

ECUADOR WEEKLY REPORT[®]

KEY INDICATORS

For the week of Mar 13 – Mar 17, 2017

Odebrecht, Overdue

Only in Venezuela and Ecuador have the judiciaries yet to disclose the names of people involved in the scandal triggered by corruption acknowledged by major Brazilian construction firm Odebrecht in the Americas and Africa. Prosecutor General Galo Chiriboga has insisted that his office is doing all in its power to bring those at fault to justice. But while this to some extent counters the official government stance that nobody in the Correa administration is to blame, newspaper *El Universo* this week however broke news that this is completely false. Almost two months ago, Odebrecht offered Chiriboga a comprehensive deal to offer information and repair the damages.

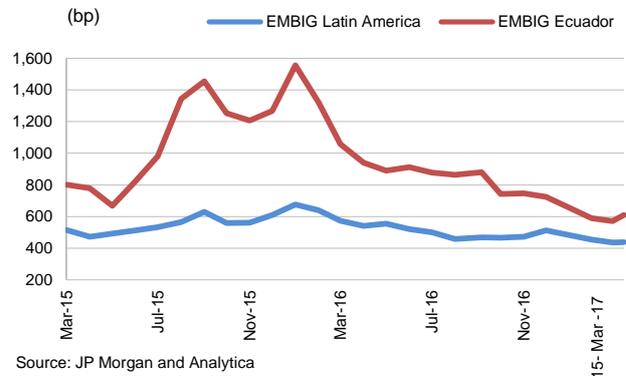
According to the Guayaquil newspaper, the company on January 21 in a document said it would hand over the “the same information presented before Brazilian and U.S. authorities” and pay back the country for the damages as it tries to restore its tarnished international reputation. In the case of Ecuador, it has admitted paying an unnamed Correa administration official \$33.5m to be able to settle a dispute over a power plant, earning more than \$116m illicitly thanks to the transaction. The document cited by *El Universo* also says that the company set terms for a deal that include protection from prosecution of individuals already implicated in cases in Brazil and “continuity of the contracts” the company still has in Ecuador. While the administration says that the only remaining contract is that of the Quito underground metro rail, a judge has blocked \$40m in payments still

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)						
	17-Mar	Feb	Jan	Dec	Nov	Oct	Sep
Global 2020	109.63	110.18	109.52	107.89	105.54	106.13	102.51
Global 2022	110.28	111.82	112.25	108.81	104.94	106.11	102.47
Global 2024	99.12	100.41	99.07	95.92	92.15	94.55	90.25
Global 2026	107.20	108.65	105.96	102.50	N/A	N/A	N/A

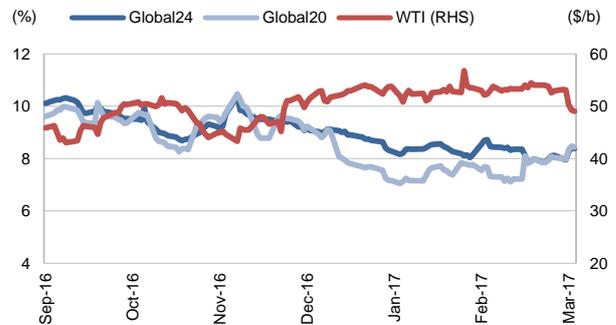
Source: Bloomberg and Analytica

EMBIG Spread



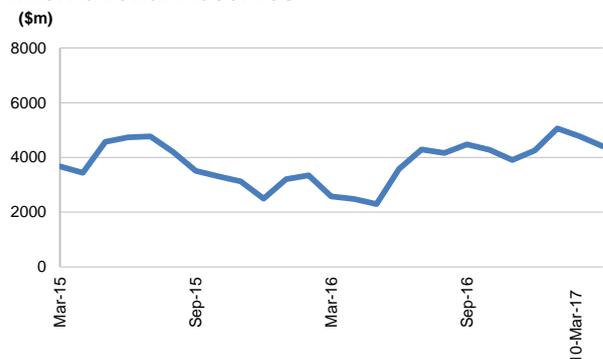
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

outstanding to Odebrecht for work done here.

While the government is desperate for cash - unable to pay up numerous debts owed public institutions and public-sector retirees without issuing IOUs - it appears even more desperate to keep the most likely official to appear on the list of beneficiaries of Odebrecht bribes out of the limelight amid the presidential runoff campaign (the vote will be April 2 and serious poll data looks bad for Lenin Moreno, Correa's former vice president). Opposition politician César Montúfar this week however demanded Chiriboga investigate Moreno's running mate, current vice president Jorge Glas, for his role in the scandal. "If there's one name, one person, one personality, a government official in charge of ... most of the contracts that Odebrecht signed... this person is the vice president of the republic," Montúfar said this week.

On his part, Chiriboga has said that negotiations with Odebrecht indeed exist and that he expects to obtain the names of people bribed by Odebrecht "before June," well after the election and potentially also after Correa's term expires May 24, giving any officials time to prepare to flee the country, just like former oil minister Carlos Pareja and former central bank president Pedro Delgado did, as well as most managers at Petroecuador implicated in the corruption scandal there. While the criminal matter has been largely resolved, the issue of financial indemnity remains unresolved, according to Chiriboga. Differences in time compared with other countries like Peru and Colombia stemmed from the fact that whistleblowers there provided prosecutors with information, which hadn't happened here. "Our work doesn't coincide with media or or political time frames, issues of judicial investigations have their own logic," Chiriboga said in a television interview with *Ecuavisa*. Sadly, *El Universo's* scoop clarifies that political logic is indeed the driver behind the Ecuadorian prosecution. Another corruption scandal, the case of the Caminosca engineering company

accused of bribing public officials, has yet to be taken up by the prosecution other than investigating a journalist who reported on the story for newspaper *Expreso*, despite evidence going back to 2015 (reports point to vice president Jorge Glas and former electricity minister Esteban Albornoz, recently elected legislator; both deny the charges).

This has also become clear behind the procedure to find Chiriboga's replacement. The 2008 constitution shifted the naming of top state officials to a new, unelected body called the Citizens' Participation and Social Control Council (CPCCS) that, as critics had warned at the time, became staffed with people close to the government. These in turn designed competitions for the positions that have steadfastly again favored people linked to Correa, like Chiriboga, earlier Correa's personal lawyer in a controversial lawsuit that the president won against Banco Pichincha and then his oil minister before becoming prosecutor. Now, Carlos Baca, a lawyer who worked as closely with Correa is poised to become anointed to succeed Chiriboga, thanks to the near-perfect score he obtained in the CPCCS test that lists work for the government as top credit for official positions. Baca led a commission that investigated the September 30, 2010 police protest that, violently managed by the government, spiraled into a bloody extraction of Correa from a police hospital during prime time viewing hours. As Correa said within hours of the incident, Baca's commission found that it was an attempted coup, rather than a bid to keep certain privileges, as protesting police insisted. Before deleting his account, Baca trolled opposition critics on Twitter, and could be even more "unconditional and obsequious" than Chiriboga, journalist Martín Pallares wrote in a column on news portal 4Pelagatos. Another site, UbicaTV, calls him a "fanatical correísta."

On his part, Correa this week said that "Carlos Baca is a top-rate jurist. He's worked with our government, which makes us proud... What's the

problem? That no-one from the opposition is winning” Correa added that “the prosecutor general in the United States is designated directly by the president,” ignoring the fact that the U.S. Attorney General has a different role as a cabinet member and requires confirmation by the U.S. Senate. Correa is counting on Baca to protect his legacy from the fast accumulating body of evidence of corruption and other potential crimes. Whether Baca will be able to keep his finger in the dike under an administration led by Guillermo Lasso, the conservative opposition leader who looks like the frontrunner to succeed Correa after the April 2 presidential vote, is however questionable.

Fake News Factor

The presidential campaign officially fell into a three-week lull until March 10, and since then, voters have had little guidance from reasonable sources like Cedatos, which has published just one opinion poll since the first round on February 19. Cedatos at the time said that 52.1% of the 2,862 people polled in a simulated ballot favored conservative Guillermo Lasso and 47.9% Lenin Moreno, formerly president Correa’s vice president (2007-2013), with 81% already having made their decision. Since the election, Lasso has obtained the backing of three of the four other candidates who obtained more than 3% of the votes each in the first round. While that doesn’t make him a shoo-in, it has led to increased mudslinging by the Moreno ticket and publication of highly dubious polls and blatantly false claims that have confused some observers.

In a review published this week, London-based *Latin News* said that poll data published after the Cedatos poll implied an easy win Moreno. The long-running newsletter, a key overseas source of weekly news on the region before the advent of the internet, headlined that “Moreno pulls clear of Lasso” despite acknowledging that the recent polls, both commissioned by government mouthpiece *El*

Telógrafo, lacked Cedatos’s prestige. The first firm, Diagnóstico, had not even published a poll before March 2, the other, Perfiles de Opinión, has over the years consistently released data favorable to the presidency. The latter on February 8 put support for Lasso at 16%; 11 days later, according to the official electoral data, he obtained 13 points more. Yet swayed by these pollsters, *Latin News* understood that the electorate has been receptive to the attacks on Lasso as a former banker, citing the March 8 pro-government rally in Quito that, like so many others in recent years, passed ingloriously.

Latin News argues that Moreno the polls we question has won adherents thanks to Moreno’s promises to review some unpopular laws and policies, including the 2013 media law critics call the “gag law” for its tough and discretionary control over newspapers and radio and television broadcasters. It also interprets Lasso’s calls for constitutional reform to cut through the Gordian Knot of correísmo as a pledge that threatens social services popular with Ecuadorians. We consider this an interpretation too strongly aligned with the fear campaign espoused by Correa and Moreno that claim that Lasso wants a wholesale privatization, and by extension dismantling of social services. Moreno has made use of false and even ludicrous information to attack Lasso as a heartless banker, claiming that he was responsible for the 1999-2000 financial crisis, expelling “millions” to seek work overseas and taking “the sacrifice of millions of Ecuadorians” to offshore tax havens. Meanwhile organizations including Universidad de Guayaquil, Amazon indigenous organization CONFENIAE and even the Catholic Church have denied documents published by the campaign, social media accounts, and *El Telógrafo*. The Church said that Pope Francis has never made statements telling the faithful not to vote for a rich politician, by extension multimillionaire Lasso. While the government has been happy to have foreign individuals comment favorably on Moreno and

Correa's track record here, it barred Lilian Tintori, the wife of Venezuelan opposition politician and political prisoner Leopoldo López, from entering the country. Deputy interior minister Diego Fuentes argued that she was rightly sent back because she was going to illegally interfere in politics.

Meanwhile on the streets in Ecuador, signs of discontent have been strong as Correa's non-stop campaigning has been met with frequent reports of him picking fights with small groups of dissenters including in Machala, where he confronted people in a small restaurant, and in Ventanas, where he threatened to close a hospital after people complained about poor services. With the 2016 Latinobarómetro poll putting Ecuador in last place in its ranking of freedom of speech, with just 34% saying that Ecuadorians are free to say what they want, the "silent majority" points to a favoring of Lasso, not Moreno. Immodestly, we'd like to remind readers that we were correct in predicting the runoff between Lasso and Moreno, and at this time we still favor a victory of the former on April 2. Hopefully, serious opinion polls will emerge that give further clues into whether voters are buying into the government scare tactics or convinced of the need for change.

The editorial board of Analytica Investment's Ecuador Weekly Report publishes information obtained from expert sources, public information and media reports, and documents. Anonymity of interviewed sources is protected.