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FEATURED Q&A

Is Venezuela's Banking Sector at Risk of Collapse?



Venezuela's government last month announced a 90-day takeover of Banesco, which is led by CEO Juan Carlos Escotet. // File Photo: juancarlosescotet.org.

Q Banesco CEO Juan Carlos Escotet on May 4 blasted Venezuela's imposition of a 90-day government takeover of the bank, writing in a letter posted to Twitter that there are "no financial reasons to justify" the move. Venezuelan officials imposed the ban after accusing the bank of running a clandestine currency operation and undermining the government, arresting 11 Banesco executives in connection with the investigation, Reuters reported. The moves followed a separate report that the value of the country's entire banking sector had been reduced to just \$40 million, due to hyperinflation and currency controls. What is behind the Banesco controversy? How troubled is the banking sector in Venezuela? What effects did the May 20 presidential election have on the situation? What will it take to get Venezuela's financial services sector back on track?

A Jaime Martínez Estévez, partner at Rodner, Martínez & Asociados in Caracas: "The Banesco affair is one of many examples of the regime's violent and dubious actions. Once again, the regime has violated human rights, disregarded constitutional and legal provisions and presented fallacious motivations. Due process and presumption of innocence were again obviated. The broad supervision and regulatory powers of the superintendency of the banking sector institutions and the central bank, which could have prevented or stopped the alleged wrongdoing, if they were honest claims, were not used in a timely way. Such omissions, as well as the form and timing of the announcement of the action against Banesco's management, suggest

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TODAY'S NEWS

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Haitian Gov't Bans Oxfam Great Britain

The Caribbean nation's government formally banned the British aid organization from operations in the country following allegations that staff members used prostitutes there, including underage ones.

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Anglo American Selling Stake in Peru Project

The company is selling a stake in the Quellaveco copper project to Mitsubishi for \$600 million.

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POLITICAL

Protest Leaders Staging Strike to Demand Ortega's Removal

A coalition of civil society and other groups is staging a 24-hour strike to urge the removal of President Daniel Ortega. More than 150 Nicaraguans have been killed since the beginning of anti-government protests in mid-April.

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Ortega // File Photo: Nicaraguan Government.

POLITICAL NEWS

Oxfam Great Britain Banned From Operating in Haiti

Haiti's government on Wednesday banned Oxfam Great Britain from operating in the Caribbean nation following accusations of sexual misconduct against some of the British charity's staff members. Three Haitian ministries revoked Oxfam's non-governmental organization status in the country "for violation of Haitian law and serious violation of the principle of the dignity of human beings," The Guardian reported. The Haitian government had already suspended Oxfam in February. Oxfam staff members were accused of using prostitutes, including underage ones, in Haiti during a relief mission following the country's catastrophic earthquake in 2010. The aid organization expressed regret in a statement released after the ban was announced. "Oxfam is disappointed but understands the Haiti

government's decision to withdraw Oxfam Great Britain's permission to work in Haiti. The behavior of some former Oxfam staff working in Haiti following the 2010 earthquake was completely unacceptable. We have apologized to the government and the Haitian people for what happened." Oxfam added that it has "introduced stronger measures to prevent harassment and abuse, including a whistle-blowing hotline and a dedicated safeguarding team." The allegations first emerged in 2011, but the aid organization did not make the report from its internal investigation public until February, CNN reported. The charity dismissed four staff members for "gross misconduct," and three others, including Haiti country director Roland van Hauwermeiren, resigned.

Authorities Raid Chile Catholic Church Offices

Authorities in Chile conducted raids Wednesday at two offices of Chile's Roman Catholic

NEWS BRIEFS

Protest Leaders Staging Strike in Nicaragua to Demand Ortega's Removal

A coalition of business, religious, university and civil society groups in Nicaragua is staging a 24-hour national strike today calling for the ouster of embattled President Daniel Ortega, La Prensa reported. Gas stations, banks and retail shops are expected to remain closed through midnight. More than 150 Nicaraguans have been killed in cities and towns across Nicaragua since April 18, when protests against Ortega's proposed social security reforms turned violent. Protesters are now demanding the 72-year-old former guerrilla's "peaceful" removal from office.

Venezuela's PDVSA, Partners Halt Operations at Oil Upgraders

PDVSA and its partners have halted operations at two upgraders that convert extra-heavy oil into exportable crude and plan to stop work at two others, Reuters reported Wednesday, citing sources close to the projects. A tanker backlog at ports has delayed shipments, with more than 70 vessels waiting to load about 23 million barrels of oil, according to the report. Venezuela's crude production in the first four months of this year has fallen to the lowest annual average in over three decades.

U.S./Cuba Commission to Meet Today in Washington

A bilateral commission from the United States and Cuba is scheduled to meet today in Washington for the first time since the United States permanently withdrew personnel from its embassy in Havana over so-called "sonic attacks," NBC News reported Wednesday. The session will be the seventh meeting the two countries have held since restoring relations in 2015. Last week, the U.S. withdrew two more people from the embassy due to health concerns.

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other motivations. One could speculate they could just be a distraction in a dire environment or coercion. Fear of the regime by financial institutions and depositors has grown. New investment in the sector is less likely, and this will further debilitate the system, which suffers the pains of operating with absurd regulated rates, mandatory lending and rapidly increasing operational costs. Hyperinflation and currency scarcity are causing more trouble in the payments system. Exchange controls, which are at the root of the problems, are now just delaying a collapse. Recovery plans will only be viable after a change of government. Shock and progressive measures will be needed, within a comprehensive plan for the whole economy, with a major financial rescue package from the IMF and others. Mergers and acquisitions and consolidation of the system should be promoted."

A **Beatrice Rangel, director of AMLA Consulting in Miami Beach:** "The Banesco conundrum exposes the absence of rule of law in Venezuela as well as the political ties between financial institutions and government officials. To be sure, it is impossible for any banking institution compliant with the United Nations Conventions against Transnational Organized Crime (the Palermo Convention) to operate in Venezuela. A test of this was a television appearance by Diosdado Cabello announcing the government's acquisition of the bank for \$5 million, weeks before the intervention. Yet another proof was the incarceration and sudden freeing of the bank's executive team without charges, launching an investigation or even the issuance of a fine. As to the size and worth of the entire financial system in Venezuela, the issue seems irrelevant under

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Church in connection with an investigation into widening scandals of sexual abuse by clergy members, La Tercera reported. The raids were conducted at the headquarters of the Ecclesiastical Court in Santiago and also in Rancagua in Chile's O'Higgins region, where 14 priests have been accused of sexually abusing minors, the Associated Press reported. The raids happened two days after two Vatican envoys met with Chilean Attorney General Jorge Abbott and other prosecutors to discuss the scandals.

BUSINESS NEWS

Acciona Supplying Power From El Cortijo Wind Farm

Spanish construction firm Acciona said Wednesday it has started supplying electricity to the grid from its 183 megawatt El Cortijo wind farm in Tamaulipas, the first wind project to be brought into operation under Mexico's 2015 energy reform. The company, which invested around \$235 million in the park, began construction in March of last year. Located 40 kilometers south of Reynosa, El Cortijo consists of 61 Nordex wind turbines that will produce electricity from renewable sources equivalent to the consumption of 350,000 Mexican households. El Cortijo is the fifth wind farm that Acciona owns in Mexico. The company is also building 404 MWp photovoltaic complex in Sonora that is scheduled to be fully operational in the first quarter of 2019. In all, Acciona won awards to construct facilities that can produce 585.5 GWh of energy in the first long-term electricity auction under Mexico's energy reform.

Pay TV to Reach 79 Million Homes in Region By '23: Report

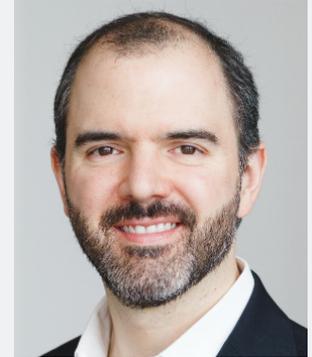
Pay TV in Latin America will reach 79.3 million homes in 2023, according to research released Wednesday today by industry research firm

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Ernesto Revilla Joins the Board of Advisors

We are pleased to announce that Ernesto Revilla has joined the Latin America Advisor's Board of Advisors.

Revilla is the head of Latin American Economics at Citi. He joined Citi in 2015 as Mexico economist, following a 12-year career at Mexico's Finance Ministry. Since last August, he has headed Citi's Latin American economic research team in New York.



Revilla

At Mexico's Finance Ministry, Revilla was director general of fiscal federalism, chief of the tax policy unit and from 2012 to 2015 was chief economist. In that position, Revilla headed macroeconomic planning, coordinated Mexico's National Development Plan from 2013 to 2018, served as advisor to the finance minister and participated in budget negotiations.

Earlier, Revilla was an economist at the World Bank in Washington, dealing with financial sector issues, as well as being an East Asia economist. Revilla studied economics at the undergraduate level at ITAM in Mexico and at the graduate level at the University of Chicago.

He has taught several courses in economics at both institutions and has published widely on economic topics.

Dataxis. Although that figure represents 8.5 million new pay TV customers who will be added as compared to 2017, it is "a conservative evolution" compared to the past, the company said, and pay TV subscriptions will not exceed 40 percent of households with television set. The largest market in the region, Mexico, will hold 28.9 percent of pay TV customers. Brazil will be a close second with 28.2 percent, while Argentina, Colombia, Chile and Peru will hold 26.5 percent of the region's pay TV subscribers combined. Central America, Bolivia and Paraguay will be the fastest growing markets due to their low rates of service penetration to date.

Anglo American Selling Stake in Peru Copper Project

In a bid to spread risk and share the costs of developing new assets, London-based Anglo American on Thursday said it would agree to

sell Japan's Mitsubishi a 21.9 percent stake in the Quellaveco copper project in Peru for \$600 million, Reuters reported. The deal would bring Mitsubishi's holding to 40 percent, while Anglo American will retain a 60 percent stake in the project. The "implied full value" of the project is \$2.74 billion, according to the report. Rising global prices for minerals and metals have revived investor interest after a price crash that started in 2015 led to a pause in activity. Earlier this week, Grupo Mexico's Southern Copper unit said it plans to spend \$250 million to start building the Michiquillay copper mine, with operations likely to start in 2022, three years earlier than previously forecast, El Comercio reported. Southern Copper won the public tender for the project, located in the country's northern Cajamarca region, in February. Peru's mining sector exports grew 27.2 percent in April, as compared to the same month last year, state news agency Andina reported Wednesday. Exported copper volume rose 10.4 percent in the month, with zinc exports also posting strong gains, according to the report.

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current circumstances in which the state is collapsing and thus there is no single market operating normally. All values are thus subjective. The May presidential election is a clear signal that the government leadership will continue on its path of destruction as long as it can hold on to power, even if it is a death sentence to a sizable proportion of the population."

A **Mark Narron, director for Latin America Financial Institutions at Fitch Ratings:** "The government's 90-day intervention of Banesco Banco Universal, Venezuela's largest private bank, was carried out in response to allegations of illegal exchange rate transactions. However, government officials have publicly raised the idea of nationalizing Banesco for years. For example, last December, a high-level official proposed nationalization in response to the bank's offer to buy back the government's 2.3 percent stake. In addition, the small size of the alleged illegal transactions, compared to more serious incidents of noncompliance at other institutions that received no regulatory response, plus the highly public nature of the actions during a presidential election campaign, warrant skepticism not only about the government's motives, but as to whether the 90-day horizon will be honored, and whether other banks could be targeted. The banking system has been much weakened by monetary expansion, capital and interest rate controls, and compulsory lending

requirements. Under rapidly accelerating inflation, the system has contracted significantly in real terms, raising questions about banks' capacity to finance an economic recovery when the current economic crisis comes to an end. As of March, Venezuela's banking system assets totaled \$3.5 billion

“**The banking system has been much weakened by monetary expansion, capital and interest rate controls, and compulsory lending requirements.**”

— Mark Narron

at the black-market exchange rate (\$16.5 billion at the official DICOM exchange rate). In comparison, in 2008, banking system assets were \$49 billion at the black market exchange rate (\$130 billion at the official exchange rate), providing some dimension to the scale of the system's contraction. The May 20 re-election of President Maduro suggests that policy actions to correct the severe imbalances in the economy, which would be necessary to get the financial services sector back on track, will not be forthcoming soon."

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

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What's Keeping You Up at Night?

The **Latin America Advisor** gets answers to the questions that informed executives are asking, every business day, so that you can rest easy.

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