



Ramiro Crespo
 Chairman of the Editorial Board
 WEEKLYREPORT@ANALYTICAINVESTMENTS.COM

ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Jun 5 – Jun 9, 2017

Odebrecht Outbreak

Last week, the investigation into the Ecuadorian angle of the Odebrecht corruption scandal slammed the new administration. One June 2, the public prosecutor’s office arrested six people and searched homes and offices in Quito, Guayaquil, and Latacunga. The most prominent target was comptroller general Carlos Pólit, who now faces impeachment. But vice president Jorge Glas’s seat also looks shaky; he has called the latest scandals a “coup attempt.”

In its plea bargain with US, Brazilian, and Swiss authorities, construction firm Odebrecht acknowledged to have paid at least \$33.5m in bribes to an Ecuadorian government official. From its illegal activities in Ecuador, it obtained at least \$115m in benefits from public contracts during the time Rafael Correa (Alianza Pais [sic]) held the presidency, it said. Outside Ecuador and Venezuela, top current and former officials have faced arrest. Previously, official policy was to refuse a plea bargain with the company, including a guarantee that an official tried in Brazil wouldn’t be tried in Ecuador for the same crime, because this would permit impunity. Therefore, in Ecuador, only one leading official, former electricity minister Alecksey Mosquera, has been jailed. He was arrested due to testimony from an Odebrecht official under arrest in Spain that he received a \$1m bribe from the company linked to the (currently stalled) Toachi-Pilatón hydroelectric project.

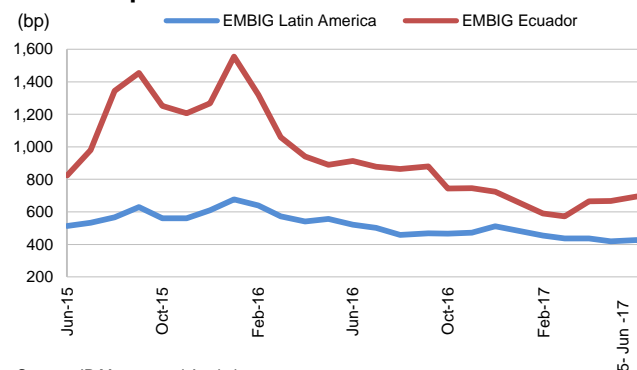
This happened before an embargo on the release of judicial information in Brazil ended on June 1. That

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)					
	9-Jun	May	Apr	Mar	Feb	Jan
Global 2020	105.32	150.58	107.50	106.65	110.18	109.52
Global 2022	107.32	107.41	108.63	106.66	111.82	112.25
Global 2024	94.64	95.05	95.58	94.57	100.41	99.07
Global 2026	101.28	101.11	102.29	103.92	108.65	105.96

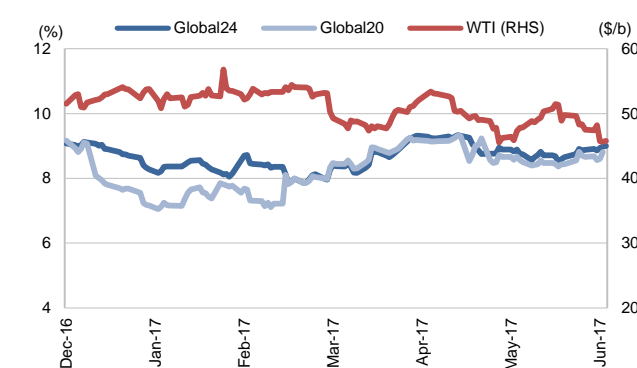
Source: Bloomberg and Analytica

EMBIG Spread



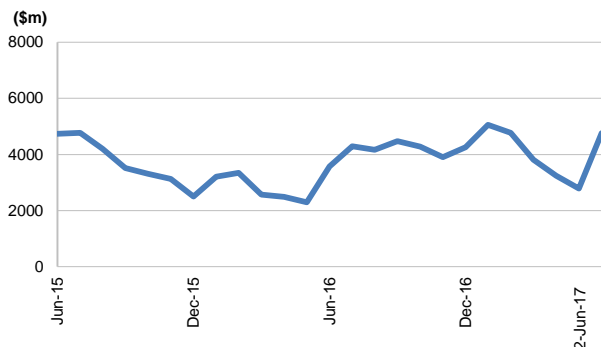
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

day, Carlos Baca, the new prosecutor general, met Brazilian peers in Brasilia and, according to president Lenin Moreno (AP), immediately spoke to him about the revelations. Moreno said that he had given him his support (a sad acknowledgment regarding the state of judicial independence in Ecuador), and the arrests went ahead while Baca flew back to Quito. Public contracts mentioned in the prosecution's investigation include hydroelectric power plant Manduriacu; the non-existent Manta refinery, whose terrain it flattened and to which Odebrecht built a massive aqueduct; a multi-purpose Guayaquil-Cuenca pipeline; and the Daule-Vinces hydrology project. Government officials boast of these works as proof of efficacy in governance. Yet the company bribed its way to all of these contracts, according to the prosecution's evidence.

Police searched a house of Pólit in Guayaquil as well as his suite in Quito's Swissotel as he is suspected of forming part of a network of corruption linked to Odebrecht. Like other officials indicted in past years, he was already in Miami at the time, in his case thanks on a 60-day medical leave that began just after Moreno's inaugural. Previously, via Twitter, former oil minister Carlos Pareja from his own Miami exile had accused Pólit and other officials of the comptroller's office of receiving cash bribes at the hotel to clear reviews of public contracts. On his part, Pólit denies wrongdoing. Instead, his lawyer said that he had incriminating evidence on Baca, a longtime Correa aide.

Both Baca and Pólit are recent appointees by the Citizens' Participation and Social Control Council (CPCCS), a Venezuela-inspired unelected panel tasked with picking top officials and fighting corruption, but stocked with people close to AP. In Pólit's case, he won reappointment to a third-straight five-year term. After the accusations launched by Pareja, Pólit had defended himself by saying that he had collected evidence on some 2,000 corruption cases, only to languish in the public prosecutor's

office under Baca's predecessor, Galo Chiriboga. The AP majority in congress has however sided with Baca and announced its intent to impeach Pólit once he returns from Miami (it's unlikely that will ever happen).

In the case of the vice president, however, it has protected him tooth and nail. Glas has drawn fire thanks to the arrest of his uncle Ricardo Rivera in conjunction with the Odebrecht case, accused of receiving at least \$13m for helping the company get contracts. Rivera represented Glas in a meeting with Chinese officials there, even though he held no public office at the time (Rivera does have a long track record of conflict of interest under Correa in the television and telecommunications industries). In January 2015, legislator Andrés Páez had accused Rivera of receiving a suspicious \$17.44m, but prosecutor Chiriboga failed to act.

Once again, as in the case of his father, convicted of raping a schoolgirl, Glas claims he was estranged from his relative, as well as denying any wrongdoing. He says he will not resign. In a lengthy radio interview this week, he spoke about the Odebrecht case. He said that the company had been furious about its "expulsion" in 2008 amid the scandal over the shoddily-built San Francisco power plant. Indeed, the conflict led Brazil to temporarily withdraw its ambassador from here, but ultimately, all charges were dropped. From the timing, it's certain that this was the bribery case Odebrecht acknowledged to the U.S. Department of Justice, given that it was the lone public conflict. Glas said that Marcelo Odebrecht, the chief executive who ran the company while it bribed its way through Latin America and parts of Africa, himself had visited him to suggest a bribe for the plant. Glas said that he practically threw him out of the office with kicks and pushes. He added that he had never participated in any contract procedure and that, if necessary, he would appear before the congressional oversight committee.

No need, said the congress, with the AP majority blocking opposition motions to force Glas to keep his

word. But the scandal won't end there, given the congress's approval of Pólit's impeachment. Baca says he is looking for more evidence in Brazil, the media will do its part, and Moreno has said there would be more arrests. Brazilian newspaper Folha de Sao Paulo said that Correa had received illegal campaign financing. Stung by the scandal and on the defensive, Correa has taken to Twitter and government-mouthpiece newspaper *El Telégrafo* to boast of his own contributions in the fight over corruption. At this time at least it looks like he may be fighting a losing battle. "You're nothing more than a crook with access to Twitter," a young man on the social network told him.

Between Scylla and Charybdis

On June 1, the Alianza Pais (sic) majority of Ecuador's National Assembly voted against asking U.S. and Brazilian officials directly for information regarding the Odebrecht corruption scandal (it also requested a bid to overturn a pardon by then-president Correa for a state banker jailed for corruption). The next day, María José Carrión (AP), president of the oversight committee, said AP would start collecting signatures to expel Odebrecht from Ecuador. Less than a month into its current term and with Odebrecht not the only hot potato it's handling, the legislature already faces a crisis.

Of course, corruption is the primary concern given the imminent threat to top leaders of the so-called "Citizens' Revolution" proclaimed by Correa in 2007. Many of them, including the president of Congress, José Serrano, Marcela Aguiñaga, Viviana Bonilla or Esteban Albornoz are now AP legislators. Regarding Odebrecht, the AP majority has taken the following stance: The company is wholly to blame for corrupting local citizens, and they voted to "expel it" from Ecuador, at least this time demanding it first return the money obtained illicitly. A committee will travel to the U.S. and Brazil to request information from judicial sources directly. Four of them will be from AP and its

allies; the remaining three include two opposition conservatives and Wilma Andrade, a social democrat who tacitly supports the government. While comptroller Pólit faces impeachment, the congress wants Baca to report on the investigation. Additionally, it wants the CPPCS to explain why it picked Pólit and what it has done to fight corruption (it has done nothing). People found guilty of corruption may be barred to hold public office.

For AP, the investigation must include all activities Odebrecht has carried out since 1987, the year it first received contracts here. This continues the strategy established under the previous administration, which sought to accuse individuals from earlier governments as the original sources of corruption. But any criminal investigation into bribery that happened before 1998 falls under a statute of limitation. Additionally, Glas faces accusations not just related to Odebrecht. Jeannine Cruz, a legislator for conservative opposition party CREO, demanded the prosecution include Glas and legislator Esteban Albornoz (a former electricity minister) for alleged corruption linked to the scandal regarding Caminosca, a technical auditor. It will be impossible for AP to douse the multiple scandals.

Some local observers see a chance that Serrano, sensing an opportunity to succeed Glas should the current vice president have to resign, might seek a deal with the president. But Moreno himself handed AP, which only holds a majority thanks to gerrymandering back in 2012, another problem. He recommended amnesty for individuals arrested in demonstrations in recent years. Umbrella indigenous organization CONAIE handed José Serrano, a list of close to 180 people for that amnesty. For Serrano, the request poses a prickly problem given that he led the interior ministry with an iron fist during those years. While people in the opposition say the list falls well short, failing to include several individuals who have suffered criminal charges for political reasons (including journalist Fernando Villavicencio and two

former legislators, Cléver Jiménez and Galo Lara), the issue holds enough dynamite to risk causing an open rift inside AP or between Moreno and Serrano.

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.