

## BOARD OF ADVISORS

### Diego Arria

Director, Columbus Group

### Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs  
Cargill

### Joyce Chang

Global Head of Research,  
JPMorgan Chase & Co.

### W. Bowman Cutter

Former Partner,  
E.M. Warburg Pincus

### Dirk Donath

Senior Partner,  
Catterton Aimara

### Barry Featherman

Senior Director,  
International Government Affairs,  
Gilead Sciences

### Marlene Fernández

Corporate Vice President for  
Government Relations,  
Arcos Dorados

### Peter Hakim

President Emeritus,  
Inter-American Dialogue

### Donna Hrinak

President, Boeing Latin America

### Jon Huenemann

Vice President, U.S. & Int'l Affairs,  
Philip Morris International

### James R. Jones

Chairman, ManattJones  
Global Strategies

### Craig A. Kelly

Director, Americas International  
Gov't Relations, Exxon Mobil

### John Maisto

Director, U.S. Education  
Finance Group

### Nicolás Mariscal

Chairman,  
Grupo Marhnos

### Thomas F. McLarty III

Chairman,  
McLarty Associates

### Carlos Paz-Soldan

Partner,  
DTB Associates, LLP

### Beatrice Rangel

Director,  
AMLA Consulting LLC

### Gustavo Roosen

Chairman of the Board,  
Envases Venezolanos

### Andrés Rozental

President, Rozental &  
Asociados and Senior  
Policy Advisor, Chatham House

### Shelly Shetty

Head, Latin America  
Sovereign Ratings, Fitch Inc.

### Roberto Sifon-Arevalo

Managing Director, Americas  
Sovereign & Public Finance Ratings,  
Standard & Poor's

## FEATURED Q&A

# What do Corruption Scandals Mean for Colombian Politics?



Gustavo Villegas, Medellín's security secretary, is among the Colombian officials who have recently been accused of corruption. // File Photo: Universidad Pontificia Bolivariana.

**Q** Medellín's secretary of security, Gustavo Villegas, surrendered to authorities in early July, after learning he was being sought for alleged conspiracy to commit crimes and links to organized crime. Villegas was a close advisor to the mayor of Medellín, Federico Gutiérrez. The week before, Colombia's top anti-corruption official, Luis Gustavo Moreno Rivera, was arrested on charges in the United States related to money laundering and bribery. What do the recent corruption-related scandals mean for President Juan Manuel Santos' legacy? How will the revelations influence the results of Colombia's presidential election next year? Do the corruption scandals weaken Santos' ability to implement his agenda during his last year in office?

**A** Cynthia Arnon, director of the Latin American Program at the Woodrow Wilson International Center for Scholars: "The recent corruption-related arrests of senior Colombian officials are, on the one hand, quite disturbing. For the head of the anti-corruption unit of the Fiscalía to be accused of taking bribes in order to halt ongoing investigations, or for Medellín's security chief to be jailed for links to organized crime, shows a dangerous level of alleged criminal penetration of major rule of law institutions. On the other hand, the fact that these men were identified and are now behind bars represents an advance, demonstrating strong investigative and prosecutorial abilities of some Colombian judicial institutions. Corruption in Colombia has grown in salience, partly as a result of the Odebrecht scandal. The allegations that both major candidates in the 2014 presidential election received

Continued on page 3

## TODAY'S NEWS

### POLITICAL

## Colombia's Coca Cultivation Rises 52 Percent: U.N.

The U.N. survey showed that the area under coca cultivation in the South American country rose from 96,000 hectares in 2015 to 146,000 hectares in 2016.

Page 2

### BUSINESS

## YPF Discussing Sale of Electricity Unit to GE

The Argentine state-run energy company is in talks with General Electric to sell the U.S.-based company a 49-percent stake in its electricity subsidiary.

Page 2

### POLITICAL

## Millions Reject Constitution Plan in Venezuela Vote

In a symbolic opposition-held vote, millions of Venezuelans rejected President Nicolás Maduro's plan to rewrite the country's Constitution. The balloting came two weeks before a government-backed vote to select members of a new assembly to rewrite the charter.

Page 2



Maduro // File Photo: Venezuelan Government.

## POLITICAL NEWS

## Millions Reject Constitution Plan in Venezuela Vote

Millions of Venezuelans in their home country and abroad cast ballots Sunday in a symbolic vote to reject President Nicolás Maduro's plan to rewrite the country's Constitution. Nearly 7.2 million people voted, and of those, more than 98 percent rejected Maduro's plan to rewrite the charter, the Los Angeles Times reported,

**“This result is without precedent in Venezuela.”**

— Américo de Grazia

citing opposition activists. The vote, which was not authorized by Maduro's government, came two weeks before a government-backed July 30 vote to elect the assembly that will be empowered to rewrite the Constitution, which was put into effect in 1999 early in the government of then-President Hugo Chávez. The opposition has called for a boycott of that vote, saying it amounts to a bid by Maduro to increase his power. Maduro has said the vote is necessary to help resolve the country's political and economic crises. Sunday's vote total fell short of the 7.7 million people who cast ballots in the 2015 legislative elections, which resulted in the election of an opposition-controlled National Assembly and the 7.5 million votes that resulted in Maduro's election in 2013, the Associated Press reported. Opposition activists said the lower turnout was due to its ability to set up only 2,000 polling stations for the vote, which the government had labeled illegitimate. Nearly 100 people have been killed in three months of anti-government protests in Venezuela. Opposition leaders said Sunday's vote showed that Venezuelans want change. “This result is without precedent in Venezuela,”

said opposition leader Américo de Grazia, The Wall Street Journal reported. “Now the ball is in our court. In coming days, we have to propose concrete measures to honor the people's will.” Maduro's government did not have an immediate reaction to the vote total, but it has said that it would not recognize the referendum, saying it was unauthorized. Maduro has characterized it as an internal consultation by his opponents. Smaller numbers of Maduro supporters went to polling stations in a dry run for the July 30 vote, the Associated Press reported. “Our president Chávez supported the poor, the people,” said 41-year-old homemaker Yveth Melendez. “Today we're following his legacy, with President Nicolás Maduro ... The constitutional assembly is something that benefits the people.” The vote was marred by violence when a pro-government mob began shooting at a polling station on Caracas' poor west side, killing a 61-year-old woman and wounding four other people, the attorney general's office said, The Wall Street Journal reported. Other than that incident, the balloting was mainly orderly. In addition to voting on whether to reject the assembly to rewrite the Constitution, Venezuelans were asked whether the country's armed forces should adhere to the current Constitution and the decisions of the opposition-controlled legislature, and whether there should be new elections to form a new unity government, the Los Angeles Times reported. More than 95 percent said they wanted the military to adhere to the current Constitution and more than 98 wanted new elections, the opposition said. Maduro's term ends next year, but opposition members have called for early elections.

## Colombian Coca Cultivation Increases 52 Percent: U.N.

The United Nations on Friday said the area under coca cultivation in Colombia increased by 52 percent last year. The latest Colombia Cultivation Survey, produced by the U.N. Integrated System for Monitoring Illicit Crops, or SIMCI, showed the area under coca cultivation rose from 96,000 hectares in 2015 to 146,000

## NEWS BRIEFS

## Castro Blasts Trump's Rollback of Obama's Cuba Policy Changes

Cuban President Raúl Castro on Friday blasted U.S. President Donald Trump's partial rollback of the country's thaw with Cuba, put in place by his predecessor, Barack Obama, Reuters reported. Trump's changes, which tighten restrictions on Americans' travel to Cuba and on U.S. business dealings with Cuba's military, ignore broad public support for the thaw and would satisfy just a small group of hard-liners, Castro said in a speech to Cuba's National Assembly.

## Guatemalan Authorities Arrest 17 in Corruption Investigation

Authorities in Guatemala on Friday arrested 17 people on suspicion of money laundering and illegal election financing, Reuters reported. The investigation has implicated Telgua, a local unit of Mexico-based phone giant América Móvil, as well as state-owned building companies. Former communications minister Alejandro Sinibaldi, who has been a fugitive from justice since June 2016, allegedly created shell companies to launder money that he collected in bribes.

## Mexico Officials Delay Oil Auction for Evaluation of Major Crude Discoveries

Officials in Mexico said Friday they will delay the next scheduled offshore oilfield auctions by a month in order to allow bidders more time to evaluate recent major crude discoveries, Bloomberg News reported. Last Tuesday, a consortium reported discovering a reservoir with an estimated 1.4 billion to 2 billion barrels of oil in the southern Gulf of Mexico, the same day Italian producer Eni said a March find contains the equivalent of as much as 1 billion barrels.

## FEATURED Q&amp;A / Continued from page 1

illegal payments—a charge both candidates deny—has brought the issue of corruption front and center in national politics. According to a recent Invaer poll, a fifth of the Colombian public views corruption as the most important issue the country's next

“**Corruption in Colombia has grown in salience, partly as a result of the Odebrecht scandal.**”

— Cynthia Arnon

president will face. The issue ranks third, behind unemployment and the quality of health care, but way ahead of concern about peace agreements with the FARC or ELN. As the incumbent, and as the alleged recipient of under-the-table Odebrecht financing, President Juan Manuel Santos will probably suffer a further hit in his approval ratings. But the case of Medellín's security secretary, Gustavo Villegas, who served multiple mayoral administrations, including that of presidential hopeful Sergio Fajardo, tells a darker tale. Villegas is accused of links to the Oficina de Envigado, Pablo Escobar's criminal organization from the 1980s. The very existence of the Oficina so many years after Escobar's death shows the difficulty of extracting organized crime's deep roots in Colombia or anywhere else.”

**A** **Maria Velez de Berliner, president of Latin Intelligence Corporation:** “Excluding la mermelada (vote buying), a disapproval rating of 69 percent indicates Santos' coalition is unlikely to prevail in the 2018 elections, particularly as the coalition disbands into factions that seek political advantage within the parties that today appear as possible winners in 2018,

mainly Centro Democrático. Approximately 88 percent of Colombians believe corruption is getting worse; 86 percent believe insecurity is increasing. The combination of presidential unpopularity with high levels of corruption and insecurity and Villegas' scandal confirms what a majority of Colombians believe: Santos' legacy is one of collusion that benefits criminals, dismantling of traditional justice, betrayal of the 1991 Constitution, political expedience that furthers the personal agendas of politicians and government employees and widespread willingness or forced readiness to negotiate for, and pay, a vacuna (extortion payment) to sundry criminals. Concurrently, the negotiations, approval and implementation of the peace agreement with the FARC overtook Santos' agenda. It is no surprise then that negotiations with criminal groups, such as the Oficina, are taking place under state or local government auspices. Given this, it seems that, regardless of the judge who will ultimately file for or against Villegas, it will be difficult to sustain the charge of aggravated association with criminals against him, unless his case is made a political cause célèbre in the run-up to the elections. Let's not overlook how the attorney general's office negotiated successfully in 2015-2016 for 'legal benefits' with the Oficina's 'Barny,' 'Pichi' and 'Peluco,' in exchange for their pacification of some neighborhoods in Medellín and the delivery to the government of criminals the Oficina wanted to purge from its ranks. This one case, among hundreds, weakens the legal, if not the political, case against Villegas and bolsters the beliefs surrounding Santos' legacy.”

**A** **Beatrice Rangel, member of the Advisor board and director of AMLA Consulting:** “The Villegas and the Moreno Rivera affairs are the most recent bribery scandals in Latin America. Both cases are very telling of the penetration of corruption in the region's institutional framework. And while the

Continued on page 4

hectares in 2016, the highest in two decades. The most growth was seen in Colombian departments located in border areas, particularly Nariño, Putumayo and Norte de Santander, the same territories that had the biggest coca crop area tracked in the 2015 U.N. survey. The United Nations estimates the potential production of cocaine for 2016 at 866 metric tons, an increase of 34 percent compared to 2015. Prices of coca leaf in 2016 were 43 percent higher than prices in 2013, a vexing figure for authorities trying to wean local farmers off the coca leaf into mainstream agriculture. Looking ahead, the United Nations said conditions for reversing the trend have improved dramatically, due to last year's peace deal with the Revolutionary Armed Forces of Colombia, or FARC, guerrillas, El Tiempo reported.

## BUSINESS NEWS

## Argentina's YPF Discussing Sale of Electricity Unit to GE

Argentine state-run energy company YPF is in talks with General Electric to sell the U.S.-based conglomerate a 49 percent stake its electricity subsidiary, Reuters reported Friday, citing Argentine newspaper Clarín. Spokespeople from YPF and GE declined to comment on Friday. The value of the possible deal is unclear, as YPF has not made public the value of its YPF Energía Eléctrica subsidiary. YPF and GE are collaborating on electricity projects in Argentina, including plants in Tucumán province and near the Vaca Muerta shale field. Last week, YPF and GE announced they had received \$220 million in financing from Citigroup and Credit Suisse, among other backers, for two jointly owned thermal power projects. YPF Energía Eléctrica first began operating in 2013 after YPF acquired assets from Argentine oil and gas company Pluspetrol, which had spun off its electricity generation business. The asset sale at the time had a total value of \$485 million, according to a filing from YPF.

## FEATURED Q&amp;A / Continued from page 3

scandals will affect both Medellín Mayor Federico Gutiérrez as well as President Juan Manuel Santos, they will not deter other public officials from engaging in what seems to be, according to Transparency International, the most successful corruption south of the Rio Grande. To be sure, clientelism, unstable legal frameworks, lack of equality before the law, impunity, lack of leadership with integrity and a high degree of social tolerance are attributes of almost all Latin American countries. They spring from an institutional framework created in the 16th century to extract rent to sustain the Spanish Crown. As a result, political institutions were designed to control society and guarantee rent extraction. Rent extraction fosters clientelism and impunity while placing rent extractors above the law. Independence from Spain did not do away with those institutions. As a result, Latin American societies are among those countries considered by Transparency International to be corruption-prone. Deregulation and free trade are good antidotes, but local elites wrest their power to guarantee that their rent extracting opportunities are preserved."

**A** Sergio Guzmán, analyst for global risk analysis at Control Risks in Bogotá: "Corruption will remain a principal issue for the foreseeable future, and is likely to emerge as a central theme in the upcoming 2018 congressional and presidential elections. The Green Party is currently collecting signatures for an anti-corruption referendum, which aims to lower congressional salaries, mandate ordinary prison sentences for corruption convictions and establish term limits. Although the party will likely collect the required three million signatures before the July 25 deadline, there are likely to be significant setbacks in calling for a vote, including the passage of the initiatives

through Congress, where they have failed on eight different occasions. It is probable that all parties will want to brandish their anti-corruption credentials to gain credibility with voters, which correlates well with a

“ It is probable that all parties will want to brandish their anti-corruption credentials to gain credibility with voters...”

— Sergio Guzmán

growing anti-incumbent sentiment. Although the anti-corruption sentiment is likely to determine electoral outcomes, it is unlikely to affect policy implementation and compliance efforts. An April report by Transparency for Colombia, of Transparency International, suggested that the most corrupt institutions at the national level are those involved in investigating corruption, including the attorney general's office and the Ministry of Finance's intelligence unit. Despite extensive efforts by the government to crack down on corruption, official corruption at all levels, including locally and nationally elected and appointed authorities, remains a constant feature of the operating environment. The arrests of Moreno and Villegas reinforce the notion that corruption in Colombia is ubiquitous. There is a widespread perception that vested interests and patronage have undermined the integrity of other public institutions at local and national levels, such as governorships, mayoralities, Congress and the police force."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

## LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2017

**Erik Brand**  
Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**  
Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Nicole Wasson**  
Reporter, Assistant Editor  
[nwasson@thedialogue.org](mailto:nwasson@thedialogue.org)



**Michael Shifter**, President  
**Genaro Arriagada**, Nonresident Senior Fellow  
**Sergio Bitar**, Nonresident Senior Fellow  
**Joan Caivano**, Director, Special Projects  
**Michael Camilleri**, Director, Peter D. Bell Rule of Law Program  
**Kevin Casas-Zamora**, Nonresident Senior Fellow  
**Ariel Fiszbein**, Director, Education Program  
**Alejandro Ganimian**, Nonresident Fellow  
**Peter Hakim**, President Emeritus  
**Claudio Loser**, Senior Fellow  
**Nora Lustig**, Nonresident Senior Fellow  
**Margaret Myers**, Director, China and Latin America Program  
**Manuel Orozco**, Director, Migration, Remittances & Development  
**Jeffrey Puryear**, Senior Fellow  
**Tamar Solnik**, Director, Finance & Administration  
**Lisa Viscidi**, Director, Energy Program  
**Denisse Yanovich**, Director of Development and External Relations

**Latin America Advisor** is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

[www.thedialogue.org](http://www.thedialogue.org)

ISSN 2163-7962

Subscription inquiries are welcomed at [freetrial@thedialogue.org](mailto:freetrial@thedialogue.org)

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.