the importation of European textiles, the small artisan workshops in the Ecuadorian regions of Otavalo Cuenca and Loja continued to produce textiles for the domestic market and export to neighboring countries (Cuvi, 1985).

Urban crafts began with the arrival of Spanish artisans in colonial times (Cuvi, 1985). Therefore, urban crafts were under the strict supervision and control of the Church and the Cabildo. The workshops then were organized around guilds produced for the elites, that is, for the nobles who lived in the cities of the Royal Court of Quito. With independence, the control that the Cabildo and the church exercised over the guilds disappeared. Hence, the city artisans founded their unions and societies to defend their interests and improve their socio-economic situation (Cuvi, 1985).

One of the main characteristics of craft enterprises is how the leading artisan acquires the trade. Most learn this activity through generational transmission in the family nucleus (Sánchez & Torres, 2020). The production process is passed on from generation to generation, managing to maintain the cultural value. It is a second qualitative characteristic of the artisan enterprise and does not necessarily qualify it as a family business (González & Córdova, 2020; Li, 2022).

Not all smaller firms are family firms (Romero, 2006; García et al., 2019), nor are all family firms smaller (Miller & Le, 2005; Randolph et al., 2019; Ge et al., 2022). Likewise, not all craft enterprises are necessarily family businesses, despite the transmission of craft knowledge within the family nucleus. In the Republic of Ecuador, artisan workshops are considered artisan enterprises; however, other enterprises are not necessarily considered artisan enterprises.

Craft workshops are part of the business units that enable the most vulnerable groups to survive. Without being artisanal workshops, these units are also registered as artisanal enterprises. Ecuador's priority is to alleviate poverty while maintaining macroeconomic equilibrium; more is needed to restrict programs to companies that are artisanal workshops. The cost of controlling and eliminating non-craft enterprises from these programs would be an impossible burden to bear.

Thus, fiscal mechanisms and development aid in this context have blurred the line between the artisanal enterprise and other forms of enterprises and economic activities (STGISP, 2022), with the Ecuadorian artisanal enterprise being synonymous with "trader," "SME," or "Entrepreneur." At the same time, there is indeed a regulatory context in Ecuador that formally defines it.

CHARACTERISATION OF CRAFT ENTERPRISES IN ECUADOR

The definition of the artisanal sector in Ecuador leads to divergent positions due to its high heterogeneity. The group's economic, social, and lifestyle differences outweigh the similarities. In Ecuador, the artisan enjoys labor, tax, and financial benefits, encouraging the population to obtain this profile (Covi, 1985).

In addition, they can receive support from development cooperation programs and benefit from a lower tax burden. Table 1 shows the tax status of companies in Ecuador that are registered for tax facilities, which form part of the statistics. National. Support from tax, credit, and accreditation programs encourages formality.

Ecuador includes service crafts in addition to handicraft producers. These services include vehicle repairs, household appliances, plumbers, painters, beauty salons, food and catering services, and photographers, to name a few examples (Cuvi, 1985). Table 1 shows the companies registered in 2021 and indicates their situation.

Table 1
Conformation of the Statistical Register of Enterprises 2022 by condition.

. Situation	N.	%
a. Companies whose income does not exceed the tax base are not required to declare income tax in the SRI.	461.810	53,47
b. Companies that declared taxes under RISE 2021; They did not declare sales in 2021 nor register employment positions in 2022 (Simplified System).	335.712	38,87
c. 2021 sales and registered employment positions 2022 productive activities.	48.052	5,56
d. Companies that only record 2021 sales. They are micro and small businesses, sole proprietorships, or family businesses with irregular income flow.	15.814	1,83
e. 2021 sales and 2022 registered employment positions in non-productive activities.	2.293	0,27
Total	863.681	100
Note: As of 2022, the SRI decided to create the Simplified Regime for Entrepreneurs and Popular Businesses (RIMPE), which still needs to be included in the statistical reports.		

Source: INEC (2023).

Despite their importance, no statistical data allow us to isolate craft enterprises from other types of enterprises in Ecuador because the artisanal process is a qualitative element that can be present in creating and marketing a product or service. For this reason, the use of statistical data entails the analysis of smaller enterprises. The quantitative criteria for classifying enterprises in Ecuador are sales and number of employees. Table 2 shows the range for each company size.

Table 2
Criteria to classify the company by size in Ecuador.

Size	Sales	Workers
Large	> \$5'000.000	≥ 200
Medium B	From \$2'000.001 to \$5'000.000	From 100 to 199
Medium A	From \$1'000.001 to \$2'000.000	From 50 to 99
Small	From \$100.001 to \$1'000.000	From 10 to 49
Micro	≤ \$100.000	From 1 to 9
Note: On a provisional basis, the company size is defined according to the reported annual sales volume in 2021 and the number of affiliated persons either at the level of registered employment or employment registered in social security, reported in 2022. For its determination, the criterion of annual sales volume prevails over the criterion of affiliated personnel. Only for public institutions will employed personnel be considered first, and sales volume will be second.		

Source: INEC (2023).

Not all smaller enterprises are entrepreneurial workshops, but a large enterprise could hardly be considered artisanal unless it is a cooperative made up of multiple craft workshops. Studying the craft enterprise requires differentiating between quantitative and qualitative aspects so as not to confuse it with another type of enterprise (González, 2005).

Although challenging, medium-sized enterprises may be qualitatively placed in the craft workshop model. Therefore, most entrepreneurial workshops can be held in small and micro-enterprise groups. So, qualitatively, they are artisan workshops and have a labor-intensive process. However, quantitatively, they are placed among the micro and small enterprises rather than among the medium and large ones. However, in the case of Ecuador, the definition of "artisanal service" for activities such as plumbing, car repairs, or beauty salons opens the door to confusion between artisanal enterprises and any other form of enterprise. In this situation, the microenterprise is highly merged with the artisanal enterprise.

Thus, all craft enterprises in Ecuador are smaller enterprises. They are primarily microenterprises and, in some cases, small enterprises. Their legal conception also blurs the line between artisan enterprise and microenterprise. The Law for the Defence of Artisans in Article 2, Paragraph B defines artisans as follows:

"[...] a manual worker, workshop master or self-employed artisan who, duly qualified by the National Board for the Defence of Artisans and registered with the Ministry of Labour and Human Resources, carries out his activity and work personally and has invested in his workshop, in work implements, machinery, and raw materials, an amount not exceeding twenty-five percent (25%) of the capital set for small industry. Likewise, a manual worker is considered an artisan, even if he has yet to invest in work implements or lacks workers [...]" (Law for the Defence of Artisans, 1997).

This law determines that the artisanal enterprise must be small or micro. It is indicated by the following phrases: "has invested in its workshop [...] an amount not exceeding twenty-five

Artisanal Businesses: Historical and Economic Context

percent (25%) of the capital fixed for the small industry", or "the manual worker, even if it has not invested any amount in work implements or lacks workers."

According to the Law for the Defence of Artisans, if an artisan has no assistants, "no operators," but keeps a record of his economic activities with the government, then his workshop is included in the databases and official statistics as a microenterprise, even if it is just him. The artisan then registers as a manual worker and statistically is a microenterprise with only one employee. It leads to merging the concept of microenterprise with the concept of workshop or craft enterprise. Thus, in Ecuadorian practice, both organizations are treated synonymously.

At first glance, considering a microenterprise with only one employee is a principle of inclusion, particularly when in other regions, microenterprises are only considered to have two or three employees or more. However, this further contributes to the failure to differentiate the artisan from the non-artisan.

The Republic of Ecuador's approach is inclusive. Artisans have a cultural added value in their profession that may be more important at a given moment than the productive one.

In the words of Bravo (2020):

64

"The artisan's activity is a symbiosis that combines production with an ideological charge. In other words, they are ambassadors of knowledge and traditions, part of the cultural ecosystem of a country. Their hands create culture, and their voice conveys history and identity".

Under this idea, microenterprises merged with artisans and craft workshops, and the enterprise structure and contribution to employment can be analyzed for each size of the enterprise in the last two years (Table 3).

Table 3
Number of enterprises and employment places by size of enterprise in Ecuador

	Large	Medium A	Medium B	Small	Micro
Number of companies 2021	4.400	6.000	4.200	37.700	797.600
Number of companies 2022	4.400	6.100	4.200	38.300	810.700
Job vacancies 2021	1.178.891	216.018	198.916	417.830	686.996
Job vacancies 2022	1.233.609	221.286	208.993	439.390	711.772
Variation percentage	4,6	2,4	5,1	5,2	3,6

Source: INEC (2023)

According to statistical data, large enterprises contribute more job vacancies in the country than others.

However, when adding the number of jobs provided by micro and small enterprises, the number of jobs provided by both sizes of enterprises is almost similar to that of large enterprises. Therefore, the participation of artisanal organizations in generating and

preserving jobs in the country is almost the same as that of large enterprises. Employment, which very small enterprises statistically represent, is as meaningful as the sources of employment provided by large enterprises.

It leads us to consider once again what was discussed in the first section: if the main objective of the programs derived from business cooperation for Ecuador, and which have supported artisan enterprises, has been the conservation and creation of jobs that protect the most vulnerable population, then there is no need to be more specific and try to separate micro-enterprises from artisan enterprises. There is no need to discriminate against smaller enterprises that claim to be artisans without necessarily being so. Discrimination does take place in larger, more industrialized countries. These companies fulfill the primary objective of ensuring gainful employment and thus reducing poverty. From this perspective, whether they are artisanal or not makes no difference. In Ecuador, artisanal enterprises are legally limited to a micro or small size. Can micro-enterprises play an essential role in the extinction of entrepreneurial workshops? Can marketing and services play a more significant role than handicraft production? How can we ensure that a company with handicraft production is not seduced into marketing industrialized products? In a free market environment, the incentive to make more profit by buying and selling imports than by producing is a global reality. Blurring the line between entrepreneurial workshops and other microenterprises may bring the high cost of moving from artisanal to commercialization. It would also lead to greater dependence on the outside (consuming more than one produces) and further divert from the path toward industrialization. The statistics do not indicate whether this is already happening in Ecuador, but it is an inherent risk.

PROGRAMMES AND ACTIONS IN FAVOUR OF ECUADORIAN CRAFT ENTERPRISES

Due to the high percentage of microenterprises, Ecuador has seen an increase in entrepreneurship and the development of initiatives to support it. In April 2019, the central government launched the "Entrepreneurship Ecosystem" program, which provides resources and tools to entrepreneurs to strengthen and promote local businesses. It complements the "Ruta de la Transformación Productiva" plan, created in 2018, which grants tax benefits and guarantees to companies. This plan promotes job creation, increases competitiveness, and improves productivity.

The Ecuadorian Federation of Chambers of Commerce and the National Association of Private Enterprises supports businesses by organizing workshops and training courses. They also offer mentoring programs to help entrepreneurs make better business decisions. Artisanal entrepreneurs are an essential part of the Ecuadorian economy, so government

Artisanal Businesses: Historical and Economic Context

programs are geared towards providing training and technical assistance resources that help them become more efficient and promote their products through digital platforms and trade markets nationally and internationally.

To be a qualified artisan, one must have completed compulsory primary education, the workshop must be qualified, the owner must be in charge of it, and the activity must be artisanal. The capital invested must be at most 25% of the capital set for a small industry, i.e., US \$ 87,500, and the number of employees can be at most ten employees and five apprentices (JNDA, 2021).

The JNDA (2021) grants the "artisanal" qualification. This qualification is valid for five years. In the case of self-employed artisans, the validity period is one year, after which they must take an artisan training course to be able to renew their credentials. By law, both groups enjoy employment, financial, and tax benefits.

Employment benefits

The Labour Code exempts qualified artisans from paying labor benefits to their employees, except social security payments, for which they do not enjoy preferential treatment. It leads to lower production costs for craft enterprises. In addition, it becomes a mechanism to curb informality, as the artisanal enterprise keeps labor relations registered and formalized with the government.

66

Banking Benefits

Artisans can access credit facilities to expand their businesses and acquire new supplies. BanEcuador is a financial institution that offers options designed for qualified artisans, for example, loans for the purchase of fixed assets and productive loans, with installments adapted to the income flow of the artisans, with grace periods, if considered appropriate, and an interest rate of 11.25%, with amounts ranging from \$50.00 to \$ 20,000.00 with personal guarantees and higher amounts with real estate or pledge guarantees.

In addition, the government created several programs to provide financial support and resources to artisans. These initiatives are also designed to increase artisans' access to credit. The aim is for businesses to grow, allowing them to create more products and become more financially independent.

With greater access to credit, Ecuadorian artisans can expand their reach, create better opportunities for themselves, and contribute more to the economy. By supporting them with financing options tailored specifically to their needs, they can increase their profitability and create a more sustainable livelihood. This situation, in turn, benefits the artisans and the economy as a whole.

One of these initiatives is the 1x30 credit program, which offers loans ranging from \$500.00 to \$5,000.00 with a term of up to 30 years at a preferential interest rate of 1% per annum, with monthly payments (up to 360). This program aims to support Ecuador's artisans with access to credit to help lay the groundwork for improving the standard of living of many of its citizens while strengthening their cultural heritage and promoting the country's economic growth.

Tax benefits

Artisan products are exempt from paying Value Added Tax (VAT) in Ecuador. Instead of paying a portion of their profits to the government, they can use that money to reinvest in their business, buy supplies and materials, or even save, giving the artisan more creative control over their products (Dorling, 2016).

While it is true that having a 0% tax rate facilitates the invoicing and tax declaration process for artisans, who, in some cases, due to their rusticity and other cultural aspects, find it complicated to understand the tax issue, it is also true that it benefits the end consumer, who purchases the product for a lower value, thus compensating for the advantage that large companies have over smaller ones in terms of costs. It is also true that it benefits the final consumer, who purchases the product for a lower value, thus compensating for large companies' advantage over smaller ones in terms of costs.

Tariff exemption for importing specialized machinery and materials that are unavailable locally allows them to improve their production efficiency and quality (Khan et al., 2021). This exemption also provides access to diversified raw materials that widen the scope of their production. This strategy seeks to allow artisans to explore creative possibilities and promote innovation without compromising the authenticity of their creations (Sandry, 2017).

As of 2022, 79% of companies in Ecuador belong to the micro-enterprise regime. As of August 2022, electronic invoicing¹ became mandatory for persons subject to this regime. Artisans are placed in the micro-enterprise or general regime.

Ecuador's tax situation is complex. The country recorded high rates of tax evasion². This non-compliance resulted in estimated losses of between 7.4 billion annually to the government, and the tax evasion rate among individuals was 58.1% (Gómez & Moran, 2020).

¹ The progressive incorporation of the electronic invoicing regime is a structural measure of the systems' scope, including digitalizing tax administrations. The electronic invoice is a mechanism similar to the tax receipts that taxpayers must send, but with the particularity that it is done electronically, and the information is received automatically (González et al., 2019).

² Def. It is taxpayers' total or partial failure to declare and pay their tax obligations. However, it can also be defined as the act of not declaring and paying a tax that contradicts the law through the illegal reduction of taxes. Through deceptive maneuvers (González et al., 2019).

Ecuador took steps to improve its tax system³. In 2015, a law was passed to combat tax evasion, including increasing penalties for tax evasion and strengthening the government's capacity to monitor taxpayer compliance (ECLAC, 2020).

Electronic invoices can be easily transmitted between parties via email or other digital communication channels, eliminating the need to file or store paper documents manually. All these characteristics make electronic invoicing an invaluable tool in the fight against tax evasion. Between 2016 and 2017, through the SRI, 810 ghost companies were detected that generated damage to the Republic of Ecuador for approximately 835 million dollars, with false invoices delivered to 19,890 customers. (González et al., 2019).

The Microenterprise Tax Regime, or RIMPE, is compulsory for all natural and legal persons whose annual income is USD 300,000 or less and whose number of employees does not exceed nine. The income amount prevails over the number of employees.

This regime was introduced in September 2020 amid the COVID-19 pandemic and taxes two percent of taxpayers' total income. It aims to reduce taxpayers' formal obligations, reducing the 48 annual obligations to just eight.

68

In addition to streamlining and simplifying taxpayers' tax contributions, having a fixed income rate avoids the burden and operational overload of calculating income tax. However, this regime has received negative criticism from taxpayers and chambers of commerce, who have seen it as a burden on taxpayers' liquidity since they must pay two percent of their income regardless of the results obtained in commercial operations.

ON THE MICRO-ENTERPRISE REGIME AND TAXATION: IMPACT ON CRAFT BUSINESSES

³ In Ecuador, in strict application of article 226 of the Constitution²⁴, the Internal Revenue Service (SRI) has signed inter-institutional cooperation agreements with the State Attorney General's Office, the Ministry of the Interior, and the National Customs Service, which have allowed the exchange of information to combat and punish tax crimes. Additionally, the SRI participates in the Global Transparency Forum, which allows information exchange with more than 100 countries. On the other hand, the country has obtained information from the State Attorney General's Office to unravel plots of aggressive tax planning and tax evasion. Finally, also to combat customs and tax crimes, the Specialized Unit to Fight Tax and Customs Crimes was created in this country, which is in charge precisely of the crossing and exchange of information, cooperation processes, training, and support (González et al., 2019; Gómez & Morán 2020)

However, the objective of the Microenterprise Regime (RIMPE) is to reduce tax evasion, hence the obligation of electronic invoicing for all persons subject to this regime. Other taxpayers excluded from this regime are those belonging to the RISE or the Popular and Solidarity Economy organizations, public companies, NGOs, and those working exclusively in free labor, providing professional services, supplying fuel, and exploiting natural resources.

At its core, Ecuador's microenterprise regime works to reduce the tax burden and simplify administrative procedures for a tiny sector, shifting that burden and increasing administrative processes to the most vulnerable, in this case, companies whose profits are below \$51,141.77 per year.

The Simplified Tax Regime of Ecuador, or RISE, is another measure that was adopted in 2007 when the "Tax Equity Law" came into force, which aims to reduce informality and promote the legalization of Ecuadorian micro and small businesses by promoting tax culture through campaigns and programs that encourage the payment of taxes. However, on 01 January 2022, it was replaced by the Simplified Regime for Entrepreneurs and Popular Businesses RIMPE (SRI, 2022).

This program was aimed at sole proprietorships engaged in retail trade, food preparation, self-employment, animal husbandry, and mining, among others. It was for enterprises with less than ten employees whose annual revenues are at most \$60,000.

However, these measures have not combated informality. In 2018, ECLAC estimated that 72.6% of Ecuadorians did not have a legal contract, nor did they contribute to the Ecuadorian Social Security Institute IESS (Arias et al., 2020), while according to the Ecuadorian Institute of Statistics and Census INEC in December 2021 the rate of informal employment was 49.9%.

In addition, natural persons who carry out any economic activity must register in the Unified Taxpayers' Register, RUC1, issue and submit sales receipts authorized by the SRI for all their transactions, and file tax returns on their economic activity. They must also notify the SRI of their income and expenditures, thus establishing the tax to be paid.

The single tax register is unique and unrepeatable. In addition to being used in tax procedures, it is also used as a population register, which allows it to be used for different procedures and operations, both with public institutions and private organizations (González et al., 2019).

Programs leading to the registration of natural persons and sole proprietorships, such as the RUC, are mechanisms to reduce informality, from which artisans are not exempt.

Informality, tax evasion, and international pressure to increase revenue collection have created a tax scheme in Ecuador that encourages non-industrial companies to seek the benefits of registering as such, particularly in the case of very small or micro-enterprises.

CONCLUSIONS

The main characteristics that define the artisanal enterprise in the Ecuadorian environment are not traditionally accepted but also include characteristics constructed over time by the legal system and the interests of development cooperation. In this respect, the most common characteristics of other regions of the world are the generational tradition of the craft, master-apprentice relationship, labor-intensive transformation process, cultural and artistic representation, and associativity among family and friends. These are all qualitative characteristics.

The characteristics of the artisan enterprise that are not necessarily shared with other regions of the world but which are explained by the history of the region and support the fulfillment of the objectives of international cooperation for poverty alleviation, mainly in rural areas, are: small size, preferably micro-enterprise; inclusion of services that meet local needs (such as food processing, masonry, plumbing, haircutting, among others) and certification through public training programs. In this way, the statistical data that in other regions correspond to micro-enterprises in Ecuador are characteristics that pertain to artisanal enterprises. In the Ecuadorian reality, it takes work to maintain a dividing line between one group and the other. In the Republic of Ecuador, the term microenterprise is called artisanal enterprise and vice versa.

70

What implications does this have for development cooperation in Ecuador? This cooperation has yet succeeded in getting companies to abandon the artisanal process to industrialize; however, it has alleviated poverty, even under critical scenarios in the international environment. It has yet to succeed in getting artisanal enterprises to develop and grow; instead, it has favored the preferably micro or small size of these enterprises. Development programs in this region have allowed for the preservation of cultural heritage but have yet to allow for a greater degree of development of the local economy. It may be due to the size of the country and the importance of the cultural heritage it preserves.

The importance of craft activity and the preservation of cultural heritage is understood. However, the absence of boundaries between artisanal and micro-enterprises encourages the risk of artisanal enterprises becoming only marketers. The latter situation would slow down rural development, increase dependence on the outside world, and increase poverty in the medium term. It seems that there are some exciting research areas for the future related to the artisanal sector in Ecuador:

MERCADOS *y Negocios*

1. What specific measures have been implemented to support the artisanal sector in Ecuador? This research area will explore the measures taken by the government, non-governmental organizations, and other stakeholders to support the artisanal sector in Ecuador. The study will examine the effectiveness of these measures and identify potential gaps in the support provided. The research will also explore the challenges faced by the artisanal sector and the opportunities for growth and development.

2. How have tax exemptions contributed to the confusion between micro-enterprises and artisanal workshops/artisans? This research area seeks to explore the impact of tax exemptions on the artisanal sector in Ecuador. The study will examine how tax exemptions have affected the sector's growth, precisely the confusion it has caused between micro-enterprises and artisanal workshops/artisans. The research will also examine the policies and strategies that can be implemented to address these challenges.

3. What are the limitations and scope of the new institutional lines of action for the artisanal enterprise in Ecuador? This research examines the new institutional lines of action for the artisanal enterprise in Ecuador and their limitations. The study will explore the scope of the new institutional lines of action and identify potential challenges and opportunities for the artisanal sector. The research will also examine the policies and strategies that can be implemented to maximize the benefits of the new institutional lines of action.

Addressing these research areas will provide invaluable insights into the artisanal sector in Ecuador, allowing stakeholders to develop more effective policies and strategies to support the sector's growth and development. These insights can inform the development of policies and programs that promote the growth of the artisanal sector in Ecuador, which will have significant economic, social, and cultural benefits for the country.

REFERENCES

Arias, K., Carrillo, P., & Torres, J. (2020). *Análisis del sector informal y discusiones sobre la regulación del trabajo en plataformas digitales en el Ecuador*. ECLAC.

Ayala, M. E. (2008). *Resumen de historia del Ecuador*. Corporación Editora Nacional.

Barberis, G. M. F. (2003). La reforma institucional en el Ecuador. Una perspectiva poco ortodoxa. *Cuestiones Económicas*, 19(1).

Bravo, M. (2020). Sector artesanal: retos y oportunidades en época del covid-19. *Revista Artesanías de América*, 78, 34-39

Bresser, L. C., & Oreiro, J. L. (2023). A brief history of development theory. From Schumpeter and Prebisch to new developmentalism. *Brazilian Journal of Political Economy*, 44, 5-28. <https://doi.org/10.1590/0101-31572024-3604>

72 Chursin, A., Vlasov, Y., & Makarov, Y. (2016). *Innovation as a Basis for Competitiveness. Theory and practice*, Springer. <https://doi.org/10.1007/978-3-319-40600-8>

Conde, F. & Hurtado, I. (2000). *Política comercial de la Comunidad Europea*, Pirámide, Madrid.

Contreras, C. (1990). *El sector exportador de una economía colonial: la costa del Ecuador entre 1760 y 1820*. Editorial Abya Yala.

Cuvi, M. (1985). *Foro Políticas de Fomento Artesanal en el Ecuador*. Quito: Instituto Latinoamericano de Investigaciones Sociales.

Dorling, D. (2016). *A better politics: How government can make us happier*. London Publishing Partnership.

Dosi, G., Grazzi, M., & Moschella, D. (2015). Technology and costs in international competitiveness: From countries and sectors to firms. *Research policy*, 44(10), 1795-1814. <https://doi.org/10.1016/j.respol.2015.05.012>

Durán, C. R., & Balestro, M. (2023). Latin America: learning and fictional expectations in industrial development. In *Handbook of Industrial Development* (pp. 37-53). Edward Elgar Publishing.

- ECLAC (2020). *Panorama Fiscal de América Latina y el Caribe, 2020. La política fiscal ante la crisis derivada de la pandemia de la enfermedad por coronavirus (COVID-19)*. Santiago de Chile: ECLAC.
- ECLAC (2021). *Estudio Económico de América Latina y el Caribe, 2021*. Santiago de Chile: ECLAC.
- ECLAC (2022). *Panorama Fiscal de América Latina y el Caribe, 2022*. Santiago de Chile: ECLAC.
- Emako, E., Nuru, S., & Menza, M. (2023). The effect of foreign direct investment on capital accumulation in developing countries. *Development Studies Research*, 10(1), 2220580.
- Fajnzylber, F. (1976). Oligopolio, empresas transnacionales y estilos de desarrollo. *El Trimestre Económico*, 43(171 (3)), 625-656.
- Fischer, S., & Thomas, V. (1995). *Policies for economic development* (Vol. 459). World Bank Publications.
- Flor, E., Rivera, J. & Araque, W. (2018). Sostenibilidad integrada de las organizaciones de la sociedad civil en Ecuador: entre la supervivencia y la extinción. *Gobernar: The Journal of Latin American Public Policy and Governance*, 2(3), 7. <https://doi.org/10.22191/gobernar/vol2/iss3/5>
- García, M., Maldonado, G., & Pinzón, S. (2019). The influence of open innovation practices on business performance in Mexican family and non-family SMEs. *Estudios Gerenciales*, 35(153), 370-378. <https://doi.org/10.18046/j.estger.2019.153.3202>
- Ge, B., De Massis, A., & Kotlar, J. (2022). Mining the past: History scripting strategies and competitive advantage in a family business. *Entrepreneurship Theory and Practice*, 46(1), 223-251. <https://doi.org/10.1177/10422587211046547>
- Gómez, J. & Morán, D. (2020). *Estrategias para abordar la evasión tributaria en América Latina y el Caribe: avances en su medición y panorama de las medidas recientes para reducir su magnitud*. Santiago de Chile: ECLAC.

- González, E., Romero, I.; & Padilla, R. (2019). *Buenas prácticas aplicadas en países de América Latina para reducir la evasión por saldos a favor en el IVA*. México: ECLAC.
- González, T. (2005). Problemas en la definición de microempresa. *Revista Venezolana de Gerencia*, 10(31), 408-423. <https://doi.org/10.37960/revista.v10i31.10396>
- González, T., & Córdova, K. (2020). Capacidad dinámica y recursos para la resiliencia en empresas artesanales de cerámica en Jalisco, México. *Cuadernos Latinoamericanos de Administración*. 16 (30). <https://doi.org/10.18270/cuaderlam.v16i30.2919>
- Higgins, B. H. (1992). *All the Difference: A Development Economist's Quest*. McGill-Queen's Press-MQUP.
- Hopenhayn, B., & Rojo, P. C. (1990). Comercio internacional y ajuste. *Desarrollo económico*, 30 (118), 199-220. <https://doi.org/10.2307/3466867>
- INEC (2023). *Registro Estadístico de Empresas 2022. Principales Resultados*. Ecuador: INEC
- 74
- JNDA. (2021). *Plan estratégico institucional 2021-2025*. Junta Nacional de Defensa del Artesano de la República del Ecuador.
- Khan, N., Abedin, Z., & Ghouri, A. (2021). (In) Direct Effects of Customer-Defined Market Orientation on Brand Loyalty through Purchase Intention and Brand Image: A Parallel Mediation Approach. *The Lahore Journal of Business*, 9(2), 79-108. <https://doi.org/10.35536/ljb.2021.v9.i2.a4>
- Law for the Defence of Artisans (1997). *Ley de la Defensa del Artesano*. Registro Oficial N 71 de 23 de Mayo de 1997. Gobierno de la República del Ecuador
- Li, J. (2022). Research on the Development of Intangible Cultural Heritage Traditional Handicraft Education Inheritance and Socialization Inheritance. *International Journal of Frontiers in Sociology*, 4(5). <https://doi.org/10.25236/IJFS.2022.040501>.
- Malgesini, G. (1997). El desarrollo es un concepto polisémico, desarrollo, mal desarrollo y cooperación al desarrollo. *Memoria del Seminario de investigación para la paz*, España: Gobierno de Aragón.
- Marshall, J. (1986). Algunas implicancias del endeudamiento externo. *Estudios de Economía*, 13(1), 1-38.

- McGowan, A. (2021). Mothers and godmothers of crafts: Female leadership and the imagination of India as a crafts nation, 1947–67. *South Asia: Journal of South Asian Studies*, 44(2), 282-297. <https://doi.org/10.1080/00856401.2021.1876589>
- Monje, J. (2014). *La gestión de la asistencia oficial para el desarrollo desde los gobiernos autónomos descentralizados en el Ecuador*. Santiago de Chile: ECLAC.
- Miller, D., & Le Breton-Miller, I. (2005). *Managing for the long run: Lessons in competitive advantage from great family businesses*. Harvard Business Press.
- Narváez, E. (2004). *El sector artesanal, estrategias de comercialización en el mercado internacional*. Ecuador: Instituto de Altos Estudios Nacionales.
- PRE. (2022). Más oportunidades para artesanos ecuatorianos, presidente Lasso anunció medidas que benefician al sector. *Boletín Oficial 596*, Guayaquil: Presidencia de la República de Ecuador.
- Quezada-Torres, W. D., Hernández-Pérez, G. D., González-Suárez, E., Comas-Rodríguez, R., Quezada-Moreno, W. F., & Molina-Borja, F. (2018). Gestión de la tecnología y su proceso de transferencia en Pequeñas y Medianas Empresas metalmeccánicas del Ecuador. *Ingeniería Industrial*, 39(3), 303-314.
- Randolph, R., Alexander, B., Debicki, B., & Zajkowski, R. (2019). Untangling non-economic objectives in family & non-family SMEs: A goal systems approach. *Journal of Business Research*, 98, 317-327. <https://doi.org/10.1016/j.jbusres.2019.02.017>
- Romero, L. (2006). Competitividad y productividad en empresas familiares pymes Una aproximación desde la interacción familia-empresa. *Revista Escuela de Administración de Negocios*, 57, 131-142 <https://doi.org/10.21158/01208160.n57.2006.378>
- Sánchez, J., & Torres, L. (2020). Educación, etnobotánica y rescate de saberes ancestrales en el Ecuador. *Revista Espacios*, 798, 1015.
- Sandry, E. (2017). Creative collaborations with machines. *Philosophy & Technology*, 30(3), 305-319. <https://doi.org/10.1007/s13347-016-0240-4>

Sauvant, K. P., & Hasenpflug, H. (2019). *The new international economic order: confrontation or cooperation between North and South?*. Routledge.

SIR. (2022). RISE: *Régimen impositivo simplificado*. Servicio de Rentas Internas del Ecuador. Link: <https://www.sri.gob.ec/regimen-impositivo-simplificado-rise#datos>

STGISP. (2022). *Convenio Reactívale artesano brinda oportunidades a cerca de 2 millones de emprendedores en el país*. Inmobiliar. Ecuador: Secretaría Técnica de Gestión Inmobiliar del Sector Público. Link: <https://www.inmobiliar.gob.ec/convenio-reactivate-artesano-brinda-oportunidades-a-cerca-de-2-millones-de-emprendedores-en-el-pais/>

Ulcuango, O. M. R., Jumbo, M. A. P., & Flores, C. O. G. (2021). Dependencia del estado ecuatoriano con organismos financieros internacionales en el período presidencial 2017-2020. *Universidad, Ciencia y Tecnología*, 25(110), 65-76. <https://doi.org/10.47460/uct.v25i110.477>

WB (2019). *Marco de Cooperación con Ecuador 2019-2023*. World Bank.

76 Yang, Y., Shafi, M., Song, X., y Yang, R. (2018). Preservation of cultural heritage embodied in traditional crafts in the developing countries. A case study of Pakistani handicraft industry. *Sustainability*, 10(5), 1336. <https://doi.org/10.3390/su10051336>