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## FEATURED Q&A

# Is Central America Stuck With Low Investment Ratings?



Governance problems have plagued Central American countries. In Guatemala, a political crisis exploded last month when President Jimmy Morales tried to expel the head of a U.N.-backed anticorruption panel after it began investigating him. // File Photo: Guatemalan Gov't.

**Q** Weak governance has become an important problem for Central American countries and the Dominican Republic, limiting the potential for ratings upgrades despite positive macroeconomic trends, Fitch Ratings said in a report released earlier this month. Political gridlock, corruption and inconsistent policy environments seen in most of the countries have “constrained any potential positive ratings momentum,” the New York-based firm said. Lower ratings generally cost countries millions of dollars more than they would otherwise need to spend in order to borrow. How can countries of the region respond to perceptions of inept governance? Why have efforts in the past to correct course failed? What areas of governance need to be prioritized as countries seek better credibility with lenders and international investors?

**A** Kevin Casas-Zamora, nonresident senior fellow at the Inter-American Dialogue and former vice president of Costa Rica: “In the wake of devastating civil wars, most Central American countries managed to create something resembling democratic systems, only to see them get stuck in a low-quality equilibrium. Today, the region’s political landscape is defined by chronically weak states, low levels of support for democracy, limited bureaucratic capabilities, rampant corruption and pervasive impunity. In all these aspects, Central American countries (other than Costa Rica) rank below the Latin American average. The multi-faceted Democracy Index developed by the 2016 State of the Region Report, a Central American publication, detects a deterioration in the quality of democracy over the past decade

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## TODAY'S NEWS

### POLITICAL

## Death Toll From Mexico Quake Rises to 273

President Enrique Peña Nieto said 137 of the reported deaths following Tuesday's 7.1-magnitude earthquake occurred in Mexico City.

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### BUSINESS

## Brazilian Police Seek Charges Against JBS' Batista Brothers

Brazilian federal police formally asked prosecutors to bring insider trading charges against Wesley and Joesley Batista of JBS.

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### POLITICAL

## Hurricane Bears Down on Turks & Caicos, Puerto Rico Devastated

Hurricane Maria, a powerful Category 3 storm, took aim at the Turks & Caicos Islands this morning after pounding Puerto Rico. Governor Ricardo Rosselló said the storm was the worst to hit the U.S. territory in a century.

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Rosselló // File Photo: Commonwealth of Puerto Rico.

## POLITICAL NEWS

## Maria Strikes Turks and Caicos, Death Toll Rises

Hurricane Maria, a powerful Category 3 storm, took aim this morning at the Turks and Caicos Islands, after sideswiping the Dominican Republic, pummeling Puerto Rico and causing at least 33 deaths across the Caribbean. As of 8 a.m. Eastern Time today, the hurricane was located about 30 miles north-northeast of Grand Turk Island, moving northwest at 7 miles an hour, with maximum sustained winds of 125 miles an hour, according to the U.S. National Hurricane Center. Authorities in Puerto Rico were battling flooding after the hurricane slammed the U.S. territory, causing at least 13 deaths there, Agence France-Presse reported. At least 700 people in Puerto Rico were rescued from rising waters. The storm destroyed much of the island's electricity and telecommunications infrastructure, and Governor Ricardo Rosselló called Maria the most devastating storm to hit Puerto Rico in a century. "We have a lot of flooding, we have reports of complete devastation of vulnerable housing," Rosselló told CNN this morning. The deluge could bring dangerous mudslides, the governor added. Some parts of Puerto Rico could be hit with as much as 40 inches of rain. "Puerto Rico is absolutely obliterated," U.S. President Donald Trump told reporters on Thursday after declaring the island a disaster area, which will make emergency funding available to the territory. "Puerto Rico is in a very, very, very tough shape." After the storm struck, Puerto Rico was left completely without electricity. Residents there may be without power for months, CBS News reported. In addition to the 13 reported dead in Puerto Rico, the hurricane is blamed for 15 deaths in Dominica, three in Haiti and two in Guadeloupe, according to Agence France-Presse. In the Dominican Republic, rivers overflowed, causing widespread flooding. High winds also took down trees and electrical pylons, leaving 140,000 people there without electricity. Approximately 17,000 people in the

Dominican Republic were evacuated from their homes. Among the hardest hit by the storm was Dominica, where Prime Minister Roosevelt Skerrit said it would be a "miracle" if the death toll there doesn't rise past 15. Skerrit himself had to be rescued when the hurricane blew the roof off his home and it began flooding. "These hurricanes are becoming stronger than ever and more powerful than ever... And we really need, all of us, to understand that these issues are of greater concern to small islands like ours," said Skerrit. "We are very, very vulnerable."

## Guatemalan Congress Maintains Morales' Immunity

For the second time this month, Guatemala's Congress voted on Thursday to maintain President Jimmy Morales' immunity from prosecution, shielding him from an investigation into alleged illicit campaign financing, Reuters reported. The U.N.-backed International Commission against Impunity in Guatemala (CICIG) had pushed a motion to strip Morales' immunity as it seeks to determine the origin of some \$800,000 that Morales managed as secretary general of the conservative National Convergence Front, which he led from 2015-2016. He has denied wrongdoing.

## ECONOMIC NEWS

## Chile's Piñera Vows Fully Renewable Power Grid by 2040

Chilean presidential candidate and former President Sebastián Piñera on Thursday pledged to enact a plan that will move Chile to a fully renewable electricity grid by 2040, Reuters reported. A conservative, Piñera is currently leading the polls ahead of the November vote. He said that if elected, he would work to expand upon the major investments the coun-

## NEWS BRIEFS

## Reported Deaths After Mexico Quake Rise to 273

The death toll after this week's powerful earthquake in central Mexico rose to 273 as rescuers continued the search for survivors, USA Today reported this morning. President Enrique Peña Nieto said 137 of the deaths from Tuesday's 7.1-magnitude quake occurred in Mexico City. People still could be trapped in the rubble of collapsed buildings, the president added.

## Brazil's Braskem Ends Supply Contract With Venezuela's PDVSA

Brazilian petrochemical company Braskem has terminated a contract set to expire this month to buy light virgin naphtha and natural gasoline from Venezuelan state oil company PDVSA, Reuters reported Thursday. Braskem declined to comment on its reason for ending the long-term contract early, but said the naphtha purchased through the supply agreement represented less than 0.1 percent of its annual naphtha consumption. PDVSA did not respond to a request for comment. Both a Braskem and a PDVSA source said that U.S. sanctions on the Venezuelan state oil company played a role in Braskem's decision.

## Colombian Police Arrest Jerónimo Martins Exec

Colombian police have arrested the local director of operations for Portuguese retailer Jerónimo Martins on charges of corruption, the company said Thursday, Reuters reported. The company itself reported the director of operations to local authorities. "Jerónimo Martins Colombia has recently reported to the Colombian authorities the existence of a potential case of private corruption, for personal benefit and harmful to the company, which had been detected by our internal systems," a spokeswoman for Jerónimo Martins said.

try has already made in the renewables sector. “The goal is that by 2040, Chile has a 100 percent clean and renewable electricity grid and a 100 percent electric public transit system,” he said at a campaign rally. Chile is a prime target for the renewables sector, as it imports nearly all of the oil and gas it consumes but its desert climate and long coastline are good conditions for solar and wind power generation. Piñera is unlikely to win the November election outright, however, and a runoff election against center-left candidate Alejandro Guillier or far-left candidate Beatriz Sánchez would likely prove more difficult to win.

## BUSINESS NEWS

# Brazilian Police Seek Charges Against JBS’ Batista Brothers

Brazilian federal police on Thursday formally asked prosecutors to bring charges of insider trading against brothers Wesley and Joesley Batista, the owners of JBS, the world’s largest meatpacker, Reuters reported. Police say the brothers made some 138 million reais, or approximately \$44 million, in savings through alleged illegal market dealings in May. The two engaged in insider trading before signing a plea



Wesley Batista // File Photo: JBS.

bargain deal with federal prosecutors in which they admitted to paying bribes to more than 1,800 politicians as they grew their business, the police alleged. JBS stock plunged after details from the plea bargain testimony emerged. Police arrested Wesley Batista for suspected insider trading on Sept. 13, and also issued an

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in four out of five countries (El Salvador is the exception). The weakness of the state (as seen in the exceptionally low levels of taxation—at 17 percent of GDP on average, well below the average for Latin America and Sub-Saharan Africa) and the parlous situation of the rule of law are particularly grave concerns. Yet, they have proved impervious to change. After all, collecting taxes and ending widespread impunity are not popular causes among Central American elites, which continue to benefit from a low-quality social pact. The push for robust and progressive tax systems, and the willingness to protect judicial independence, without which any effort against corruption and impunity is doomed to failure, arguably are the crucial yardsticks to measure the sincerity of Central American governments and societies to improve their governance performance. In the face of recalcitrant elites, where will the impulse for these reforms come from? Very likely from the mobilization of increasingly demanding civil societies and the pressures from international actors, ranging from multi-lateral institutions to private investors. This is exactly the drama currently on display in Guatemala. Its outcome is far from certain and will be carefully watched.”

**A** Donald J. Planty, senior advisor to Albright Stonebridge Group in Washington and former U.S. ambassador to Guatemala: “I agree with the Fitch Ratings analysis—weak governance is at the core of the political, economic and social conditions that hobble Central America and the Dominican

Republic. Several reforms are needed to produce more capable governments and to strengthen democratic institutions. First, the countries need to create more inclusive political systems, opening the political process to newcomers, especially youth,

“**Political parties must become more democratic and cease being used as ad hoc vehicles for candidates with questionable credentials and backgrounds.**”

— Donald J. Planty

women and minorities. The current closed political systems, tightly controlled by elites, produce candidates who answer to special interests that are often corrupt or unrepresentative of the countries as a whole. In this context, political parties must become more democratic and cease being used as ad hoc vehicles for candidates with questionable credentials and backgrounds. Second, the legislative and judicial branches need to fulfill their constitutional responsibilities by enacting reform legislation and interpreting laws justly and expeditiously. Impunity must be ended and systemic corruption no longer tolerated. The rule of law must prevail over parochial political and economic interests. Third, governments must begin investing in the people by fostering job creation and

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arrest warrant for Joesley Batista for suspected insider trading. Joesley Batista had been in detention since Sept. 10 after recordings emerged that suggested he had tried to take advantage of prosecutors during the negotiating of the plea deal in May. Brazilian President Michel Temer has faced three corruption charges as a result of the Batista brothers’ plea deal testimony in May, as well as testimony

from other JBS executives. According to Brazilian law, a president can only be tried for a crime before the Supreme Court if two-thirds of the lower house of Congress votes to allow the president to be tried. The lower house blocked the first of the three charges in August, and it is expected to vote on the other charges of racketeering and obstruction of justice in the coming weeks.

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

providing the poor with education and health services. Rural communities in Central America are without income-producing jobs, schools, teachers, clinics and medicine. Undertaking these basic reforms would send a message to foreign and domestic investors alike that the countries are committed to better governance and are truly interested in development based on the wellbeing of their people."

**A** Luis Soto, vice president of Latin American operations at ENODO Global: "Countries can create a meaningful, proactive, continuous dialogue between government officials and their citizens to address issues like corruption and impunity in order to restore trust and improve governance. Modern technologies enable governments to manage, synthesize and analyze social media information to understand people's realities, why they support or resist policies and how their perceptions transform over time. This knowledge is critical when developing targeted narratives and engagement strategies to address negative public perception. Past efforts to correct course have fallen short because political leaders have failed to understand populations' grievances, which prevents meaningful dialogue, heightens

social tensions and negatively affects their ability to govern effectively. This further alienates citizens, resulting in both online and in-person anger, hostility, protest and civil unrest. Political leaders finance lavish campaigns to win elections but once elected, they break the social contract with those who elected them and non-voters who have already lost faith in the government. Corruption, transparency and security repeatedly emerge as key social media topics, leading to unrest. These areas not only lead to the removal of political leaders, but also lower investor-lender confidence and increase volatility. To address confidence, political leaders must strengthen accountability of public officials, promote ethical values and establish severe consequences for corruption. Reducing volatility requires a deeper understanding of social risk, the public's grievances and failures to meet basic needs, which drive instability within the population. Once basic needs are fulfilled and grievances are addressed, political leaders will have a strong foundation upon which to build programs for both domestic economic growth and international investment/lending."

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

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# Advisor Video

## English Language Learning in Latin America

A discussion of a new Inter-American Dialogue report with Maria Alexandra Vélez of Pearson, Ariel Fiszbein of the Inter-American Dialogue, Kathryn Cronquist of Mathematica Policy Research and others.

View the Sept. 19 webcast of the discussion

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