

**ECUADOR WEEKLY REPORT®**

**KEY INDICATORS**

**For the week of Sep 11 – Sep 15, 2017**

**Smoking Pen Drive**

Last June, at age 85, Dora Garaicoa received a three-year jail sentence for money laundering after the court ruled she couldn't explain the \$51,690 and EUR650 found at her home in a police raid last November (her defense argued the prosecution hadn't proved the funds were illegally obtained). As mother-in-law of former oil minister Carlos Pareja, the prosecutor's office linked her to the corruption cases involving Pareja, who recently returned from self-imposed exile and reached a plea-bargain deal with Carlos Baca, the prosecutor general. But while Garaicoa's kinship with Pareja led to her trial, vice president Jorge Glas, whose uncle Ricardo Rivera has been found with well over \$17m, has yet to face a charge as serious as laundering. Baca's ability to handle Glas with comparatively velvet gloves however may be coming to an end given the potential dynamite handed the prosecution in a pen drive this week.

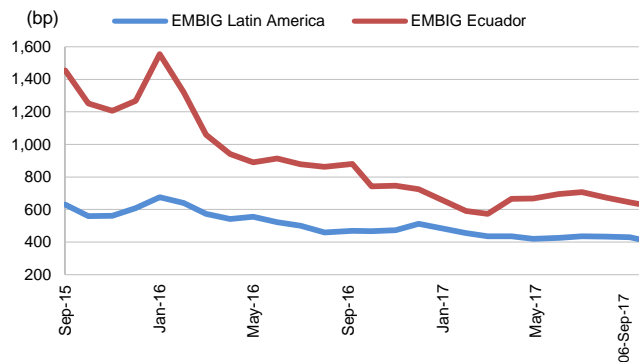
Alfredo Alcívar, Rivera's close associate at the Televisión Satelital company founded by Glas and his uncle in Guayaquil, gave the prosecution seven-page testimony. As reported by local media, Alcívar said that after Rivera was arrested on June 2 in conjunction with the investigation into the acknowledged bribery by Brazilian infrastructure firm Odebrecht, his boss had called him more than once telling him to delete data and passwords of several e-mail accounts and mobile telephones. For reasons as yet unknown, Alcívar didn't do this, instead conserving evidence of coded messages between

**Ecuador's Global Bond Prices**

Bond	Last Price (end of the month)						
	15-Sep	31-Aug	Jul	Jun	May	Apr	Mar
Global 2020	108.52	107.39	106.12	105.83	105.58	107.50	106.65
Global 2022	111.14	110.05	108.20	106.83	107.41	108.63	106.66
Global 2023	103.20	102.34	100.12	98.55	-	-	-
Global 2024	98.63	98.22	95.60	93.52	95.05	95.58	94.57
Global 2026	105.48	105.25	102.56	100.71	101.11	102.29	103.92
Global 2027	104.94	105.01	102.19	100.30	-	-	-

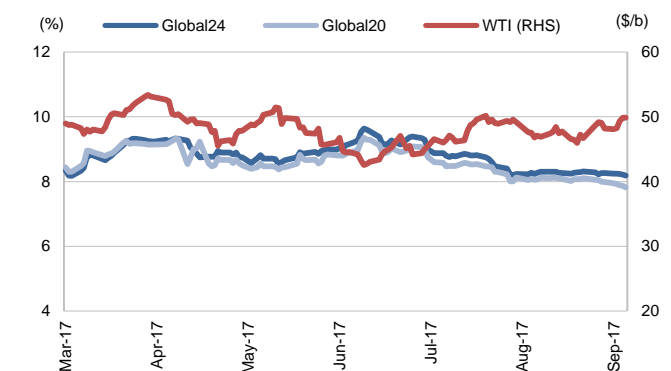
Source: Bloomberg and Analytica

**EMBIG Spread**



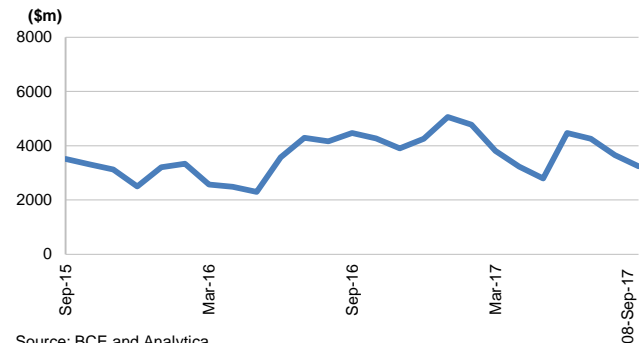
Source: JP Morgan and Analytica

**Bond Yields vs. WTI in 2017**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

“Xx1,” allegedly Glas, and “Xx2,” his uncle, as well as abbreviating names to initials like “JG.” Rivera allegedly also handled large sums of cash in a black bag at the broadcaster and claimed to have been Ecuador’s third-most powerful man, occasionally representing Glas, already vice president 2013-2017 under president Rafael Correa (2007-2017). This runs counter the claims made so far by Glas denying any relationship beyond family ties to Rivera. Alcívar also implied that Rivera laundered money through Televisión Satelital as he said he didn’t understand how the company could pay for programing and salaries given its lack of advertising revenue.

The new information came after the prosecution also said that it discovered that Rivera, according to evidence on his laptop, had access to documents via the state Quipux online internal document transfer system, which he shouldn’t have had given that he had no official position as a civil servant. The document regarded potential investment into a mining project. Glas defended himself saying that the document in the password-protected system was “public” and that he had never seen it. When his case comes to trial, prosecutors will hopefully have the valor to ask him why if this document was truly available to the general public why crucial information on billions of dollars of the public debt have been kept hidden away.

### **Letters to Santa**

President Lenín Moreno’s promise to hold a referendum to remove authoritarianism from Ecuador’s political system, above all by restoring independence between the functions of government, has received applause everywhere except his own political vehicle, Alianza Pais (sic). While AP hardliners close to his predecessor, Correa, in congress have even voted against supporting a motion sponsored by the opposition to express support for the referendum, whatever the questions may be, pundits and organizations among civil society

have flocked to it. Some have now presented proposals worth considering.

Democracia y DDHH (Democracy and Human Rights), a platform linking 20 non-governmental organizations, unions, and media portals, this week suggested a five-question referendum that sidesteps some of the issues behind which the correístas have rallied. The proposal, which it has begun to discuss with other interested organizations, does touch on the two key issues that have emerged from the debate over what Moreno has only hinted at: reversing the elimination of term limits Correa imposed last year and ending the power of the “Citizens’ Participation and Social Control Council” (CPCCS), all the while avoiding a potential cancellation by the Constitutional Court (CC), to which Moreno will have to submit the questions before Ecuadorians can vote on it lest they violate the 2008 constitution.

In the case of the end of term limits, among other issues of the 2015 constitutional reform, passed by the correísta supermajority of the time arguing that no referendum was required to approve the changes, the platform simply suggests having people vote whether to roll it back. To some extent, to propose a change has a legal precedent, as voters in 1986 disapproved of allowing candidates to run for congress without being members of a political party, only to turn around and approve it in 1994. The political background is also similar: While an unpopular president, León Febres Cordero, lost in 1986, the more popular Sixto Durán won in 1994 as many voters took the referendums as an opportunity to approve or disapprove of the president after the inauguration. Moreno is now likely to seek to cash in on his approval rating above 80% late this year after narrowly winning the election in April, amid numerous fraud allegations raised by his rival Guillermo Lasso, whose proposal to hold a referendum on just these matters formed part of his campaign promises.

Regarding the CPCCS, the platform meanwhile proposes an elegant way out: Rather than eliminating

it, which likely would be unconstitutional despite the body's discredited track record, it asks whether not to refocus it on promoting citizens' participation in politics, a stated goal actively undermined by the Correa administration. At the same time, the proposal hands back the naming of top regulatory officials, electoral board members, and the judiciary to the congress, but with an interesting suggestion to require a two-thirds rather than absolute majority, thereby forcing multiparty agreement and helping to restore independence of other branches of government. To remove the gerrymandering imposed in 2012, the platform also says citizens should be asked to approve mathematical changes to the seat distribution, providing greater representation to smaller parties.

Worries abound that, regardless of the content of the questions, Correa will continue to exert enough control over the CC to use it to block the vote. This is debatable, as the crumbling of loyalties towards Correa has shown. According to one legal source of ours, the members of the court have already reached agreement with representatives of Moreno to green-light the referendum, even though the wording of the questions remains a mystery. While apparently the result of some unsavory horse-trading, this will probably be Ecuador's fastest way forward out of the authoritarian labyrinth Correa, sometimes called "the Minotaur" by critics, left behind.

### **The Cloud Castle Crumbles**

Skeptics have long called the grandiose plan to make the agricultural Urucuí area in an Andean valley northern Ecuador into a South American Silicon Valley a pipe dream, while president Correa insisted on calling it and three other universities he had founded during his decade in power "world-class universities." How badly the dream failed is becoming clearer after a review this week by president Moreno. Unsurprisingly, it matches the failures at Correa's refinery projects.

According to officials who visited the site, including Augusto Barrera, the former AP mayor of Quito who as the new head of higher education quickly buried the hatchet with postgraduate Universidad Andina Simón Bolívar, it has a bloated bureaucracy – 740 staffers compared with 1000 students – with half of it 4500 hectares unused. In just two years, it had four executive committees and five university presidents, at huge salaries. Among the less surprising findings was that there was no sign of a promised \$3b investment in an electric car factory by a no-name "NikTesla" company. Students of what is supposed to be a high-tech university lack labs and even enough auditoriums. Out of a total \$5.6b to be spent over 33 years, so far, spending has been \$340m, including a \$100m Chinese loan.

The poor state of the site, with overspending and faulty facilities among what was actually built have led the Moreno administration to demand the comptroller general's office review what happened. The entire project is being downsized. While Correa blamed the problems on Ecuador's economic woes, for which he refuses to acknowledge responsibility after the biggest boom in history, he and others responsible for the mess should be called to answer, including the lie about electric car construction. Correa should consider that a university can't be built on a narcissist's need to feed his ego, particularly when created with public money.

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