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FEATURED Q&A

How Would a New U.S. Tax Affect Remittances?



U.S. Representative Ted Poe (R-Tex.) has advocated a tax on remittances sent from the United States. // File Photo: U.S. Congress.

Q U.S. Representative Ted Poe (R-Tex.) said during a House Foreign Affairs Committee hearing in July that the United States should consider charging a fee to immigrants who work in the United States and send money back to their home countries, referencing Mexico by name. Workers sent \$27 billion in remittances from the United States to Mexico in 2016, according to Mexico's central bank. The notion of taxing remittances has come up in the past, and several states are experimenting with the concept. Advocates for expanding existing walls and security on the southwest U.S. border with Mexico have long suggested that a tax on remittances could pay for the new infrastructure. What are the benefits and drawbacks of a fee on remittances? Is the political climate in Congress ripe for passing such a measure anytime soon? How might money flows to Latin America and the Caribbean be affected, and how much would such a tax affect the economies of recipient countries?

A Manuel Orozco, member of the Financial Services Advisor board and director of the Migration, Remittances and Development Program at the Inter-American Dialogue: "Taxation of income transfers abroad already exists through IRS income taxes. Adding another tax on top represents double taxation. The concept is a political instrument to deter low-skilled migration rather than secure the borders. The rationale is based more on a nativist anti-immigrant sentiment than on a focused approach to threats to our border from mass migration influxes. The fee is not only double taxation, but also regressive insofar as it punishes the lowest paid group in our society, working class

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TOP NEWS

BANKING

Caixa Eyes Loan Book Growth Next Year: CFO

Brazilian state bank Caixa Econômica Federal expects growth in its loan book, beginning next year, Chief Financial Officer Arno Meyer told reporters.

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DIGITAL PAYMENTS

Sagicor, DigiCell Rolling Out Mobile Payments App

The companies have received regulatory approvals for the app and plan to introduce it this year.

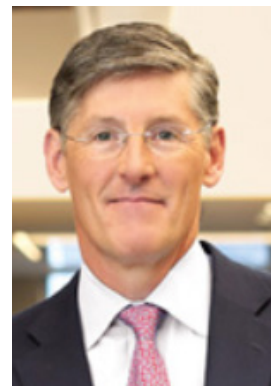
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BANKING

Citi Settles SEC Claims Over Trades, Mexico Loans

Citigroup has agreed to pay \$10.5 million to settle allegations from the U.S. Securities and Exchange Commission over claims of fraudulent loans at its subsidiary in Mexico and unauthorized trading. Citigroup CEO Michael Corbat in 2014 called the fraudulent Mexico loans a "despicable crime."

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Corbat // File Photo: Citigroup.

BANKING NEWS

Citigroup Settles SEC Claims Over Trades, Mexico Loans

Citigroup has agreed to pay \$10.5 million to settle allegations from the U.S. Securities and Exchange Commission that its employees engaged in unauthorized proprietary trading and also failed to detect fraudulent loans made by its subsidiary in Mexico, the SEC said in a

“Fraudulently induced loans” that Banamex made to Oceanografía led to \$475 million in losses and resulted from inadequate controls, the SEC said.

statement Aug. 16. The New York-based financial services company agreed to pay a \$5.75 million settlement related to the unauthorized trading and \$4.75 million for the claims related to the fraudulent loans made by the Mexican subsidiary, Banamex. Citi settled the cases without admitting or denying any wrongdoing. “We are pleased to have these matters resolved,” Citigroup spokeswoman Danielle Romero-Apsilos told Bloomberg News in an emailed statement. In 2014, bank regulators in Mexico accused Banamex of extending loans that violated lending rules. Citigroup’s chief executive officer, Michael Corbat, called the incident a “despicable crime” when disclosing it at the time. He also vowed to punish anyone responsible for wrongdoing. “Fraudulently induced loans” that Banamex made to oil services company Oceanografía led to \$475 million in losses and resulted from inadequate controls, the SEC said. Banamex loaned approximately \$3.3 billion to Oceanografía between 2008 and 2014 based on invoices and estimates for services that the company provided to Mexican state oil company Pemex,

the SEC said. Many of the work estimates “were fraudulent and did not reflect amounts Pemex actually owed” to Oceanografía, or OSA, the SEC added. “The SEC’s order finds that Banamex and Citigroup lacked the controls necessary to verify the invoices before making loans to OSA and ignored numerous red flags that should have led to discovery of the fraud,” said the commission. Citi fired several employees connected to the scandal. Also, between 2013 and 2016, three Citigroup traders mismarked positions that were illiquid in proprietary accounts, the Securities and Exchange Commission said. In two of those instances, the actions were made to cover losses related to unauthorized transactions, the SEC added. Citi later fired the traders involved and was forced to book losses of \$81 million. “Citigroup’s lax supervision and weak internal accounting controls allowed a handful of rogue traders to mismark positions over several years,” said Marc Berger, the head of the New York office of the SEC.

Caixa Econômica Federal Eyeing Loan Book Growth in 2019

Brazilian state bank Caixa Econômica Federal will restart loan book growth next year, Chief Financial Officer Arno Meyer told journalists on Aug. 20, Reuters reported. Caixa has been focusing on strengthening its Tier 1 capital ratio



Meyer // File Photo: Caixa Econômica Federal.

this year, while holding off the bank’s growth. The ratio reached 12.49 percent in the first half of 2018, while its total loan book shrank by 0.7 percentage points in the second quarter to 695.3 billion reais, as both corporate and

NEWS BRIEFS

Scotiabank Acquiring Banco Dominicano del Progreso

Toronto-based Bank of Nova Scotia, or Scotiabank, announced Aug. 14 that it has reached a deal to acquire Banco Dominicano del Progreso, a bank with operations in the Dominican Republic. The Canadian bank said its common equity Tier 1 capital ratio will be affected by approximately 10 basis points and that the transaction is not financially material to Scotiabank. The transaction, which is subject to regulatory approval, will make Scotiabank the Dominican Republic’s fourth-largest full-service bank by assets.

Millennium Management Increases Stake in Banco de Chile

Millennium Management during this year’s first quarter boosted its stake in Banco de Chile by 57.5 percent, the Fairfield Current reported Aug. 20. The New York-based hedge fund bought an additional 10,495 shares of the Chilean bank during the first quarter, bringing its total stake to 28,756 shares, according to its most recent Securities and Exchange Commission disclosure. At the end of the second quarter, Millennium Management’s holdings in Banco de Chile were worth \$2.89 million, the newspaper reported.

Sagicor Bank Jamaica, Digicel Rolling Out New Mobile Money App

Digicel Group is partnering with Sagicor Bank Jamaica to introduce a new mobile money app that can be used internationally, the Jamaica Gleaner reported Aug. 17. Mastercard is also involved in the partnership to introduce a new card to be used with the new mobile money service. The offering has received required regulatory approvals and is expected to be available later this year.

individual credits contracted. Caixa reined in growth as its asset quality dropped after lending significantly under Brazil's Workers' Party in the previous presidential administrations, Reuters reported. Moreover, the bank, which primarily provides mortgages for lower-income individuals, is reportedly eyeing a government capital injection totaling 872 million reais, or \$222.89 million, repaid out of funds the government had collected from the state bank as dividends, said Meyer. He also said Caixa was considering issuing a bond in the coming months to further raise the Tier 1 capital ratio. Also on Aug. 20, Caixa said its net income rose to 3.63 billion reais, or \$885.44 million, in the second quarter, a 34 percentage increase year-on-year, Folha de S.Paulo reported. A drop in loan-loss provisions made up for the contraction in loans, Reuters reported.

CREDIT CARD NEWS

Brazil's Stone Pagamentos Plans Initial Public Offering

Brazilian credit card processor Stone Pagamentos is planning for an initial public offering, Reuters reported Aug. 17, citing three unnamed sources with knowledge of the matter. Stone has hired several banks, including Goldman Sachs, JPMorgan Chase, Citigroup, Morgan

The IPO is reportedly planned for shortly after Brazil's presidential election.

Stanley, Credit Suisse and Itaú Unibanco to manage the anticipated IPO, which is scheduled to take place shortly after the October presidential election in Brazil, the sources said. The company expects the Brazilian stock market to bounce back if a somewhat investor-friendly candidate wins the race. One source said Stone was considering a dual

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migrants. It also would punish the money transfer industry, which is led by small and in many cases minority-owned businesses, and which provides much-needed access to millions of financially underserved people. The wall as it stands as a project does not lack the funds, but rather lacks the political support Trump needs to fulfill his campaign promise. Given the current political standoff

“This time, the concept was introduced in order to divert attention from significant immigration policy matters...”

— Manuel Orozco

ahead of the midterm elections and growing polarization in Congress is unlikely to push forward a tax. In early 2017, the tax proposal HR1813 was introduced with almost no support (and just 13 co-sponsors). This time, the concept was introduced in order to divert attention from significant immigration policy matters and to continue subordinating migration under national security as a matter of real threat. The facts, however, show that remittances contribute to economic well-being and growth in nations that are struggling with major challenges, including those with organized crime narco-trafficking networks transshipping more than 500 tons of cocaine annually into the United States. A serious consideration of border threats and migration would conclude that promoting guest worker programs, increasing the impact of migration on development and

listing in New York and Brazil's B3 stock exchange. The IPO will be primary, meaning Stone will issue new shares and receive all proceeds, which will then be used to invest in expanding the company, Reuters reported. One source

having a different approach to drug cartels and cocaine consumption will strengthen the U.S. border.”

A Oscar Chacón, co-founder and executive director of Alianza Americas: “Representative Poe’s proposed tax on remittances is not a new idea, but it is a bad one, both for humanitarian and economic reasons. Although the \$27 billion to Mexico is the largest in dollar terms, remittances play an even more outsized role in the economies of smaller countries. In 2016, the estimated two million Salvadorans living in the United States, provided more than \$4.5 billion in remittances. That figure is almost twice as much as total U.S. public and private sector investments combined in El Salvador and more than 17 percent of the country’s total GDP. According to recent Inter-American Development Bank studies, remittances play a key role in the already-fragile social safety nets in Central America. Any policy that limits that support will have direct humanitarian consequences. The vast majority of remittances are going to women and poor households. Alianza Americas has sent multiple fact-finding delegations to the region, where we have heard dozens of stories of children who are able to continue in school and elders who are able to remain in their homes due to remittances. Unfortunately, the remittance tax idea is not the only short-sighted policy on the table. An even graver threat is the pending termination of Temporary Protected Status for more than 300,000 Central Americans. These programs, which were in place for nearly 20 years, have been summarily canceled, with final grace periods ending soon. Canceling TPS will effectively

Continued on page 6

said existing shareholders are also looking to sell their shares. Cielo SA, the country’s largest credit and debit card processor, has been facing increasing competition from newcomers such as Stone and PagSeguro, another

Brazilian card processing company which went public earlier this year. Cielo's second quarter profits missed analysts' estimates by nearly 13 percent, registering a net income of 8.17 million reais, or \$219.33 million, Valor Econômico reported.

POLITICAL NEWS

Brazil Vows to Keep Border Open as Venezuelans Pour in

A top Brazilian official said Aug. 20 that the country will not close its border as Venezuelan migrants pour in and tensions rise in towns along the border, O Estado de S.Paulo reported. "Closing the border is unthinkable, because it is illegal," Institutional Security Minister Gen. Sérgio Etchegoyen told reporters. "The law determines the reception of refugees and immigrants in this situation." Closing the border is "a solution that does not help the humanitarian issue at all," he added. Etchegoyen's comments came two days after residents of the Brazilian border town of Pacaraima attacked Venezuelan migrants after the robbery, stabbing and beating of a local store owner on Saturday, the Associated Press reported. Brazilians blamed the attack on four immigrants. The 55-year-old store owner was released from the hospital on Sunday. Tensions have calmed in Pacaraima since Saturday, but authorities have not made any arrests in the wake of Saturday's violence, Etchegoyen said. Brazil's government is sending 120 members of a military-style police unit to Pacaraima, which is in Roraima State. Half of that force has arrived in Roraima's state capital, Boa Vista, while the other half does not yet have an arrival date set, the AP reported. Approximately 12,000 Brazilians live in Pacaraima, and five times that number of Venezuelans has flooded into the town. Some 2.3 million Venezuelans have fled the economic and political crises in their home country since 2014, according to the United Nations. Roraima's governor, Suely Campos, has requested that Brazil close its border with

ADVISOR Q&A

Is El Salvador Doing Enough to Fight Corruption?

Q Former Salvadoran President Antonio Saca pleaded guilty in July to the embezzlement and laundering of more than \$300 million during his administration in an attempt to reduce his prison sentence to 10 years instead of 30, his lawyer said this month. Saca, who led El Salvador from 2004 to 2009, and six other high-level officials are on trial. Has corruption improved or worsened in El Salvador since Saca left office? What has the country done to reduce it? How can external actors, including countries such as the United States and international agencies that support the country with aid, play a stronger role in fighting corruption in El Salvador?

A Mari Carmen Aponte, former U.S. ambassador to El Salvador and former acting assistant secretary of state for Western Hemisphere affairs: "Corruption in El Salvador has been a long-standing problem even before former President Saca departed office in 2009. During former President Mauricio Funes' term from 2009 to 2014, the magnitude of his alleged illicit enrichment was an open secret. At the same time, however, there have been important milestones that give rise to optimism. Starting with the Supreme Court's strengthening of its Probity Section in 2015, followed by the election of Attorney General Douglas Meléndez

in 2016, there have been groundbreaking prosecutions and convictions of previous high-ranking government officials, including former Presidents Funes (in absentia), and Saca. For the first time in the history of the country, Salvadorans have witnessed past officials face well-grounded corruption charges. Powerful figures are now subject to the justice system. Certainly, this is a dissuasive mechanism. Notice has been served on those with presidential aspirations: you can no longer act with impunity. The criminal *modus operandi* has been revealed, and civil society is watchful. So are other international players. Third party actors, including the United States, working with the Salvadoran government have implemented several effective efforts to strengthen accountability, transparency and rule of law. From training prosecutors to sanctioning high profile individuals, several of these tools have been used successfully. This is the juncture to intensify the support for the growing anti-corruption community inside and outside the Salvadoran government. The energy is decidedly on the side of those fighting this scourge. This is the moment to stand with them."

EDITOR'S NOTE: More commentary on this topic appears in the Aug. 17 issue of the *Latin America Advisor*.

Venezuela or send more help to the state. On Aug. 19, she sought an order from Brazil's highest court to temporarily halt Venezuelan immigration into Brazil. Campos has asked Brazilian officials for \$45 million to compensate for expenditures the state has made since 2016 to address a growing influx of migrants. Venezuelan migrants have also streamed into other countries, including Colombia. More than

one million Venezuelan migrants have entered the neighboring Andean nation, which U.S. Defense Secretary James Mattis said has had a "destabilizing impact" on Colombia, ABC News reported. On Aug. 17, after a visit to Bogotá, Mattis announced that the United States would send the USNS Comfort, a Navy hospital ship, to Colombia to provide urgent medical care to Venezuelan refugees.

NEWS BRIEFS

Mexico's President, President-elect Pledge Cooperation

Mexican President Enrique Peña Nieto and President-elect Andrés Manuel López Obrador on Aug. 20 agreed to work together despite substantial differences on many issues, including education reform and an airport infrastructure project, Los Angeles Times reported. "It is an institutional transition but it is also a respectful transition because we have received help without conditions from the constitutional president," said López Obrador. Peña Nieto, in turn, said he would do all he could to make sure López Obrador begins his term successfully. The men appeared together at the National Palace in Mexico City.

More Argentines Likely Living in Poverty Now Than Last Year: Macri

More Argentines are likely to be living below the poverty line now as compared to last year, President Mauricio Macri said Aug. 17, Reuters reported. The economy is heading toward a recession following a currency crisis and a drought that crimped agricultural production. "This devaluation brought a rebound in inflation, and inflation is the largest driver of poverty, and regrettably, we are going to lose some of the gains we have made in poverty reduction," Macri told reporters in Jujuy province.

Chilean Police Arrest Two in Connection With Bomb Threats to Planes

Chilean police arrested two men in connection to several bomb threats to nine commercial airplanes in Chile, Peru and Argentina, Reuters reported. One unnamed Chilean man was arrested Aug. 17 on charges of making threats of explosives. A second Chilean man was detained at Santiago's airport and later appeared in court.

Costa Rica's Alvarado Calls for Calm After Violent Protests

Costa Rican President Carlos Alvarado called for "calm" and "peace" in a national television address Aug. 19 following violent anti-immigration demonstrations in San José the previous day. Marchers took the streets around La Merced Park in the capital, where Nicaraguan migrants fleeing months of violence in their



Alvarado // Photo: Costa Rican Government.

home country have been camping out, La Nación reported. Demonstrators also gathered at several other parks in the capital to protest the increased influx of Nicaraguans in recent months. Some demonstrations turned violent, with police arresting 44 individuals, many with criminal records. In his address, Alvarado said his administration has budgeted the "necessary resources for migratory control that is safe, organized and registered," with measures that include increased police presence at border towns and health monitoring of Nicaraguans arriving there.

ECONOMIC NEWS

Maduro Announces Devaluation, 3,000% Minimum Wage Hike

Venezuelan President Nicolás Maduro on Aug. 17 announced a 96 percent devaluation of the country's bolívar currency, which is already nearly worthless, and a more than

3,000 percent increase in the minimum wage, The Washington Post reported. In his evening address on state television, Maduro said the bolívar, which on Aug. 20 shed three zeros, would also be backed by the "petro," Venezuela's virtual currency. The digital currency, which some analysts have called a sham, is linked to oil reserves. The measures come as the Andean nation's rate of inflation is expected to hit one million percent this year, according to the International Monetary Fund. "I want the country to recover and I have the formula. Trust me," Maduro said, Reuters reported. Maduro added that his government would overhaul the country's exchange rates and also peg salaries, prices and pensions to the petro digital currency, which the government launched in February. In March, U.S. President Donald Trump signed an order barring U.S.-based financial firms from conducting transactions with the petro, and U.S. officials have called it a scam.

Voters Should Decide on Mexico City Airport: AMLO

Mexican President-elect Andrés Manuel López Obrador said Aug. 17 he would allow voters to decide whether to continue to construction of Mexico City's new airport, either through a nationwide survey or a referendum, El Universal reported. "So we don't make the wrong decision, the best thing is to ask," said López Obrador, who is widely known as AMLO, The Wall Street Journal reported. The airport is about one-third complete, and some \$5.2 billion has been spent on its construction. López Obrador had criticized the project during his campaign, and has proposed the "cheaper" option of keeping the existing Benito Juárez Airport and expanding a separate nearby military airport. U.S. aviation experts have said that alternative may be risky, since the two airports are just 25 miles apart, raising the possibility of collisions. Others have criticized putting such a technical decision to a vote. "The idea is pure populism," said Alejandro Schtulmann, founder of consulting agency Empra, The Wall Street Journal reported.

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kill a lifeline of remittances from currently work-authorized people. The negative consequences will be swift and severe for the economies of these countries and their families who depend on remittances. For a government that purports to want to curtail unauthorized migration, these proposals seem misguided at best, as they are bound to aggravate the very conditions that cause people to migrate in the first place.”

A **Dan Stein, president of the Federation for American Immigration Reform:** “Americans are familiar with the direct costs of our nation’s failed immigration policies. Millions of low-wage illegal aliens, who pay little in taxes, and their dependents, consume billions of dollars in services such as public education and health care. Moreover, under our family chain migration system, nearly half of all household headed by legal immigrants rely on at least one form of public assistance. What is less familiar to most people are the hidden costs of immigration. In 2016, \$138 billion left the U.S. economy in the form of remittances—a figure that is greater than the economic output of 16 states. That’s \$138 billion a year that is not recirculated through the local economies where it is earned, spurring economic growth and generating tax revenues for local

governments. Charging a fee on the money that is being sent out of the country is a way to recoup at least a small part of the direct and indirect costs associated with mass immigration. Large-scale remittances can also be harmful to the countries on the receiving end. Unhealthy dependence on money sent

“**In 2016, \$138 billion left the U.S. economy in the form of remittances—a figure that is greater than the economic output of 16 states.**”

— Dan Stein

home by citizens working abroad impedes economic reform and development in many countries. In Mexico, remittances are now the single-largest source of foreign income, exceeding even oil revenues. Rather than building strong domestic economies, nations that rely on their most productive citizens working in other countries are doomed to long-term penury. In the long run, breaking that dependence will be as beneficial to the receiving countries as it is to the United States.”

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