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FEATURED Q&A

Is Honduras Improving its Business Climate?



Honduran President Juan Orlando Hernández this month struck a deal with business leaders on the country's gross receipts tax. // File Photo: Honduran Government.

Q Honduras' Legislative Assembly on Wednesday approved modifications to the country's gross receipts tax following a deal between Honduran President Juan Orlando Hernández and business leaders on lowering the tax. Beginning this year, businesses with earnings of less than 300 million lempiras (\$12.7 million) will be exempt from the tax, while those with up to 600 million lempiras in earnings will pay the tax, but at a rate of 0.75 percent, while companies that have 600 million lempiras or more of earnings will pay 1 percent, El Heraldo reported. How important is the deal for Honduras' business community, and how will it affect job creation and foreign investment? How well has Hernández, who was sworn in for his second term in January following a close election win that many citizens consider fraudulent, handled the economy, and what more can he do to improve the business climate?

A Juan Carlos Sikaffy C., president of the Honduran Council of Private Enterprise (COHEP): "For the Honduran private sector, this tax reform is very important since it immediately benefits a huge number of small- and medium-sized enterprises, which provide more than 85 percent of the jobs in Honduras. The reform will allow these enterprises to improve their financial situations and re-invest resources to ensure their current employees' jobs and create new job opportunities for Hondurans. The reform will also gradually benefit larger enterprises, and it will improve the process of refunding taxes paid in excess. The liberation of 2.2 billion lempiras from this tax will facilitate investment and may generate a GDP boost of 4.4 billion lempiras, which

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Argentina's Economy Grows 3.9% in Q4

Growth of the country's gross domestic product was more than expected in the fourth quarter.

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Brazil Probing Cambridge Analytica

Brazil's public ministry is opening an investigation into data firm Cambridge Analytica, the firm that is under fire for allegedly having collected data on tens of millions of Facebook users without their consent.

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POLITICAL

Peru's Kuczynski Offers Resignation

Surrounded by his cabinet members, Peruvian President Pedro Pablo Kuczynski offered his resignation in a televised address to the nation. He had been scheduled to appear before Congress today in an impeachment session, which will now decide whether to accept his resignation or remove him from office.

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Kuczynski // Photo: Peruvian Government.

POLITICAL NEWS

Peru's Kuczynski Offers Resignation

Peruvian President Pedro Pablo Kuczynski offered his resignation on Wednesday, a day after the main opposition party released secretly recorded videos that apparently show supporters offering a lawmaker public-works projects in exchange for his loyalty in fending off an impeachment attempt against Kuczynski in December. The president's announcement

“For the good of the country, I'm resigning as the president of the republic.”

— Pedro Pablo Kuczynski

that he would step down came ahead of today's scheduled session of Congress in which Kuczynski, who has been facing impeachment, was scheduled to appear to answer allegations that his consulting company accepted \$782,000 in payments from scandal-plagued Brazilian construction conglomerate Odebrecht a decade ago. At that session, lawmakers had been expected to vote on whether to remove him from office. Kuczynski has consistently denied wrongdoing, including in his announcement Wednesday that he was stepping down. “This has created enormous damage for the country,” Kuczynski said in his televised resignation speech, sitting at a desk with his cabinet ministers behind him, *The Wall Street Journal* reported. “For the good of the country, I'm resigning as the president of the republic.” At today's session of Congress, lawmakers will now decide whether to accept Kuczynski's resignation, *La República* reported. They also could proceed with the planned impeachment proceedings and remove him from office. In his resignation speech, Kuczynski also said there would be an orderly transition of power, with Vice President Martín Vizcarra, who is also Peru's ambassador to Canada, becoming

president. In a posting on Twitter, Vizcarra said he was returning to Peru. “I am outraged by the current situation, like most Peruvians,” Vizcarra said on Twitter. “But I have the conviction that together we will demonstrate once again that we can move forward.” In his address, Kuczynski reiterated that he had done nothing wrong and said the recordings that the Popular Force party released on Tuesday had been edited in a “selectively biased way that gave the impression that the government was offering public works in exchange for votes,” *The New York Times* reported. Some lawmakers said they were angered that Kuczynski did not apologize in his resignation speech. “We hoped that his resignation letter would have at least some self-criticism of the mistakes and crimes he may have committed,” said Broad Front leader Marco Arana, the newspaper reported. “Instead, he just plays the victim in his letter and doesn't admit anything.” A former Wall Street banker, Kuczynski had campaigned for president in 2016, vowing economic growth and “social revolution.” He was inaugurated in July 2016, spending a year and eight months as president.

BUSINESS NEWS

Brazil Opens Investigation Into Cambridge Analytica

Brazil's public ministry announced on Wednesday that it is opening an inquiry into data firm Cambridge Analytica's business activities in the country, *Folha de S.Paulo* reported. The Brazilian Commission for the Protection of Personal Data launched the inquiry amid fears that the company “could be making use ... of millions of Brazilians' personal data” without their authorization. Cambridge Analytica, a British data research firm, is under fire for allegedly having collected data on 50 million Facebook users without their permission while working for U.S. President Donald Trump's presidential campaign in 2016. Facebook CEO Mark Zuckerberg apologized publicly on Wednesday, via

NEWS BRIEFS

Ecuadorean President Sending 12,000 Troops to Colombian Border

Ecuadorean President Lenín Moreno said Wednesday he is sending 12,000 troops to the border with Colombia to bolster security, the Associated Press reported. Authorities say a guerrilla faction that was once linked to the Revolutionary Armed Forces of Colombia rebel group killed three soldiers and wounded seven others on Tuesday near Mataje in Esmeraldas province, where a military patrol detonated an explosive device. The incident marked the sixth in the area since January, *El Comercio* reported. Officials say the rebels are now involved with drug trafficking.

Argentina's Economy Grows 3.9% in Q4

Argentina's gross domestic product grew by 3.9 percent in the fourth quarter of 2017 as compared to the same period the prior year, state statistics agency INDEC said Wednesday. The rate of growth was higher than market expectations. “Domestic demand grew at a visibly higher rate than overall GDP,” Goldman Sachs analyst Alberto Ramos told clients in a research note. INDEC also released data Wednesday showing that the trade balance posted a large \$903 million deficit in February.

Arcos Dorados Posts 7.6% Increase in Revenues for Fourth Quarter

Arcos Dorados, Latin America's biggest restaurant chain and the world's largest independent McDonald's franchisee, on Wednesday said its revenues increased 7.6 percent in the fourth quarter of 2017 as compared to the same period last year, to \$851 million. Excluding Venezuela, the company said revenues increased 11.9 percent for 2017 as a whole to \$3.22 billion. On a constant currency basis, consolidated revenues grew 10.2 percent.

Facebook. Ponte Estratégia, the British firm's Brazilian partner, asked on Sunday to suspend an agreement with Cambridge Analytica, O Globo reported. Brazilians will vote in national



Zuckerberg // File Photo: Facebook.

and state-level elections in October. During a meeting this week, executives from Cambridge Analytica were filmed admitting to having used the same data-collecting strategies in Malaysia and Mexico, and planning to use the same strategy in Brazil this year, according to O Globo. Ponte Estratégia president André Torreta said the scandal had not hurt his firm's business, which has secured contracts with three gubernatorial candidates, Bloomberg reported.

ECONOMIC NEWS

Brazilian Central Bank Cuts Rates to All-Time Low

Brazil's central bank on Wednesday cut its benchmark interest rate to an all-time low, O Estado de S.Paulo reported. The central bank's nine-member monetary policy committee lowered the Selic rate by 25 basis points to 6.5 percent. The reduction marked a lowering of 775 basis points the key rate since October 2016, Reuters reported. At the same time, policymakers said they would likely cut the rate again at their May meeting amid low concerns about increasing inflation. The reduction had been widely expected, though most analysts in a recent poll by the wire service thought this cut would be the final one in the bank's largest loosening cycle in a decade. However, the

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would signify more than 44,000 new direct jobs and about 15,000 indirect jobs, generating around 800 million lempiras in taxes. We think the government has done a good job in managing the macroeconomy and now needs to focus on improving the microeconomy; a step toward this is the determination that was made about the 1.5 percent tax reform. COHEP has identified many oppor-

“ This tax reform is very important since it immediately benefits a huge number of small- and medium-sized enterprises...”

— Juan Carlos Sikaffy C.

tunities for the improvement of the business climate: administrative simplification, fiscal processes simplification and electronic government to reduce costs, hence promoting transparency and compliance, rule of law and trade facilitation. A task force between

central bank was explicit in forecasting another cut, saying inflation undershot its target last year for the first time ever.

Mexican Auditors Open Investigation of Pension Fund

Mexican federal auditors have opened a probe into Issste, the government workers' pension fund, Reuters reported on Wednesday. The investigation follows a report by the wire service that revealed the fund had invested more than \$20 million in construction firm ICA just before it declared bankruptcy in 2015. According to the report, ICA suspended debt payments just after the purchases. Issste lost most of the investment to a financial restructuring. The

the government and the private sector has started to work on identifying these kinds of opportunities for improvement to make changes in the short term; we know that only cooperation between the government and enterprises will lead Honduras to better social and economic development.”

A Michael McCleary, senior vice president - corporate controller, and Ernesto Grijalva, senior vice president of legal affairs for Latin America and the Caribbean at PriceSmart: “Honduras' 1.5 percent alternative minimum tax (AMT) on revenue is a well-intentioned law that has significantly increased tax collections in Honduras, but has also threatened the financial viability of low-margin businesses, particularly retailers. As a tax on revenue, the AMT can be confiscatory as it completely disconnects the traditional link between an income tax obligation and profitability. Trying to get the balance right between reducing tax evasion and not overtaxing the tax compliant is the challenge presently facing the Honduran government. The Honduran government should be

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news set off widespread anger in Mexico and triggered calls for a public inquiry after the transactions were reported last week. In a video posted to Twitter on Wednesday, Issste said it was cooperating with the investigation. The agency, which oversees the fund Pension- Issste, has denied that the investments have anything to do with corruption, saying that they made the investments under the impression the company was not going bankrupt, Reuters reported Wednesday. Corruption and the mismanagement of public funds have been major themes in Mexico's presidential race this year, according to El Sol de México. Mexican voters will head to the polls on July 1. Issste triggered the investigation internally, though it will be carried out by employees of the Public Administration Ministry. Pensions regulator Consar evaluated the transactions and said Issste did not violate existing rules.

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applauded for its recent initiative to reduce the impact of the AMT on businesses. Completely eliminating this tax on small- and medium-sized companies will certainly incentivize investment and job creation by those companies. However, leaving the AMT in place for larger taxpayers, albeit at a lower rate, leaves these larger taxpayers, including many existing and potential foreign investors, at a competitive disadvantage. Many large foreign investors operating in Honduras are already subject to stringent audits, financial controls and anti-corruption rules. Therefore, in conjunction with the revised AMT rules, the Honduran government should ensure that there is a practical methodology available to larger taxpayers to obtain a refund of the difference between the revenue-based AMT and the traditional corporate income tax, similar to the approach of other Latin American governments. This will allow businesses like PriceSmart to continue to deliver good value to consumers and thus contribute to economic growth and prosperity in Honduras."

A **Carlos Imendia, economic consultant based in San Francisco:** "The logic of exempting companies from the gross receipts tax is allegedly to reduce the tax burden so they can invest in capital, hire more workers and increase their output. The 1.5 percent tax is like a sales tax and not an income tax, inasmuch it's levied before companies discount expenses from income, supposedly under the idea that it will reduce evasion by enterprises that manipulate their accounts to show net losses. Hence, the exemptions benefit the interest groups with the highest political and economic leverage in the country. However, the proposal can't

go further to stir up jobs and investment if the business community as a whole, especially smaller businesses, and taxpayers in general, are not treated fairly regarding tax rates if the obsolete devolution system keeps harming their liquidity. Honduras has efficient collection mechanisms but lacks

“**A pending task is to reformulate the whole fiscal system with progressive income taxes, fewer exemptions and prioritizing expenses...**”

— Carlos Imendia

effective systems to return to taxpayers the sums levied and retained. A pending task is to reformulate the whole fiscal system with progressive income taxes and fewer exemptions as well prioritizing expenses to assure redistribution, productivity and fairness. Hopefully, the tax break will spur growth, but the key point is designing a fiscal policy with predisposition toward entrepreneurship, stability and welfare for society. It's also vital to uproot corruption both in public and private sectors, cement political stability, and upgrade investment in education, health and infrastructure."

Editor's note: The commentaries above were submitted to the Advisor before the country's Legislative Assembly approved modifications to the gross receipts tax on Wednesday.

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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