

ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Sep 25 – Sep 29, 2017

Siamese Twins

Testimony this week and a suit filed by the attorney general compounded the legal problems faced by vice president Jorge Glas, who steadfastly refuses to acknowledge any wrongdoing regarding corrupt business practices by Brazilian infrastructure firm Odebrecht - even as the company itself has had to admit to them. José Conceição, a former top executive at the firm, this week testified from Ecuador's consulate in Sao Paulo, describing in detail how the bribery went ahead and implicating Glas directly. A day later, Diego García, the attorney general, filed a suit against former company officials but also the public officials and private individuals, i.e. Glas and his uncle, Ricardo Rivera, in the center of a bribery scandal the attorney general presently estimated at \$40m, well above the \$33.5m first acknowledged by Odebrecht in its international plea bargain close to a year ago. The presentation of evidence is due to end in the coming days, during which the pressure on prosecutor general Carlos Baca to accuse Glas of bribery and money laundering, rather than the misdemeanor of criminal conspiracy of which he is accused now, can only grow.

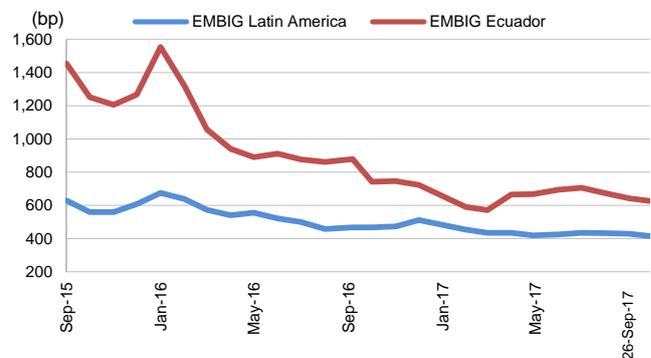
In his testimony, Conceição provided detailed information on whom he had bribed and how much he paid. Odebrecht had initially managed to reduce the bribes to obtain contracts to 1% from the 4% asking fee by administration officials under Rafael Correa (president 2007-2017), though this later increased to 1.3%. Bribes went to allow Odebrecht to return to

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)						
	29-Sep	Aug	Jul	Jun	May	Apr	Mar
Global 2020	108.03	107.39	106.12	105.83	105.58	107.50	106.65
Global 2022	111.77	110.05	108.20	106.83	107.41	108.63	106.66
Global 2023	103.39	102.34	100.12	98.55	-	-	-
Global 2024	99.14	98.22	95.60	93.52	95.05	95.58	94.57
Global 2026	105.60	105.25	102.56	100.71	101.11	102.29	103.92
Global 2027	105.01	105.01	102.19	100.30	-	-	-

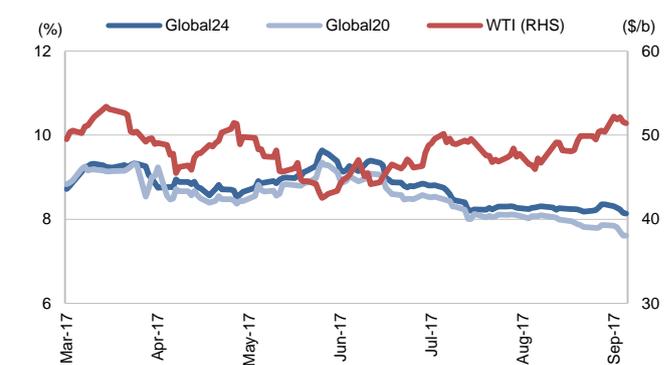
Source: Bloomberg and Analytica

EMBIG Spread



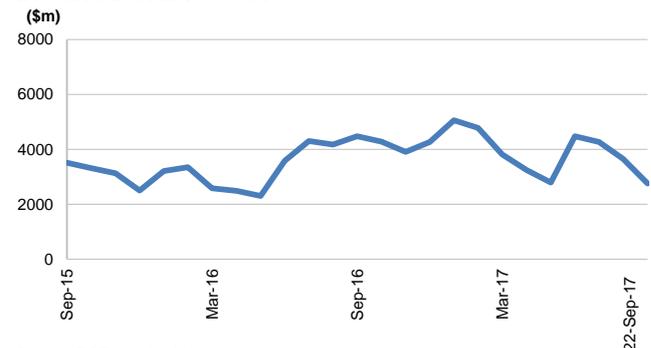
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

Ecuador after Correa and Glas “expelled” the company in a dispute over quality of construction at the San Francisco hydroelectric plant near Baños, and then to receive multiple contracts. Conceição named a series of high-ranking officials that critics of the regime had long associated with alleged corruption, including Correa himself, his legal advisor Alexis Mera (the first time Mera is mentioned in conjunction with a bribe), former strategic sectors minister Rafael Poveda, and two people who have left Ecuador, former comptroller Carlos Pólit, allegedly the recipient of at least \$6m for issuing favorable audits, and legislator Esteban Albornoz, a former electricity minister who in recent days left Ecuador for Spain. The former has been in Miami for more than a year; it remains to be seen whether the latter will return. Shielded by Albornoz or Poveda, Conceição met Glas at the vice presidency, a neoclassical building abutting the presidential palace, two or three times a year. Turning up music, Glas would ask if payments had been made via the screen of his iPad, Conceição said.

The Brazilian mentioned five major contracts that Odebrecht had won thanks to the bribes, which resulted in the company receiving detailed information on the tenders before they were made public: the Pascuales-Cuenca multipurpose pipeline, recently blasted by oil minister Carlos Pérez for shoddy work, the Daule-Vinces irrigation system, the Manduriacu hydroelectric plant (both of these experienced massive cost overruns), and two contracts associated with the failed refinery project near Manta. Others remained unnamed. The testimony potentially took the case forward significantly as it provided further links as to how closely Glas worked with his uncle, Ricardo Rivera, under house arrest as a senior citizen since the prosecution secured around \$13m in his banking accounts in June. Glas, who together with Rivera founded broadcaster TV Satelital, first insisted they were estranged but has had to gradually acknowledge closer relations with him. Glas’s

comments remain contradictory: he insists that Conceição’s testimony is worthless because of his corrupt actions, but without them, his accuser could not be called corrupt, thereby lending strength to those accusations, including calling Glas and Rivera “Siamese twins.”

Prosecutor general Carlos Baca, a former legal aide to Correa on a first-name basis with Glas, said that the testimony helped to tie up loose ends, reaffirming the prosecution’s accusation of criminal conspiracy. Critics continue to accuse Baca of seeking a comparatively mild sentence. Still, Glas could face an arrest warrant as the accusations and body of evidence grow, and the definition of which crime he committed, if found guilty by the top court, will be up to the sentencing judges. At the same time, the dissatisfaction with Baca could contribute to the desire of voters to back president Lenín Moreno’s referendum, if the questions he will unveil next week include a mechanism to remove the dubious officials at the top of judicial and regulatory bodies (see below). By acting now, attorney general García is likely to want to defend his record in the case. In the longer run, this might be difficult: his office in October 2010 signed off on the \$20m officially paid by Odebrecht to end the dispute over San Francisco, paving the way for the Brazilians to come back to Ecuador swinging.

Legal Beagle

A trove of e-mails made public by Venezuelan journalist Patricia Poleo recently highlighted the interference of then-president Rafael Correa in the judiciary, with Gustavo Jalkh, head of the Judiciary Council, an administrative board overseeing judges, at the receiving end. Jalkh spoke in congress this week, not before the plenary, where opposition legislators could have grilled him, but in the protected space of the judicial committee, presided by Marcela Aguiñaga, a hardline correísta. The hearing centered on the firing of judges by the body Jalkh leads using a

reason called "inexcusable error." The e-mails at the source of the most recent controversy however go well beyond this.

In 2011, through a narrow victory in a referendum in which serious questions over its cleanliness have never been resolved, Correa obtained the right to, as he himself said at the time, "put his hands in the judiciary," ostensibly to improve it. In this, Correa was more successful than some of his presidential predecessors, who had sought to impose control over the courts; the previous such attempt, by Lucio Gutiérrez, cost him his job in 2005. The famous Spanish judge Baltasar Garzón, who sought to have former Chilean dictator Augusto Pinochet extradited to Spain, expressed doubts over the procedure when asked to be an international witness to the procedure, which invested heavily in new infrastructure - inevitably leading to cost overruns and further discoveries of corruption down the line (Guayaquil newspaper *Expreso* has already revealed some this week) - and established the authority now run by Jalkh, a lawyer and previous Correa interior minister. A major independent review had already established that the summary dismissal of judges for "inexcusable error;" then as now, Jalkh defended the rule as an instrument that helped to purge the courts of bad judges. In his statement, he mentioned several cases as proof. Indeed, one of the reasons that Correa was able to get away with his impositions was the poor state of the courts, both regarding its physical composition and, as correístas would say, "the state of human talent" there. Still, one of the dismissed judges, Richard Proaño, says that he was fired because he ruled against Ricardo Rivera (see above) in an alimony case.

And the mention of some cases doesn't prove the proper running of the system as a whole. Similarly, the electoral council in 2014 dismissed a third of the 800,000 signatures collected by environmentalists trying to force a referendum on a major oilfield but only presenting a handful of proof to discredit them.

The e-mails, meanwhile, regard open discussions of individual legal cases between Correa, Alexis Mera, and Jalkh, as well as justice ministers at the time - 119 pages of them. Jalkh said they were inadmissible as evidence in an eventual impeachment, which opposition legislators are demanding, since the "alleged" e-mails were stolen, thereby validating them as real (of course, when the revelations came from Wikileaks leader Julian Assange, Ecuador supported them). Jalkh arrived at the congress in the company of employees of the judiciary, while police kept former judges who demanded to be heard outside the room. More publicly, Jalkh has unleashed a major advertising campaign to push public opinion in his favor, ostensibly with funds from the judicial council. To many, this is only serving to diminish his reputation as a former legal reformer even more. Instead of embarking on this last propaganda blitz, Jalkh should have considered that Carlos Pólit (see above) tried the same game only to be revealed as a central figure in the Odebrecht corruption scandal.

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