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FEATURED Q&A

What Should Be Done About Guatemala's High Energy Costs?

Q A spate of protests have broken out over electricity in Guatemala, beginning in March with one that brought 20,000 people to the capital to protest the high cost of electricity and continuing in April when demonstrators blocked highways in protest of power outages reportedly caused by a suspension of service by energy company Energuate due to unpaid bills and illegal connections. Why are Guatemala's electricity prices so high, and what should be done to bring them down? How should the issues of unpaid bills and illegal connections be addressed?

A Michael L. Dougherty, assistant professor of sociology at Illinois State University: "Guatemala's electricity prices are high for a variety of reasons, and there is no simple or easy solution to the dilemma. In part the problem stems from the 1996 law, Ley General de Electricidad (General Electricity Law), which privatized both energy production and distribution in Guatemala. This law allowed for private companies to install generating stations with virtually no government involvement. The intention was to produce free competition, thus improving service and lowering cost. However, the grid infrastructure lends itself to monopoly control. Therefore, the privatization of electricity produced a proliferation of small private monopolies, rather than the competition it sought. Today, there are more than 50 different companies—public and private—producing and distributing electricity in Guatemala. Further, the costs of electricity provision to rural areas are much greater because the low population density means that the amount of infrastructure required per household is greater. Where companies control regions that span urban and rural areas they can distribute these costs evenly among households, but where small companies hold quasi-monopolies over small areas, those costs become extremely high. The costs can be brought down through

Continued on page 3

Colombia's Santos Defeats Zuluaga to Win Re-election

Colombian President Juan Manuel Santos won re-election on Sunday in a vote widely seen as a referendum on the government's peace process with the country's leftist rebels. Santos defeated his rival, Óscar Iván Zuluaga, by six percentage points. See story on page 2.

Photo: Santos Campaign.

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NEWS BRIEFS

Biden Adds Stop in Guatemala to Latin America Visit

U.S. Vice President Joe Biden will add a stop in Guatemala to a previously announced trip to Latin America and highlight the difficulties face by unaccompanied minors trying to cross the U.S.-Mexico border, the Associated Press reported. Biden will attend the United States' first match in the World Cup in Brazil today and then head to Colombia and the Dominican Republic. On Friday, he will meet with leaders from Guatemala, El Salvador and Honduras, whose countries have seen a 1,000 percent surge in accompanied minors, according to U.S. Border Patrol data.

Uruguay's Mujica Denounces 'Culture of Waste' at Group of 77

Uruguayan President José Mujica speaking Sunday at a summit of the Group of 77 in Santa Cruz, Bolivia called for world leaders to reject a "culture of waste," which sees poorer countries attempt to emulate richer nations instead of living in balance with the environment, the Associated Press reported. Mujica, who has attracted attention for his austere lifestyle, called a growth in consumerism a "trap" that will increase material gain, but at the cost of human development.

Cartica Adds Itaú as Defendant in CorpBanca Merger Dispute

U.S.-based investment firm **Cartica Management** said Thursday that it has added Brazil's **Itaú Unibanco Holding** as a defendant in the lawsuit that it filed in an effort to stop Itaú from gaining control of Chile's **CorpBanca**, Reuters reported. Cartica has alleged that Itaú, CorpBanca and CorpBanca's controlling shareholder have violated disclosure and anti-fraud rules.

Political News

Colombia's Santos Defeats Zuluaga to Win Re-election

In a hotly contested election that was widely seen as a referendum on Colombia's peace talks with the country's leftist rebels, President Juan Manuel Santos won re-election on Sunday, defeating his challenger, Óscar Iván Zuluaga. Santos had cast the election as a choice between war and peace as his opponent has been a vocal critic of the talks with the rebels, which began in November 2012. "This is the end of 50 years of conflict in this country, and it is the beginning of a new Colombia," Santos said in his victory speech, *The Wall Street Journal* reported. "This won't be the peace of Juan Manuel Santos, nor this government's peace. It will be a peace of all Colombians, it will be your peace." With nearly all the votes counted, Santos won Sunday's runoff with 51 percent of the vote, to Zuluaga's 45 percent. Zuluaga conceded defeat on Sunday. "I have to, first and foremost for my democratic convictions, congratulate President Santos for his triumph," he told supporters in Bogotá. "We gave him quite a fight full of ideas, proposals and dreams for Colombia." Zuluaga had been backed by former President Álvaro Uribe, Santos' predecessor and a vocal critic of the peace talks. Zuluaga and Uribe had attacked the peace negotiations, saying Santos was selling Colombia out to the rebels. In the first round of the presidential election on May 25, Zuluaga emerged as the top vote-getter, winning nearly 500,000 votes more than Santos. However, in Sunday's runoff, Santos was propelled to victory by winning Bogotá by 10 percentage points and also by handily winning the country's Caribbean coast, where many voters stayed home during the first round of voting. Across Colombia, turnout in the runoff was 48 percent, *The Wall Street Journal* reported. Santos is to be sworn in for his second term on Aug. 7.

> "This won't be the peace of Juan Manuel Santos, nor this government's peace. It will be a peace of all Colombians, it will be your peace."
>
> — ***Juan Manuel Santos***

Brazil's Neves to Challenge Rousseff in October Election

Brazil's opposition Social Democracy Party has tapped Senator Aécio Neves as its candidate to challenge President Dilma Rousseff in the country's October presidential election, BBC News reported Saturday. Neves, a centrist, has said that if elected, he would introduce market-friendly measures in an effort to lower inflation and increase growth in Latin America's largest economy. Polls show that Rousseff, who is seeking a second term, has 40 percent support, as compared to 20 percent for Neves. However, the senator could pose the biggest challenge to the Workers Party's hold on the presidency since 2003. Rousseff has seen her popularity decline in recent years, most recently with street protests over spending on the World Cup, which began in Brazil on June 12, and the Summer Olympics, which Rio de Janeiro is to host in 2016. Neves has criticized corruption in the ruling party and has said he plans to reduce public spending. "Our government will create a more serene and propitious climate for the market, which is important to recover investments and grow," he told Reuters. If no candidate receives more than 50 percent of the vote in the first round of the election on Oct. 5, the vote will go to a second round on Oct. 26. Neves is part of a political family in Minas Gerais state. His grandfather, Tancredo Neves, was elected as the country's first president after the restoration of democracy in 1985, but he died before taking office.

Neves

File Photo: Brazilian Government.

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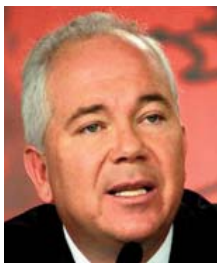
Economic News

Venezuela Must Converge Three Official Exchange Rates: Ramírez

Venezuela's government needs "shortly" to converge its three official exchange rates in order to tame its inflation rate, the world's fastest, and spur economic growth, Economy Vice President Rafael Ramírez told investors in London, Bloomberg News reported today. Since 2010, Venezuela's government has had different exchange rate tiers depending on the type of import. Imports of food and medicine can be paid for with dollars that cost 6.3 bolívars apiece, while manufacturers must buy dollars at a rate of 10 bolívars in weekly auctions. Individuals and importers of non-essential goods can purchase dollars in restricted quantities for about 50 bolívars each in the government's currency market. Ramírez's speech in London was the first of several meetings that Venezuela's government is planning to "re-establish relations with the financial markets," according to a statement by state-run oil company **PDVSA**, of which Ramírez serves as president. During the 14-year administration of President Hugo Chávez, who died in March 2013, Venezuela had sought financing from countries including China and Russia, often after failing to receive financing from investment banks in the United States and Europe. Ramírez also told the investors in London that the government would move money to the central bank from off-budget funds in order to boost its international reserves from their current level, which is close to a 10-year low, according to the statement from PDVSA. Currency controls over the past decade has led to a scarcity of dollars in Venezuela's economy and shortages of several basic goods. One U.S. dollar sells for about 72 bolívars on the black market, as compared to the government's official rate of 6.3 bolívars to the dollar, Bloomberg News reported, citing exchange rate-tracking Web site dolartoday.com.



Ramírez

File Photo: Venezuelan Government.

Featured Q&A

Continued from page 1

conditional transfers to poor families in the form of reductions in the rate charged per kilowatt hour in exchange for eliminating illegal connections and making back payments, at the reduced rate. The revenue to offset these transfers could come from greater state investment in INDE, Guatemala's National Institute of Electrification, the chief producer of electric energy in Guatemala. Additionally, applying quotas on nationally produced energy exported to Mexico and El Salvador might help take the pressure off mounting energy prices."

A Rodolfo Alegría, partner at Carrillo & Asociados in Guatemala City: "Electricity tariffs in Guatemala are comparable to the tariffs in the rest of Central America. Energuate serves areas of low population density and rugged topography, therefore its costs are relatively high. The tariffs in general in all of Central America are subsidized. In Guatemala, the tariffs for consumers using under 300 kilowatts per hour are heavily subsidized, and that is the segment of consumers to which protesters belong. The protests are motivated by radical NGOs demanding expropriation of the electric sector. Those organizations (FRENA/CODECA/FNL), led by former guerilla operatives, violently take control of distribution lines, disconnecting meters and connecting consumers directly, forcefully preventing Energuate from accessing those areas. The organizations then charge each consumer a small monthly fee, which the organizations keep, never paying Energuate. This is a crime that needs to be prosecuted to the full extent of the law, but the leaders defend themselves, claiming they are persecuted human rights activists. Recently, this sabotage of the lines has resulted in the collapse of the system in some areas, and Energuate has demanded that consumers resume their legal connections and pay the balance of the accounts before reconnecting the service. The government has assisted Energuate in those areas by forming dialogues with the communities to reach agreements and providing security

> "The protests are motivated by radical NGOs demanding expropriation of the electric sector."
>
> — *Rodolfo Alegría*

Continued on page 4

Company News

Banco Santander Brasil, Bonsucesso Planning Joint Venture

Banco Santander Brasil and **Banco Bonsucesso** are discussing a potential joint venture in an effort to expand payroll loans, Bloomberg News reported Friday. The banks are in talks about a possible non-cash transaction in which Santander Brasil, a unit of Spain's **Banco Santander**, would receive a majority stake in the new firm, an unnamed person familiar with the matter told the news service. An agreement between the two banks would help Santander Brasil boost its struggling payroll-lending operation and would also provide Bonsucesso funds for growth. Santander Brasil's loan portfolio that is backed by payroll deductions declined 15 percent for the year through March to 12.8 billion reais ($5.7 billion). By comparison, the country's largest bank by market value, **Itaú Unibanco**, saw its portfolio increase 52 percent during that time to 24.7 billion reais.

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Featured Q&A

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through the police and the army. This has solved the problem in some locations, but there are still more than 80,000 illegal connections."

Carlos Boj, project manager at the Central American Bank for Economic Integration: "The decentralization of the power sub-sector in Guatemala led to a national urgency for new energy plants in order to cater to the growing demand for energy in the country during the mid-1990s. The generating plants that took a shorter amount of time to install were the thermal plants, which succeeded at selling energy through long-term contracts at uncompetitive prices. About five years later, national laws and energy policies proposed a transformation in the energy matrix to give priority to the installation of plants that generate power through renewable resources at competitive prices. This led to laws for incentives and ultimately open tenders for the sale of energy and capacity, giving priority to clean energy. Despite all this, the price of energy today remains high because of contracts signed nearly 20 years ago that are still in force and do not allow the price of energy to considerably decrease as intended. At the same time, the issue of unpaid bills and illegal connections must be addressed through a strategy that benefits end users, since at present, residents, especially of rural areas, suffer from poor energy quality, many power outages and high prices, which have led customers to not pay their bills."

> "Rural areas suffer from poor energy quality, many power outages and high prices, which have led customers to not pay their electricity bills."
>
> *— Carlos Boj*

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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is published every business day by the Inter-American Dialogue, Copyright © 2014

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

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