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FEATURED Q&A

Are Countries Taking Adequate Safeguards Against Financial Fraud?

Q Texas financier R. Allen Stanford was convicted last month of operating a $7 billion Ponzi scheme that bilked investors by issuing fraudulent certificates of deposit through his Stanford International Bank, which was headquartered on the Caribbean island of Antigua. Have the revelations about Stanford, and fellow U.S. Ponzi scheme mastermind Bernard Madoff, led countries in Latin America and the Caribbean to improve safeguards to protect consumers against financial fraud? Which countries have the most sophisticated anti-fraud protections? Where are such protections most lacking, and why?

A Earl Jarrett, general manager of the Jamaica National Building Society: "Several years ago, Jamaica experienced a mushrooming of Ponzi schemes, which operated outside the formal banking and securities systems and offered extremely high yields on foreign exchange investments. The investigations into these Ponzi schemes led to some prosecutions, but there are no convictions to date. The strong regulatory environment, as well as the close supervision and the process involved in audit and reporting, have ensured significant safeguards to eliminate the resurgence of Ponzi schemes in Jamaica. In addition, regulatory agencies at varying levels ensure the integrity of the financial sector, and the protection of depositors. The Financial Services Commission (FSC) supervises and regulates securities, disseminates frequent warnings to members of the public about the need to carefully assess financial institutions and publishes the names of organizations that are operating contrary to the laws governing financial institutions in Jamaica. The Fair Trading Commission (FTC) acts as a monitoring and investigating agency, which assesses organizations whose business practices may be inimical to the public. In addition to a very strong and independent press, the central bank,

Continued on page 3

Brazilian President's Approval Rating Climbs to 77 Percent

President Dilma Rousseff's handling of Brazil's economic and social programs helped boost her approval rating to 77 percent, according to a poll released Wednesday. See story on page 2.

File Photo: Brazilian Government.

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NEWS BRIEFS

Suriname Lawmakers Pardon President for Dictatorship Crimes

Suriname's National Assembly on Wednesday approved legislation pardoning President D'esi Bouterse for crimes committed during his military dictatorship in the 1980s, the Associated Press reported. The assembly, which is dominated by Bouterse's supporters, approved the amnesty on a vote of 28-12 after 12 hours of debate. Bouterse and 24 associated have been accused of kidnapping and killing 15 political opponents in 1982. The legislation also establishes a truth commission and strips amnesty of anyone involved in the 1986 massacre of 39 ethnic Maroons during the country's civil war.

Colombia's Oil Output Rises With Increased Security

Colombia's oil output hit 951,000 barrels a day in March, up 7.2 percent from last year, as the government stepped up security in response to attacks on infrastructure, Bloomberg News reported Wednesday. In February, a pipeline attack contributed to a 4.8 percent drop in output.

Fitch May Cut Venezuela's Rating Amid Oil Dependence, Spending

Venezuela's dependence on oil revenues, higher spending and off-budget funds are among the reasons that **Fitch Ratings** may cut the country's credit rating, Bloomberg News reported Wednesday. The deficit of the central government may swell to 6.8 percent of GDP this year and a drop in commodity prices could leave the country vulnerable, Fitch director Erich Arispe said in a statement. Venezuela currently has a B+ rating, four levels below investment grade, putting it on par with Bolivia and Ghana.

Economic News

Mexico's Insecurity Forced Closure of 160,000 Firms in 2011: Coparmex

Insecurity caused by Mexico's organized crime forced 160,000 of the nation's companies to shut down last year, according to Mexico's main employers' confederation, Agence France-Presse reported Wednesday. "Organized crime is deteriorating competitiveness ... discouraging national and foreign investment [and] causing the closure of formal businesses," Alberto Espinosa, the president of the confederation known as Coparmex, said in a statement. "Insecurity in Mexico is reaching levels not seen in decades."

> "Organized crime is deteriorating competitiveness ..."
>
> — *Alberto Espinosa*

Companies in violence-plagued parts of northern Mexico are also being forced to pay higher insurance premiums, Espinosa added. President Felipe Calderón should revise his anti-crime strategy, in which he has deployed tens of thousands of soldiers to fight drug cartels, said Espinosa, who said impunity is involved in "98 percent" of crimes. Espinosa also called on the candidates vying to replace Calderón this year to make "clear promises" with regard to security and also form a new strategy to deal with the violence that has claimed some 50,000 lives since 2006.

Political News

Public Satisfaction With Rousseff Pushes Approval Rating to 77 Percent

Public satisfaction with President Dilma Rousseff's handling of Brazil's economic and social programs helped push her approval rating up to 77 percent in March, Dow Jones reported, citing a poll released Wednesday. The poll, by the Ibope opinion research institute, showed that Rousseff's approval had increased from 72 percent in the previous December poll. Overall approval for Rousseff's government was steady at 56 percent, according to the new poll. Rousseff's climbing approval rating comes as her government tries to maintain the country's economic growth level amid adverse economic conditions abroad. The poll also showed that more than half of respondents were satisfied with the government's actions to fight unemployment and poverty. However, fewer respondents were satisfied with the Rousseff administration's efforts to control inflation, reduce interest rates and cut taxes. More than 50 percent of those polled had an unfavorable view of the government's actions in those areas. The poll of 2,002 respondents in 142 cities across Brazil was conducted from March 16-19 and has a margin of error of plus or minus 2 percentage points.

Company News

IBM buys 20 Percent Stake in Batista's Tech Unit

Computer-services provider **International Business Machines Corp.** has purchased a 20 percent stake in Brazilian billionaire Eike Batista's technology unit, Bloomberg News reported Wednesday. IBM, based in Armonk, N.Y., and Batista's **SIX Automação** will establish a technology center to provide services to customers in Brazil, Chile, Colombia and Peru, according to **EBX Group**, Batista's holding company. In addition to buying the stake in the technology unit, IBM also awarded a contract for $1 billion to EBX for technology services for 10 years. IBM has said it wants its growth markets, which includes Brazil, to contribute 30 percent of the company's revenue by

Batista

File Photo: Brazilian Government.

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2015. IBM's chief executive officer, Virginia Rometty, has a five-year plan to focus on cloud computing and also create programs to help companies analyze and forecast trends. The agreement with IBM is Batista's second major deal in 10 days. He recently agreed to sell a $2 billion stake in EBX to Abu Dhabi-based **Mubadala Development Co.**

Chile's Supreme Court Rejects Appeals Against HidroAysén Project

Chile's top court on Wednesday threw out seven appeals lodged against a multibillion-dollar hydropower project, clearing it to go forward, Reuters reported. Plans for the HidroAysén dam, a joint venture of **Endesa Chile** and **Colbun**, have led to major protests over potential environmental effects of the project in Chile's Patagonia region. A lower court previously rejected appeals in opposition to the project, which includes five power stations and plans to dam two rivers in order to generate 2,750 megawatts of electricity.

Plans for HidroAysén have led to major protests over potential environmental effects.

"In today's resolution ... the Supreme court confirmed the rejection [of the appeals]," said Jaime Rodríguez, a spokesman for Chile's high court. Chile, which has growing demand for energy, is beset by years of underinvestment in the country's power grid. In order to meet the rising demand, the country is estimated to need an additional 8,000 megawatts of capacity by 2020. While industry has argued hydroelectric dams are needed to supply energy to Patagonia, environmental groups counter that building new dams will damage rivers and flood valleys in the area. "It's not right to say a green light has been granted to the project," Patricio Rodrigo, executive secretary for an environmental defense group in Patagonia, told Reuters. "The company survived these appeals ... but criminal suits for tinkering with reports are ongoing."

Brazil's Unicasa Eyes Raising $402 Mn in Initial Public Offering

Brazilian furniture manufacturer **Unicasa** and it shareholders hope to raise as much as 732 million reais ($402 million) in an upcoming initial public offering, Reuters reported Wednesday. The company, headquartered in the city of Bento Gonçalves, is planning to offer 9.14 million common shares at 16.50 to 20.50 reais apiece, according to a prospectus released Wednesday. Unicasa's offering comes as companies seek new equity on hopes of easing risk aversion. Unicasa's IPO would be the first on local equity markets since last July. Earlier this year, three companies shelved planned offerings after failing to attract investors. On Tuesday, investment bank **BTG Pactual** announced plans for an IPO that it hopes will raise as much as 4.1 billion reais.

Featured Q&A

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the Bank of Jamaica, is committed to the establishment of a Financial System Stability Committee as a dedicated body to ensure financial stability is significantly strengthened throughout the country. This super regulatory agency will have the power to intervene in any investment organization where there is any perceived negative impact on the financial system, and it is expected to provide another layer of protection for prospective investors. This Jamaican model has significantly decreased the number of unregulated financial entities and also demonstrates the resilience of government agencies, such as the FSC and the FTC, to protect consumers against financial fraud. This model could be replicated throughout the Caribbean and the Latin American region."

A Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach: "While Latin American countries have now built more robust financial systems, there is still a lot of ground to cover in terms of preventing systemic failures and fraud. The debt crisis of the 1980s prompted a wave of financial reforms with a view toward discouraging risky behavior on the part of banks and investment firms. Prudential regulation and bank supervision experiences have varied considerably among Latin American countries, but the common trend has been convergence to international standards. Currently, however, except for Chile, Latin American countries show weak spots that could serve as entry doors for Ponzi schemes. Indeed, while the monitoring perimeter for regulatory authorities is rather wide in all countries, regulation is uneven among banks and other financial institutions. The strongest supervision applies to banks, which dominate financial systems in the region and have access to liquidity facilities, but other components of the financial system are subject to less supervision, even though they might have systemic repercussions when there is a failure. Also, information exchange among regulators is weak, slow and uneven. This allows under-regulated companies to thrive with freedom to create risky or outright harmful financial vehicles. Under these circumstances, consumers in Latin America are not sufficiently protected against Ponzi schemes as became evident from the recent DMG affair in Colombia, various pyramid investing groups in Venezuela and the Banco Santos affair in Brazil."

> "Except for Chile, Latin American countries show weak spots that could serve as entry doors for Ponzi schemes."
>
> — *Beatrice Rangel*

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Featured Q&A

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Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "Latin American countries do much business with the United States. For example, 73 percent of Mexican exports are destined for the United States and 60 percent of Mexico's imports come from the United States. Most of the monitoring of anti-fraud protection is done at the U.S. end by U.S. banks. In Mexico, foreign entities own more than half the country's banks. The problem is similar for other countries in the region. For example, 40 percent of Venezuela's exports (mainly crude oil) go to the United States. Stanford had a large presence in Venezuela to the tune of $2.7 billion. In other countries, Stanford's presence was on the order of several hundred million dollars. Most of the money that Stanford banks received as deposits came from Latin American businessmen who parked the money there in order to avoid paying taxes in their own countries. So, when the problem broke for Stanford, the governments of the respective countries had no incentive to rescue Stanford's clients. They were not viewed favorably as they were seen to be putting their money away to defraud their own governments. U.S. regulators turned a blind eye to this problem. Their only concern was with the compliance of U.S. tax liabilities. Thus, this case had as much to do with lack of motivation on the part of the authorities in Latin America as anything else."

> "When the problem broke for Stanford, the governments of the respective countries had no incentive to rescue Stanford's clients."
>
> — *Tapen Sinha*

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

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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