Money Laundering in Ecuador's Marginal Economy

Luis Ángel Saavedra

Follow this and additional works at: https://digitalrepository.unm.edu/notisur

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in NotiSur by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Money Laundering in Ecuador's Marginal Economy

by Luis Ángel Saavedra
Category/Department: Ecuador
Published: Friday, January 14, 2011

In general, rules to control the drug-money laundering focus on the formal financial system and large investments in businesses or real estate. However, Ecuador's financial-oversight authorities are not paying attention to a rapidly growing money-laundering scheme in poor urban neighborhoods, in rural areas where small monocultures predominate, and in small-scale mining activities.

The prestadiario
In Atucucho, a poor urban barrio in northwestern Quito, it is common to see a motorcycle with two riders, one driving and the other carrying a bundle of cards on which are written the names of "clients," both riders with revolvers in their belts. They are known as (loan sharks who charge exorbitant daily interest rates).

When they finish the collections, the motorcyclists begin another task: a round of homes visits, regardless of the condition of the house. They only make sure that the person who answers the door is the homeowner or a close relative of the homeowner. Once that is established, they begin their work—convincing the person to accept a loan. The offer varies—from US$500 to buy an electronic device to as much as several thousand dollars to upgrade their business or build a new house.

Small loans require no guarantee, while mid-sized loans of between US$1,000 and US$3,000 need some collateral, such as a small appliance. For large loans, the deed to the house is required as collateral. "Our job is to distribute at least US$250,000 a week, at an interest rate of 10% a month," said one of the cyclists.

Northwest Quito comprises mostly poor urban barrios and has about 400,000 inhabitants, which makes it an attractive source of revenue for the loan sharks and has resulted in competition between various gangs for control of the barrio.

The same thing is happening in southeast Quito, in barrios such as Ferroviaria, Forestal, Obrero Independiente, and others. The motorcyclists are so easily identifiable that a person can give a hand signal for them to stop and give him money, with no requirement other than that of having a close connection with the house he lives in.

In Ecuador, money-laundering controls have been successfully implemented; banks have clear directives regarding monitoring clients' deposits, and the Superintendencia de Bancos closely examines the financial-system reports. However, in the barrios, where banks do not exist and residents have no access to the formal economy, there are small cooperatives, particularly those based on economic-solidarity principles, which must face the violence generated by the loan sharks.

In the past, , as money lenders are also called, worked with small amounts of their own capital. They had the borrower sign a promissory note or they held something of value as a loan guarantee. If the person did not repay the loan, the kept whatever had been pawned and the relationship ended.
The traditional have had to leave the business or join the new networks, many times by force, since the networks are very violent. "When a person is late making a payment, the first warning is for the to show the revolver tucked in his belt. If the person still doesn't pay, he ends up being killed," commented a merchant who had to take out a loan from a cooperative to "escape from the ."

"More and more people have fallen victim to the networks of illegal lenders and then look for loans in the small cooperatives to get out from under the arrangement with the ," said Marco Quelal, of the Cooperativa de Ahorro y Crédito FONDIVDA in northwest Quito.

That cooperative has decided to start an open campaign against the loan sharks, offering credit to "escape from the ." Despite being coordinated with various government agencies, the program does not have the capital that the has. "Our credit portfolio is US$4 million and has a 12-month turnover; the turn around that amount in a month in just one sector," said Quelal.

**Farmers riddled with bullets**

As soon as a motorcycle with two riders arrives, the one seated behind takes out a revolver and fires on a person leaving the house, crossing the street, or drinking a beer in a bar. His relatives say that he was a farmer and had no enemies and was not linked to crime. He only had one debt, they don't know with whom. The tabloids in the coastal areas are filled with these stories; the police talk about hired killers.

"We know that the killers are linked to the prestadiarios," said an official with the Red Financiera Rural (RFR), an organization that provides financial advice to small rural cooperatives.

On the coast, especially in areas where crops with short growing cycles are grown, such as rice, maize, oranges, and even in monoculture sectors such as cocoa, the looks for farmers and convinces them to accept a loan to be repaid with earnings from the harvest. If the harvest is bad and the farmer can't repay the loan, the farmer dies.

Coastal provinces such as Los Ríos, Santa Elena, and northern Guayas are controlled by , who are now even seeking out farmers in the Amazonía.

The national government knows about the activities of the . In an operation carried out in Tena, capital of the Amazonian province of Napo, 52 people were captured and 25 motorcycles were confiscated. However, despite the capture it has been impossible to prosecute the suspects because of a lack of evidence or testimony from victims.

A similar operation was carried out in Quito, in La Ferroviaria barrio, with the same result—the perpetrators could not be tried.

**Miners stuck with backhoes**

It is now easy for small-scale miners to buy a backhoe; it is only necessary to form a group, have land to mine for gold, and look for a , who provides the money to buy it.

But the miners are stuck with the backhoe. The will not accept the heavy equipment as payment for the debt; they must pay the interest in gold. To try to pay for the backhoe, the miners must increase the land they have to exploit and work up to 14 hours a day to produce enough gold to make the monthly payments.
and artesenal mining are now linked in the provinces of Morona and Zamora, in the southern Amazonía, and in the northern coastal province of Esmeraldas.

More control or better alternatives?

No statistics exist on the degree to which drug-trafficking money, through the illegal loans, has penetrated the microeconomy, among informal merchants, farmers, and miners. Neither do laws exist to punish this system of illegal loans tied to drug trafficking, despite the government's awareness of the system and its promises to implement unspecified measures of control.

Meanwhile, the newspapers continue to be filled with stories of unexplained deaths, and the continue filling the coffers of the drug traffickers, even at the cost of their own lives, when they must defend their territory from another gang that wants to move in.

For officials of the economic-solidarity cooperatives, who work in the same areas as the the solution can be found in opening larger lines of microcredit and implementing programs that link citizen security with the economy. This is the great challenge for the national government.

-- End --