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FEATURED Q&A

Are Efforts to Crack Down on Tax Havens Working?

Q By the end of last year, 195 countries had signed tax-information exchange agreements, prompted by increased scrutiny from the G-20, the head of the Organization for Economic Cooperation and Development's Tax Center announced Jan. 19. Among the countries to have 'substantially implemented' the anti-tax haven standards were Antigua and Barbuda, Argentina and Mexico. How important are the agreements in efforts to fight terrorism financing and reduce financial instability? How well are countries in Latin America and the Caribbean implementing the agreements? What are the next steps in cracking down on tax havens?

A Marta Colomar Garcia and Sumeet H. Chugani, attorneys at Diaz, Reus & Targ, LLP in Miami: "Protecting domestic revenue is just one of several reasons why G-20 nations are cracking down on tax havens with such fervor. Other reasons include the ability to track the international flow of funds used for terrorist activity or money laundering. Tax havens, however, remain undeterred and continue to exploit a worldwide demand for tax avoidance. Many Latin American nations, such as Panama, refuse to negotiate Tax-Information Exchange Agreements (TIEA) with the United States. For these nations, there is a strong upside to attracting foreign capital which outweighs any of the

goals of regulation. For these countries, a bigger stick will be required in order to force compliance with any regulatory regime. Yet signing a TIEA is clearly not enough. Signatories are not realizing the full potential of such agreements. The cross-border exchange of information remains aspirational. Although TIEAs allow for the exchange of information based on a corresponding nation's 'request,' the exchange of information is not automatic. Information is hard to collect and expensive to locate for many Latin American countries. Yet the timely collec-

Continued on page 4



Remittances Delayed in Aftermath of Haiti Earthquake

Haiti's devastating Jan. 12 earthquake, which officials believe may have killed as many as 200,000 people, restricted the remittance flow into Haiti when it was most needed. See story on page 4.

Photo: Agencia Brasil.

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FINANCIAL SERVICES BRIEFS

Citigroup Unit Buys Stake in Colombia's Almacenes Exito

A **Citigroup** unit on Jan. 19 bought a stake in **Almacenes Exito**, Colombia's biggest retailer, Dow Jones reported, citing **Grupo de Inversiones Suramerica**, which sold the 5.8 percent stake. The holding company had the approval of France's **Casino Guichard-Perrachon**, which controls Exito, to sell the stake to **Citigroup Global Markets**. The unit bought global depositary shares equivalent to 19.37 million ordinary shares of Exito for 21,803.68 Colombian pesos (\$U.S. 11.14) each.

Bancomer Wants 500,000 Clients for Mobile Banking Service

BBVA Bancomer is aiming to get 500,000 customers to use its new mobile banking service this year, Dow Jones reported Jan. 19. The Bancomer Mobile service lets customers check account balances, make transfers between accounts and pay for items bought at retailers connected to the Nipper mobile payment system, the bank said. BBVA Bancomer said customers can use the free service with any mobile phone carrier.

NCB Jamaica to Participate in Country's Debt Exchange

National Commercial Bank Jamaica will fully participate in the government's debt-exchange program, the *Jamaica Gleaner* reported Jan. 24. However, the banking group said its participation would lead to lower income yields. The debt exchange program's main objective, reducing "the interest-cost burden on our government," can only be achieved with the financial sector's backing, said Patrick Hylton, **NCB Group's** managing director.

Financial Services News**Brazil's Banco Bradesco Agrees to Buy Ibi Mexico**

Brazil's **Banco Bradesco** said Jan. 22 that it has agreed to purchase **Ibi Mexico** for an undisclosed amount, Reuters reported. The acquisition marks the first international expansion in retail banking for Bradesco, Brazil's second-largest non-government bank. [Editor's note: See related Q&A in the Dec. 24-Jan. 13 [issue](#) of the *Financial Services Advisor*.] Bradesco signed a memorandum of understanding with Ibi's parent company,

“If we consider the size of the market, obviously Mexico is an extremely important market.”

— *Marcelo Noronha*

Switzerland's **Cofra Holding**. The cash transaction is expected to be final by March 30. Bradesco's takeover of Ibi extends from an agreement last year between the Brazilian bank and Cofra, in which Bradesco bought Ibi's Brazilian operation for 1.4 billion reais (\$U.S. 766.7 million) in stock. Ibi mainly operates inside **C&A** clothing stores, which Cofra also owns, and offers credit cards and other consumer finance products. "If we consider the size of the market, obviously Mexico is an extremely important market," Marcelo Noronha, who heads Banco Bradesco's credit card operations, told reporters in a conference call, Reuters reported. "Mexico and Brazil are the two main economies in Latin America. Obviously there is enormous potential in that market, the consumer finance market." The deal also includes a 20-year agreement for Bradesco to be able to exclusively offer financial products in C&A's Mexican stores. Ibi Mexico has 1.3 billion pesos (\$U.S. 100 million) in loans and more than 1 million credit card customers. The deal is pending approval by Mexican and Brazilian authorities.

Venezuela Nationalizes Three More Private Banks

Venezuela's government on Jan. 18 nationalized three more banks, **InverUnion Banco Comercial**, **Banco Del Sol** and **Mi Casa**, the Associated Press reported. The action by state banking regulator Sudeban happened several weeks after Venezuela seized eight other financial services firms allegedly for running afoul of banking laws. More than 95 percent of the banks' deposits would be guaranteed up to \$14,000 for each of the banks' 165,000 customers. The latest round of nationalizations occurred because the banks had large financial losses and lacked enough cash on hand to cover deposits, as required by law, the regulator said, adding that Mi Casa had suffered approximately \$736 million in losses so far this month. President Hugo Chavez's government has sought to expand the government's role in the banking sector, including last year's purchase for \$1 billion of **Banco de Venezuela** from **Grupo Santander**. In December, Venezuela opened a new state-run bank using the deposits of three previously nationalized banks. The government now controls about 27 percent of the country's banking sector.

Britain's HSBC Pours \$1.3 Billion into Brazil, Mexico Units

Britain's **HSBC Holdings** has invested \$700 million in its Mexican unit and \$600 million in its Brazilian unit, Reuters reported Jan. 20. The capital increase at the bank's Mexican operation will fuel increased lending and will also pay for branch remodeling, HSBC said. The additional capital will allow **HSBC Mexico** to provide more loans to consumers and businesses, said the **Pen** Mexican unit's head, Luis Pena. "This commits us very strongly



Pen
Mexican unit's head,
Luis Pena. "This
commits us very strongly
File Photo: Mexican
Government.

to say how we're going to make this investment profitable—preserving it and producing a return on capital that's attractive," Pena told reporters. In November, Brazil saw its largest lending increase in three months. Latin America fueled 11.6 percent of HSBC's pre-tax profits for the first half of 2009, Dow Jones reported Jan. 20, citing the bank. The region's gross domestic product is expected to grow 4.1 percent this year, as compared to a 1.8 percent contraction last year, the U.N. Economic Commission for Latin America and the Caribbean said last month. Brazil, Latin America's largest economy is expected to grow 5.5 percent and Mexico is projected to have 3.5 percent growth. Still, Emilson Alonso, the president of **HSBC Latin America**, said the rebound following the global economic crisis will not likely be fully felt until 2011. "We are only going to make money if investors invest in the real economy," he told Dow Jones. The bank also wants to expand in Chile, Colombia and Peru, Alonso said. "We are looking every single day to see if there is an opportunity to acquire something, but it isn't easy," he said. "The scarcity of good assets to be acquired is a reality and they are expensive."

Brazil's Banco Pine Plans Bond Sale to Boost Lending

Sao Paulo-based **Banco Pine** is planning to sell \$150 million in bonds in order to increase lending in Brazil, Bloomberg News reported Jan. 21. The bank, which focuses on lending to mid-sized compa-

“Clients can see strong domestic growth in the next three or four years.”

— *Clive Botelho*

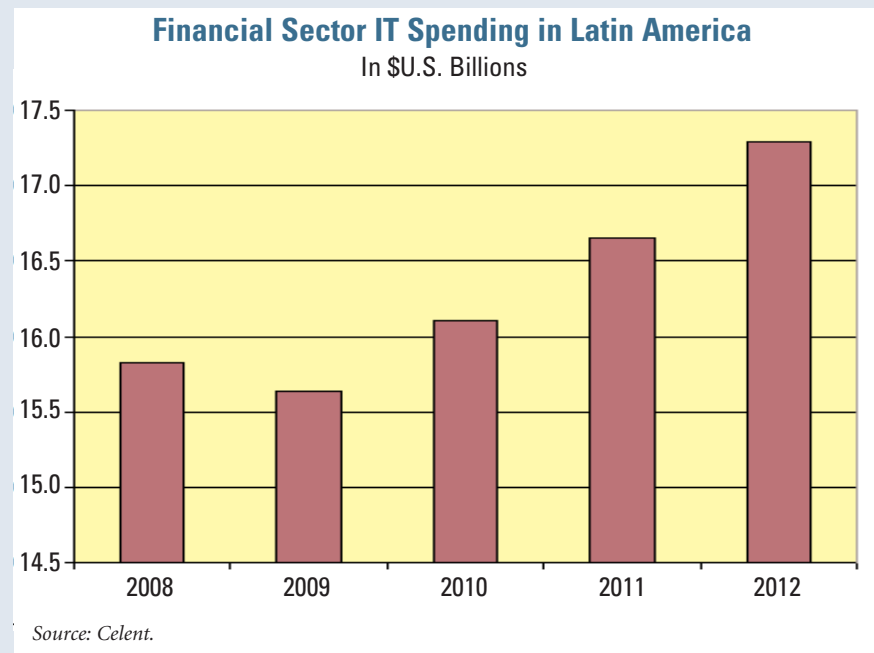
nies, has hired **HSBC Holdings**, **Credit Suisse Group** and **Banco Espirito Santo** to coordinate the sale, Banco Pine's chief financial officer, Clive Botelho, told

Research Alert

Region's Financial Firms Will Boost IT Spending 3% This Year

Financial services companies in Latin America will boost spending on information technology by 3 percent this year, outpacing expansion in North America and Europe, before falling behind in 2011, consulting group **Celent** said in a research report released Jan 14.

IT spending by financial firms in the region will surpass \$16.1 billion in 2010, up from \$15.6 billion last year, according to Celent's estimates, which include companies in Argentina, Brazil, Chile, Mexico and Venezuela (see chart below). While surpassing growth projections for North America and Europe, where banks were hardest hit by the financial crisis, Latin America trails both Africa and the Asia-Pacific region, which will see IT spending in the sector increase by 3.9 and 5.1 percent respectively this year, Celent said.



Global IT expenditures by financial services companies are expected to increase 2.9 percent this year to \$357.4 billion, marking a turnaround from last year's 2.5 percent decline. "After a difficult 2009, growth rates are starting to climb across all regions," said Jacob Jegher, a coauthor of the report. "2010 has the potential to be the start of a turnaround, but there is still plenty of uncertainty in the industry and we are not completely out of the woods."

Looking ahead to 2011, Celent expects IT expenditures by financial firms in Latin America to grow by 3.4 percent, falling behind North America, Africa and the Asia-Pacific region while staying on par with Europe. Firms in Latin America currently account for just 4.5 percent of global IT investments by financial services institutions, compared to 25.2 percent for Asia and the Pacific, according to the report. Meanwhile, maintenance costs still make up the largest share of global IT spending for the sector, at 72.7 percent in 2008, although Celent expects that number to fall to 70 percent by 2012. Celent's report said most Latin American companies in the sector would devote the majority of their IT budgets to "hardware and internal development."

Bloomberg News in an interview. He added that the bank aims to increase this year's lending by a minimum of 800 million reals (\$U.S. 447 million). "Clients can see strong domestic growth in the next three or four years," Botelho told Bloomberg News. "The outlook for corporate credit growth is very promising."

Remittances News

Remittances Delayed in Aftermath of Haiti Earthquake

Haiti's devastating Jan. 12 earthquake, which officials believe may have killed as many as 200,000 people, has also severely restricted the flow of remittances into the country at a time it is most needed, said Manuel Orozco, a member of the *Financial Services Advisor* board and director of the Inter-American Dialogue's Remittances and Development Program. "The impact of the earthquake has been devastating and has affected the country's infrastructure, including that of financial payment transactions," Orozco wrote Jan. 18 in the magazine *America Economía*. In 2008, Haitians abroad sent \$1.2 billion

“The impact of the earthquake has been devastating and has affected the country's infrastructure, including that of financial payment transactions.”

— Manuel Orozco

back home, but that figure fell 12 percent last year amid the global economic crisis, said Orozco, citing Haiti's central bank. The earthquake not only killed many employees of financial institutions, but also destroyed much of the electronic and physical infrastructure that allows for the flow of money transfers, Orozco said. As a result, remittances into Haiti have been delayed precisely when Haitians most need cash to acquire basic necessities, he added. As Haitians begin the process of rebuilding, special emphasis must be

Featured Q&A

Continued from page 1

tion and dissemination of accurate information is critical to the fight against terrorism, money laundering and tax evasion. To contribute to the overall regulatory regime, the agreement must be enforced by the necessary local authorities who have the will, desire and capacity to share and act on the information that is available. Until such an environment exists, the treaties will be wholly ineffective. Greater steps must be taken to channel tax information across borders. Developing both an awareness and an appreciation for a regulatory regime is a crucial first step. Mere 'requests' for information—a key aspect of TIEAs—will continue to lead to untimely results and failed prevention. To change that, the incentives for individuals and corporations alike to utilize these havens must be cut dramatically—with stringent punishment for circumvention of U.S. regulations and the corporate tax code. The new limits on offshore secrecy and taxation will undoubtedly take years to implement; however, the push for a transparent international tax regime is clearly underway.”

A Edward L. Monahan Jr., a member of the *Financial Services Advisor* board and a strategy advisor based in Boston and Miami: "Transparency and information exchange are a foundation of efficient financial markets and effective public policy within developing

placed upon restoring and modernizing payment networks as soon as possible, Orozco said. Haitian officials have said the process of rebuilding will be long and difficult. During a Jan. 25 meeting in Montreal, which U.S. Secretary of State Hillary Clinton and representatives from several other countries attended, Haitian Prime Minister Jean-Max Bellerive said Haitians had been "bloodied, martyred and ruined" by the earthquake, Reuters reported. "What we're looking for is a long-term [development] commitment," he said. "At least five to 10 years." Meantime, the international relief effort,

nations as well as leading economies. In a globalized marketplace, traditional tax haven secrecy has been eclipsed by instantaneous communication, transactional technology and relentless multinational competition. Tax information exchange agreements form a cornerstone

“Persistence of public and private corruption promotes lack of accountability across individual, corporate and institutional sectors.”

— Edward L. Monahan Jr.

of the OECD's and G-20's integrated anti-corruption and anti-bribery initiatives that were launched in the late 1990s. Persistence of public and private corruption promotes lack of accountability across individual, corporate and institutional sectors. Tax fraud robs fragile economies of revenue for public spending, inhibits private investment and stifles economic growth. Developing countries have an urgent need to protect and strengthen their tax bases as a means to pay for reform programs and promote institutional self-sufficiency. Historically, tax haven abuse has been the context within which terrorists, narcotics traffickers and financial criminals operate

Continued on page 6

which includes thousands of U.S. and U.N. troops, are continuing efforts to provide food, medical care and other needs to survivors, although they remain hampered by the destruction of roads and other infrastructure.

Political News

Pinera Defeats Frei in Chile's Presidential Election

Billionaire businessman Sebastian Pinera defeated former President Eduardo Frei

in Chile's Jan. 17 presidential runoff election, putting an end to two decades of rule by the center-left Concertacion coalition that has governed Chile since the end of Gen. Augusto Pinochet's dictatorship. Pinera, who takes office in March, won the election with 52 percent of the vote to Frei's 48 percent and pledged to "break down the walls dividing us and build new bridges to bring us together," Agence France-Presse reported. During his campaign, Pinera pledged to oversee creation of 1 million new jobs and economic growth of 6 percent, the *Financial Times* reported.



Pinera

File Photo: Pinera Campaign.

Honduran Court Head Dismisses Charges Against Military Chiefs

The president of Honduras' Supreme Court on Jan. 26 dismissed charges against the country's six top military commanders who had been accused of abuse of power for ordering soldiers to fly President Manuel Zelaya out of the country during the June 28 coup that ousted him. In a statement, Supreme Court President Jorge Rivera said "prosecutors failed to prove the military chiefs acted with malice," the Associated Press reported. Rivera said the charges were unfounded because the military commanders acted to preserve the peace and because they did not intend to harm Zelaya. The case against the commanders did not question the coup itself, only whether armed forces head Gen. Romeo Vasquez and five other military leaders were wrong in expelling him from the country. On Jan. 27, President-elect Porfirio Lobo is scheduled to be sworn in. Zelaya, who has been living in the Brazilian Embassy in Tegucigalpa since sneaking back into the country in September, has said he would leave when Lobo takes office. Lobo and Dominican President Leonel Fernandez signed an accord Jan. 20 that grants Zelaya safe passage to the Dominican Republic. Among those expected to be present for Lobo's inaugu-

ration is Arturo Valenzuela, the U.S. assistant secretary of state for Western Hemisphere affairs. [Editor's note: See related Q&A in the Jan. 15 [issue](#) of the Dialogue's daily *Advisor*.]

Former Guatemalan President Portillo Arrested After Indictment

Former Guatemalan President Alfonso Portillo, who was indicted Jan. 25 on federal money laundering charges in the United States, was arrested the next day in Izabal province as he prepared to flee the country by boat, the Associated Press reported. "They had hired a boat to leave from a beach at 9 a.m., but before that, police and soldiers surrounded the house where he was hiding out," Carlos Castresana, head of the U.N.'s International Commission Against Impunity in Guatemala told the AP. The indictment, unsealed Monday in New York, alleges that Portillo embezzled public funds, including \$1.5 million in donations from Taiwan intended to purchase library books and nearly \$4 million from the Guatemalan Ministry of Defense.

“Alfonso Portillo is charged with converting the office of the Guatemalan presidency into his personal ATM.”

— Preet Bharara

Portillo also stands accused of misappropriating money from the publicly financed reserves of Guatemalan bank **Credito Hipotecario Nacional**. Portillo allegedly used foreign banks, including ones in the United States, to launder stolen money. "Alfonso Portillo is charged with converting the office of the Guatemalan presidency into his personal ATM," Preet Bharara, the U.S. Attorney for the Southern District of New York, said Jan. 25 in a statement. Portillo has denied the allegations. Portillo had fled to Mexico in 2005 after losing immunity from prosecution but was extradited to Guatemala in 2008.

POLITICAL & ECONOMIC BRIEFS

Venezuelan Vice President Carrizalez Resigns

Venezuelan Vice President and Defense Minister Ramon Carrizalez resigned Jan. 25, citing personal reasons, Agence France-Presse reported. "My resignation is not the result of any discrepancy with government decisions, and any other version about my reasons for resigning is false and malicious," said Carrizalez in a statement. Carrizalez's wife, Environment Minister Yubiri Ortega, also stepped down Jan. 25.

Brazil Raises Economic Growth Estimate to 5.2% for This Year

Brazilian Finance Minister Guido Mantega on Jan. 21 said the government raised its economic growth estimate for this year to 5.2 percent from 5 percent, EFE reported. In a [presentation](#) at a cabinet meeting, Mantega predicted GDP growth would average 5 percent over the next five years. He added that the country's economy would likely add 1.6 million jobs in 2010 and that domestic demand would grow by 7.3 percent.

Official: No Time Remaining for Referendum on Uribe Re-Election

A referendum that voters would have to approve in order for Colombian President Alvaro Uribe to run for a third term could not be held in time for Uribe to stand for re-election, the country's top election official said Jan. 19, EFE reported. Carlos Ariel Sanchez, the national registrar, said that even if Colombia's Constitutional Court approves placing a referendum on the ballot within the next month, there would not be enough time to organize and hold it before the presidential election, which is scheduled for May 30.

Featured Q&A*Continued from page 4*

with impunity. According to the OECD Tax Center's recent analysis, OECD member countries Mexico and Chile, joined by OECD observer Argentina, have 'substantially implemented' internationally agreed tax standards. Financial institutions in these countries adhere to a standard of access to bank information that allows tax authorities to 'discharge their revenue raising responsibilities and engage in effective exchange of information with their treaty partners.' In 2009, Brazil, Costa Rica, Guatemala and Uruguay became active participants in OECD efforts to promote financial transparency and tax information exchange standards. These countries have endorsed OECD transparency and tax information exchange standards, and have begun to implement their specific provisions. Building transparency into weak national tax administrative structures will require sustained investment in technology, human capital and regulatory enforcement. Many Latin American countries face substantial challenges in reversing decades of capital flight, public administrative corruption and ineffective regulatory oversight. Concrete steps to strengthen tax administrative capacity, facilitate access to bank information and protect confidentiality of financial data have yet to be defined in many countries where tax avoidance has been a way of life. Virtually all 'tax haven' jurisdictions have endorsed the OECD sponsored tax standards; it remains for such countries to implement the procedures for generating and sharing tax information."

A **Beatrice Rangel, director of AMLA Consulting in Miami Beach:** "Cracking down on tax havens, together with improved intelligence, is perhaps the most important battlefield in the fight against terrorism. It is known that terrorist activities and groups are financed by small contributions from radical organizations which are difficult to detect because they transfer very small sums of money. But the bulk of financ-

ing comes from drug trafficking and counterfeit products. To have an idea of the amount of finance we are talking about, counterfeit trade represented \$200 billion in 2007, while it is estimated that drug trade by 2003 reached the sum of \$321.6 billion. These illicit operations are made possible by corrupt officials who have a hidden economic stake due

“Cracking down on tax havens together with improved intelligence is perhaps the most important battlefield in the fight against terrorism.”

— *Beatrice Rangel*

to their payment by organized crime and entrepreneurial proxies for their facilitating role. Proceeds from these activities have a tough time getting into the United States after the enactment of the Patriot Act. As Europe and many emerging markets embraced the Anti-Terrorism, Anti-Money Laundering and Anti-Corruption Conventions, the task of setting up retirement accounts for these officials and criminals became almost impossible. Tax havens around the world became the prime destination for these funds. Thus, the international community is right on target in escalating efforts to close down tax havens. In our region, while progress has been made, there still is a lot of ground to cover in the areas of independence for the investigative and enforcement agencies, training of officials and what I believe to be most important: a compensation scheme that gives these officials reasons to pursue a public service career."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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