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ECUADOR WEEKLY REPORT[®]

KEY INDICATORS

For the week of Jun 6 – Jun 10, 2016

Harboring Hopes

DP World, a leading ports operator headquartered in Dubai, this week signed a deal with the Guayaquil Port Authority to build a new deep-water port at Posorja, a rural fishing village within the municipal borders of Guayaquil, Ecuador’s biggest city. The company’s chief executive, Sultan Ahmed Bin Sulayem, pledged to invest an initial \$500m into the project, followed by another \$1bn in the longer run. With a depth of 15 meters, the new port will be able to handle “Post-Panamax”-sized container ships carrying up to 13,000 containers. The contract, the first public-private partnership (PPP) signed under the auspices of the PPP law passed last December, hands DP World a fifty-year concession to plan, build and operate the port. The new port will become operational in 2019, president Rafael Correa said during the signing ceremony in Carondelet.

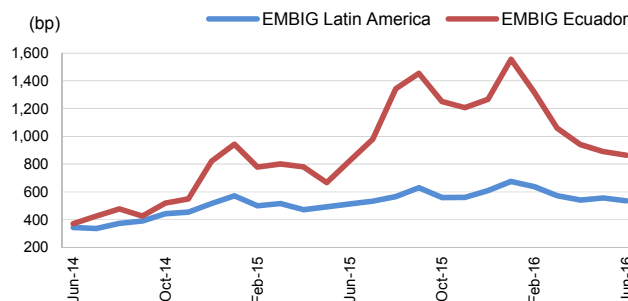
According to Bin Sulayem, the negotiations took some three years to complete, led by Grupo Nobis, a leading Guayaquil consortium with activities in real estate, agro-industry, retail as its local partner (Nobis last year co-sponsored a one-hour travel show, *The Royal Tour*, featuring Correa and broadcast recently on *PBS*). The project is the largest of what appears to be a privatization of the ports system well underway. The government already announced a concession to Turkish ports operator Yilport: Puerto Bolívar, El Oro province, a banana port that will likely soon become the outlet for metals from mines under development along the southeast border with Peru. Under the 2008 constitution, in “exceptional” cases, the government

Ecuador's Global Bond Prices

Bond	Last Price				
	10-jun	May-16	Apr-16	Mar-16	Feb-16
Global 2020	100.03	100.28	95.21	90.54	79.08
Global 2024	89.29	89.44	88.04	82.88	72.81

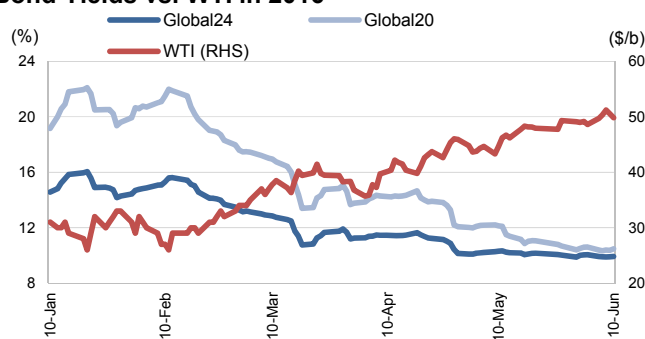
Source: Bloomberg and Analytica

EMBIG Spread



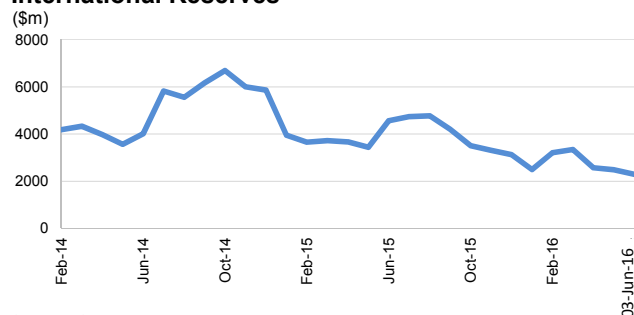
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2016



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

may delegate ports management to the private sector, a term used May 25 by the president to award the concession for the Posorja port. DP World's work will include the construction of the new port, dredging of the access route in the Bay of Guayaquil, and the construction of an access road. Posorja may be part of Guayaquil, but it's 120 kilometers from downtown by road, lying across the bay from the sparsely populated island of Puná. The new port would more than double the handling capacity to 2.5m containers a year; last year, the existing facilities handled 1.2m containers.

For the government, the new concession settles the Guayaquil port issue. As it lies within municipal limits, the opposition-led city government will have less to say against it than in recent years, when the government was considering building the port even further away. Yet no Guayaquil municipal leaders attended the signing ceremony. And the deal went ahead despite opposition from Contecon, the company that has held the concession for the Guayaquil port since 2007. Contecon, according to local media, in April filed an antitrust suit, saying that the terms of the Posorja deal unfairly would bar it from expanding its own capacity. In his speech, Correa said the new port would be allowed to compete with the existing port. At any rate, the 50-year concession is highly unusual: according to the World Bank, these kinds of contracts generally run no longer than 25 to 30 years. But Yilport, too, is to get a similar multi-generation deal.

Golden Star

On June 9, police arrested a former colleague, lieutenant Alexis Cifuentes, under suspicion of corruption, finding him hiding in his lawyer's home. The event follows the sentencing of two former police officers to six and 12 months in jail, respectively, for their roles in a corruption ring inside the national police force. An investigation dubbed Estrella Dorada

(Golden Star) last year had uncovered a scheme under which officers had paid bribes to receive transfers to desired locations, usually close to officers' hometowns. Two more had been sentenced to eight months on May 4. The light sentences stem from the suspects' cooperation. This week's arrest will keep attention on a potentially highly embarrassing case for senior administration officials, but has not rekindled risks of a police mutiny of the kind that erupted on September 30, 2010, that left several dead amid a terribly botched crisis between the president and angry officers.

The case boils down to the system under which officers of the centralized Ecuadorian National Police can request transfers to work in a certain location. To speed up the process, bribes were paid, computer systems manipulated, and bank accounts "lent" to carry out the illicit transactions, Golden Star revealed. Corrupt senior members of the force charged \$1000 to \$2000 for the passes, totaling around \$6 million, in less than a year, deputy interior minister Diego Fuentes said in December 2015. This came five months after Fausto Tamayo, the head of police, had resigned; the interior ministry had announced its investigation the very day that Tamayo left. Including Tamayo, 27 members of the police have been accused of organizing the ring. Cifuentes, one of the ringleaders, was stationed at Carondelet and handed out the passes to officers in restaurants in the historic center of Quito. Prosecutors also tracked the transactions to the police headquarters in north-central Quito as well as the police academy in Pomasqui, a suburb to the north.

For Cifuentes, his arrest marks a steep fall from political graces. He had previously received accolades from the highest echelons of the Correa administration. Cifuentes received a commendation for heroically protecting the president on the fateful September 30, as well as other "distinguished services." Unusually, vice president Jorge Glas was

present at the ceremony under which Cifuentes rose to the rank of lieutenant. Now, he can expect to face trial for his leading role in the scandal. According to news site *PlanV*, as many as 60% of police changed beats between 2011 and 2012, while the internal investigation detected between 2000 and 5000 transfers that went ahead outside the proper personnel office. Serrano said that since 2002, the office overall transferred 10,000 to 25,000 transfers annually, something the executive branch “had to break” due to a lack of oversight. Indeed, one source told us that the simple act of getting a personnel file accepted into the system to be transferred to the popular Mariscal area of Quito could cost \$3000.

The interior minister also made notable comments to describe the investigation. “We determined that the investigation could not be in the hands of just any prosecutor, we needed a prosecutor who would guarantee that the issue would not be delayed or hidden,” he said in a television interview with *Ecuavisa*. After half a decade of a supposed revolutionary improvement of the judiciary, the statement is troubling not just for its continued mistrust in the public prosecutor’s office, led by Serrano’s former mentor, Galo Chiriboga. It also admits a worrying influence of the executive branch in criminal prosecutions. Overall, the interior ministry has fired more than 1000 officers since 2012 amid corruption investigations.

For all the government’s zeal, the case still holds caveats. *PlanV* asks how a police lieutenant was able to run a ring that apparently even included his commander, as well as noting his proximity to Serrano (himself this week decorated by the US for his efforts in the “War on Drugs”) and Glas, the latter potentially a candidate to succeed Correa in the 2017 elections. In video testimony, two accused police officers implicate Serrano in the scheme, adding that money from the sale of transfers went to fund demonstrations by Correa’s political vehicle, Alianza

Pais (sic). The interior minister and Doris Soliz, the movement’s executive secretary, however say that the statements are completely false.

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