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**ECUADOR WEEKLY REPORT®**

**KEY INDICATORS**

**For the week of Jun 18 – Jun 22, 2018**

**Brothers in Arms**

Former president Rafael Correa (2007 – 2017) is becoming major news again. As expected, a judge this week linked him to the 2012 attempted kidnapping of opposition activist Fernando Balda in Bogotá (EWR895), ordering him to present himself before the National Court in Quito every two weeks starting July 2. Aside from the inconvenience of the measure – after all, he lives in Belgium now – it is clear that he will face trial, facing a seven-year sentence if found guilty. Also this week, an Argentine investigator, Roberto Meza, gave evidence to the prosecutor general’s office about a key document in the investigation of the 2010 murder of air force general Jorge Gabela.

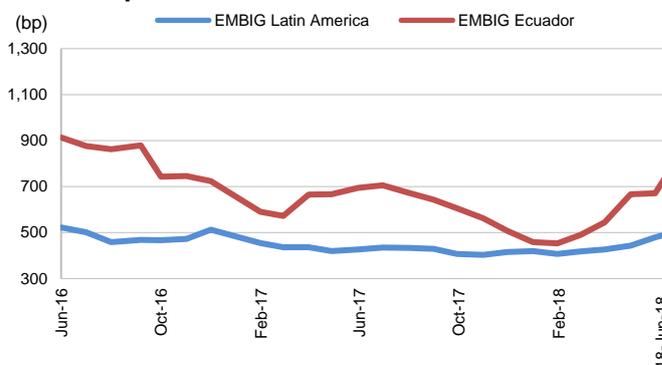
Gabela strongly opposed the 2008 purchase of seven Indian-made Hindustan Aeronautics Ltd. (HAL) Dhruv helicopters by the defense ministry. He twice blocked the deal, only to be overruled within the ministry and then fired by Correa. In December 2010, he was shot at the entrance of his home in Guayaquil after his daughter cried for help, attacked by men who had followed her by car into the gated community. Gabela died of his injuries 10 days later. The criminal investigation found that the murder was a “common crime” amid a robbery attempt. Police arrested five, who were tried and in April 2012 found guilty, three for the murder and two for attempting to cover it up.

His family, led by his widow, Patricia Ochoa, never believed the theory that the trail stopped here. In a leaked recording of a phone call, Gabela complained about being followed by military intelligence, blaming

Bond	Last Price (end of the month)						
	22-Jun	May	Apr	2018	Feb	Jan	2017
Global 2020	103.28	104.12	103.10	108.42	108.75	109.98	110.94
Global 2022	103.89	105.36	105.54	111.06	113.07	116.32	117.48
Global 2023	95.48	97.75	97.89	104.68	106.64	110.12	110.67
Global 2024	91.10	94.06	94.11	100.70	102.06	106.04	106.60
Global 2026	95.53	99.08	98.50	107.37	110.44	114.40	115.03
Global Jun 2027	95.01	98.70	98.11	107.08	110.35	113.76	114.73
Global Oct 2027	90.84	94.49	94.36	102.19	105.58	109.17	109.90
Global 2028	85.64	88.66	88.53	96.76	99.23	102.04	-

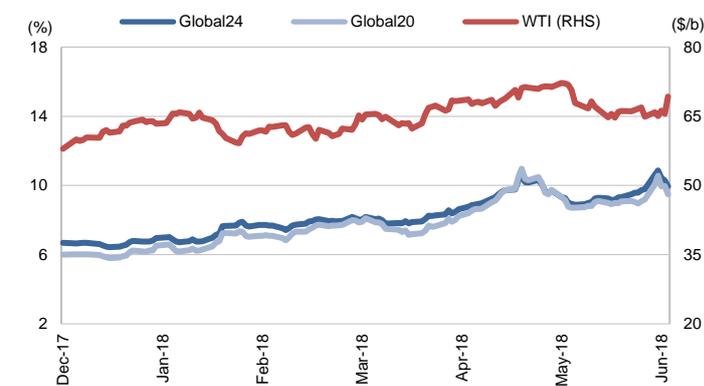
Source: Bloomberg and Analytica

**EMBIG Spread**



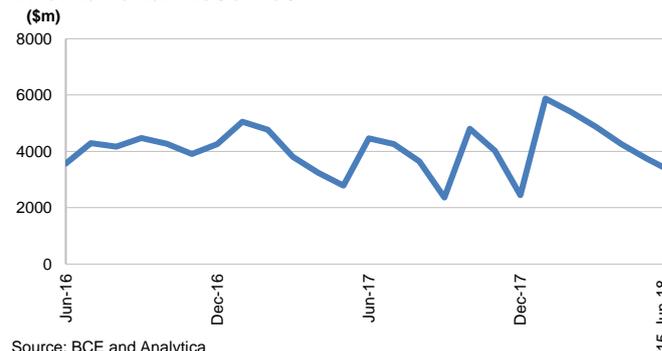
Source: JP Morgan and Analytica

**Bond Yields vs. WTI**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

another air force general, Alonso Espinosa, for ordering the surveillance. If anything should happen to him or a family member, it would be the air force's fault, he said. In response to the family's pressure, Correa created an intergovernmental committee including the defense, security, interior, and justice ministers, which hired Brazil-based Meza to carry out an independent inquiry. He handed his three-part report to the committee in July 2013.

Meanwhile, the \$45m helicopters fell out of the sky. The four crashes killed four people and injured 11. At least two were due to mechanical failure. The government unilaterally rescinded the contract. HAL said that it had complied with contracts and said that Ecuador's air force had to provide maintenance. The *Times of India* however mentions the craft's "patchy-track record in India," including at least 18 crashes since 2002. The government said it fully recovered its expenses. News reports have continued to provide information on Gabela's murder. The new prosecutor general, Paúl Pérez, has picked up the ball dropped by the judicial investigation his predecessors left unfinished. At least one of them, Galo Chiriboga, has had to testify. Among other witnesses, Jéssica Jaramillo, a former top official at the justice ministry, whom Pérez called to testify, and Lenín Lara, the justice minister of the time and currently the mayor of Esmeraldas. The contents of the third part remain confidential and unpublished and may have been destroyed; the comptroller general's office, which has confirmed government payments for the reports, has been unable to find it.

Meza said that he also doesn't have another copy of his review, having handed everything to the committee under terms of the contract. What he did say is that the findings of the interinstitutional committee were not those that he handed in. They were substantially abbreviated and lacked his signature, as well as not having the pages initialed. The mutilation and the finding, confirming the ordinary crime theory, were not his, Meza said. Ochoa,

Gabela's widow, accused her husband's unnamed military comrades of having ordered his murder. Aside from the question of Correa's possible complicity in the alteration of the document and potential cover-up operation, other officials still in public office like current president Lenín Moreno's legal secretary, Johana Pesántez, and future president of the United Nations General Assembly María Fernanda Espinosa. In October of 2016, Correa said that the decision to buy the choppers was "a good decision with bad luck." That allegedly good decision now haunts him, and several others.

### **Quito, Adrift**

Mauricio Rodas recently announced that he would not run for reelection as mayor of Quito next year. The decision puts a sunset date on a political career that, given his performance at the helm of the capital, will be a mercifully short single term, and condemns his SUMA political movement to foreseeable disappearance from the political scene. At the same time, his inability to revert the incompetence of his Correísta predecessor means that Quito has experienced a decade of mismanagement that leaves its residents unsure of their city's way forward. The truth is all the more grating considering that this year marks the 40<sup>th</sup> anniversary of it having been named, together with Cracow, the first UNESCO World Heritage City.

Rodas had a lot going for him. Swept into office with two thirds of voters, he had a mandate for major change. Rodas has said that his victory was the start of the rollback of Correísmo. To some extent, Correísmo's collapse in the local and regional elections of 2014 indeed marked the turning point for the fortunes of the "pink tide" of leftwing populism in Latin America, followed by opposition victories elsewhere. But it was the voters, not Rodas, who inaugurated that change and he either through ignorance or willfulness failed to get the memo. For him, his politics were somehow postmodern third-

way, neither left nor right, that of a technocratic, results-oriented, non-opposition leader. To keep the city going, he promised local bureaucrats he wouldn't fire them, even after his predecessor, the unloved Augusto Barrera, had bloated the civil service.

This pragmatism failed to get anywhere. The anti-Correa tide that voted him into office expected at least a dignified arms-length distance from the president, who resided across the street from the mayor's office on Independence Square. Rodas failed, stupidly dancing in conga lines at parties held at the presidential palace that both lacked dignity and disgusted critics incensed at the waste of public money. This failed to endear him to the president. Correa dangled funding money for the underground rail project that Rodas inherited from Barrera, perhaps leading Rodas to think that he would get it derailed if he showed himself to be true opposition. Instead, Correa thought he was weak, and bullied him through the hardline Correístas in the municipal council. Rodas is not alone there. Cuenca's mayor Marcelo Cabrera provided a similarly poor performance, also because of problems with a public transport project, a tram in the historic city. Neither of them learned a single thing from Guayaquil's conservative populist Jaime Nebot of the Social Christian Party, who was able to extract significant government funds from Correa yet retained popularity and got credit from voters for modernizing the port city.

In Quito, projects other than the subway largely failed to materialize and remained isolated. Two underpasses at an avenue in north-central Quito has done little if anything to solve traffic there. A roundabout near the city's northern fringe at Calderón meanwhile has alleviated a chronic problem, but failed to really solve it. Rodas completed a major road connecting that area with the highway to Ecuador's northern coast, but this is so poorly designed that it has pedestrian crosswalks and speed bumps that makes its function as a speedway ridiculous. Other high-profile projects including planned cable-car

public transportation to steep hillside neighborhoods flopped, while they are beginning to become staples in major Latin American cities, having been built in cities as different as Medellín, Rio de Janeiro, and La Paz.

This points to what may well have been Rodas's biggest failure: lack of administrative capacity. Several of his allies in the city council abandoned him, raising their political profile in due course. Citizens fail to see improvement. Rodas ignored problems with municipal services until he faced massive blowback because of incompetent refuse collection. The city's sidewalks are still crater-ridden traps for pedestrians, while the roads are so potholed that Quito drivers are surprised at the quality of paving elsewhere in the country. Buses continue to be a public hazard as much as they are public service. Rodas has also been unable to convincingly distance himself from serious corruption allegations within his administration. In a column for opinion news site *4Pelagatos*, FLACSO university political scientist Santiago Basabe said that Rodas's decision to drop out of the race was only his latest blunder. Amid a lackluster but crowded field of potential candidates for the local election early next year, he said that Rodas might even have had a chance for reelection. For the good of Quito however, Rodas's early retirement from politics is the best option.

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