

By Gustavo Abad

Ecuadorian history has included a number of surreal moments. One of the latest was a television station broadcasting its own takeover live.

At dawn on July 8, 2008, the Ecuadorian government Deposits Guarantee Agency (Agencia de Garantías de Depósitos — AGD) led an operation to take over 195 companies belonging to the Isaías group, one of the main actors responsible for Ecuador's 1999 bank crisis. Among the seized businesses were three media companies: TC Televisión, Gamavisión and Cable Noticias.

Ecuadorians woke up to this surprising news, along with two different explanations for these takeovers. On one hand, President Rafael Correa's government announced that the confiscated properties would be used to return savings to those affected by the bankruptcy of Filanbanco, a bank that was one of the top businesses of the Isaías group and went bankrupt during Ecuador's 1999 bank crisis. On the other hand, traditional media reported the story as a threat to freedom of expression and a political move to promote a "yes" vote in the upcoming national referendum on a new constitution.

Fugitive Bankers Refuse to be Held Accountable

In the streets, however, the people celebrated the decision as an act of justice. Ecuadorians have not forgotten the 1999 bank crisis and the wave of social and economic depression that followed.

The issue has generated high expectations all across the country, as government takeovers continued. 300 companies were confiscated by mid-August, 2008 in an effort by the Ecuadorian government to recover US\$661.5 million that Filanbanco lost as of Dec. 2, 1998. At that time, unable to handle the bank's crisis, brothers Roberto and William Isaías Dassum, its main stakeholders and managers, handed Filanbanco over to the Ecuadorian state, unleashing the bank crisis whose political, legal and social consequences are still being felt a decade later in Ecuador.

The takeover has been no easy task for Ecuador's government. In nearly a decade of proceedings, the political powers have become entangled with the economic powers. Since 1998, Ecuador has had five different presidents, 19 secretaries of the economy, nine bank superintendents and 18 managers of the AGD. During that

time, procedures to recover the money from the failed banks were stalled, documents to extradite fugitive bankers were lost and judges delayed their decisions indefinitely or declared that they were unable to make a ruling.

By the beginning of year 2008, Correa's government decided to take action. The government ordered the authorities of the Banking Board (Junta Bancaria), the Superintendence of Banks (Superintendencia de Bancos) and the AGD to review the legal procedures. On Feb. 8, the Bank Board compared the figures that Filanbanco managers provided to the government with those from a private audit conducted by Deloitte & Touche and found a difference of US\$661.5 million. The Deloitte auditing report was dated May 8, 2001. However, in the years since, no authority has demanded from the Isaías group an explanation for the discrepancy.

On June 26, during a high level meeting, Correa demanded the submission of the legal arguments that would be required to carry out the confiscation. Some government officials claimed not to have them. Among them was the manager of AGD, Oswaldo Padilla, and the minister of the economy, Fausto Ortiz. However, according to some officials, Article 29 of the Law of Reordering of Economic Matters in the Financial Taxes Area offers a legal argument that allows for the confiscation of companies "on those cases on which administrators have declared false unreal technical patrimony, have altered the figures on their balance sheets or cashed interest values on interest." Shortly afterward, the president removed Ortiz and Padilla and appointed Wilma Salgado and Carlos Bravo, respectively, who supported the president's decision.

The Rise and Fall of the Isaías Empire

At the beginning of the 20th century, a wave of immigrants arrived in Ecuador from Turkey and Lebanon. Their descendants later become one of the most politically and economically influential groups in Ecuador. Young Meme Kosazhaya Abihanna, who would later call himself Emilio Isaías, was one of those arrivals on a ship that docked in the port of Guayaquil. He laid the groundwork for an economic empire built on commerce that his grandchildren would allow to collapse eight decades later. Beginning as a salesman in a corner store, the Isaías patriarch moved into other businesses such as trading of textiles within Ecuador and cocoa exports. In 1925, he founded the Emilio Isaías Anonymous Co. (Emilio Isías Compañía Anónima — EICA). In 1958, he acquired the Filantrópica Savings (Caja de Ahorros Filantrópica), which in 1978 was renamed

Filanbanco. In 1973, he became owner of the Ecuadorian Television Network (currently TC Televisión), as payment of the former station owners' debt with Filantrópica Savings. Emilio Isaías also acquired other important businesses.

Isaías' story is far longer, and it reflects a pattern of Ecuadorian magnates forming groups of companies from diverse sectors, such as commercial, industrial and financial. The pattern is completed with media companies, which are used to legitimize the group's actions and to answer their critics from other sectors, including the government.

By the mid-1980s, after the death of Nahim Isaías Barquet, the third generation of Isaías had taken over control. The leaders were Roberto and William Isaías Dassum, who made a failed attempt to expand their empire. (The heaviest losses were suffered in the beer and banana businesses.) To save these companies, Filanbanco, the group's leading asset, granted loans that could not be paid back, which also dragged the bank into bankruptcy. In Ecuador, such a practice is called créditos vinculados (Filanbanco bank loans involving bankrupt or near bankrupt Isaías brothers' holdings).

Pulling the Strings from Miami

In Ecuador, engagements between political and economic power can lead to situations similar to what occurred with Filanbanco. When the Isaías brothers confirmed that their bank was about to go under, they turned to the Ecuadorian government for help and leaned on their friends in congress. At the end of 1998, the government of Jamil Mahuad granted the bank loans for 2.6 trillion sucres, which at that time was approximately equivalent to US\$433 million.

At the same time, the political parties who dominated the National Congress promoted the creation of the Deposits Guarantee Agency (Agencia de Garantía de Depósitos — AGD), with the excuse of offering a back-up system for people's savings in the case of bank failure. Actually, this was a shrewd maneuver by politicians and bankers that allowed the banks to declare bankruptcy and allowed the Ecuadorian state to take over their obligations with creditors.

The AGD was officially created on Dec. 1, 1998. Two days later, it took over Filanbanco and its debts and put the bank into a restructuring that created a commercial trust. From that point on, the Ecuadorian government injected

the bank with state funds in an attempt to save it. The attempts failed, and the bank closed down on July 18, 2001. In response, the Isaías brothers accused the Ecuadorian state of mismanaging the trust.

In September 2000, the Ecuadorian government took legal action against the Isaías brothers, accusing the group's companies of falsifying balance sheets and concentrating loans. The process has not moved forward. The current authorities are seeking the trial's continuation under the accusation of bank embezzlement and are trying to avoid the legal procedure to expire. The trial is being held in the First Penal Courtroom of the National Supreme Court, and there is a preventive arrest warrant against Roberto Isaías Dassum and William Isaías Dassum.

Since it started, the trial has gone through 17 judges, none of whom has made a ruling. The Isaías brothers left the country in May 2000 and moved to Miami, Florida. Since then, their media companies have been conducting a public relations campaign portraying them as innocent of the charges and asserting that they acted transparently.

During its 10 years of operation, the AGD has taken over the "cleansing" of 18 financial companies that received loans from the Ecuadorian state. However, this does not resolve all the problems that have been generated by the crisis. Current calculations estimate that the organization still has to recover US\$2.5 billion.

As of this writing, on Sept. 1, 2008, the Ecuadorian government announced that from Sept. 4 onward, 62,000 Filanbanco customers will recover their savings. According to authorities, these payments will be made with funds from Petromanabí, one of the companies confiscated from the Isaías group. Meanwhile, the group's lawyers are attempting to stop the takeovers in exchange for payment of a part of the debt it owes to the Ecuadorian government.

Roberto and William Isaías continue to live comfortably in Miami. From there, they pull the strings that keep them away from the country that, a decade ago, suffered through one of the biggest crises in its history, one partly caused by them.