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THEDIALOGUE

FEATURED Q&A

Does Puerto Rico Need a Financial Review Board?

Puerto Rico Governor Alejandro García Padilla on Friday criticized congressional Republicans' plan to create an oversight board, saying that while a board is necessary, an unelected one that has the power to impose taxes and lay off workers is "not acceptable." // File Photo: Government of Puerto Rico.

Q A plan being drawn up by Republican lawmakers in the U.S. Congress to address Puerto Rico's debt crisis would give an independent financial review board the power to arbitrate creditor disputes and control the U.S. territory's pension system, Reuters reported March 14, citing legislative sources. Under the proposal, White House and congressional leaders would appoint a board of financial experts to arbitrate politically charged matters and high-stakes claims that would normally be processed in U.S. bankruptcy courts, an option not open to Puerto Rico under current law. Is this the best approach to solving the U.S. territory's debt crisis, or are there better options that lawmakers should be exploring? What would be the drawbacks to a review board such as the one mentioned? Will the U.S. government be able to ensure that the review board is truly impartial? Will there be pushback from the public over an outside entity controlling decisions over the pension system?

A Osvaldo M. Medina Hernandez, executive director of the Joint Committee for the Penal Code and Criminal Laws Reform and legal advisor to the Judiciary Committee of the House of Representatives of Puerto Rico: "Puerto Rico is at fault for its public debt, given its poor public administration over the years. However, the U.S. federal government is also responsible. The federal government is responsible for its lack of oversight, for not settling the political status issue and is responsible for expressly excluding Puerto Rico from the possibility of Chapter 9 and the ability to restructure its debt. The federal government has left Puerto Rico in the middle of

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TODAY'S NEWS

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El Chapo's Accused Money Launderer Arrested in Mexico

Juan Manuel Álvarez Inzunza, the alleged top money launderer for Mexican drug lord Joaquín "El Chapo" Guzmán, was arrested while on vacation in Oaxaca state.

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UOL BoaCompra Expanding Into Chile

The São Paulo-based digital payments company, which specializes in online games, said Chile's Internet penetration rate makes it an attractive market for expansion.

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Brazilian Army Commander Vows Stability

Eduardo Vilas Bôas, the commander of Brazil's army, vowed to maintain the country's stability as a political crisis threatens President Dilma Rousseff's government.

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Villas Bôas // File Photo: City of Manaus.

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POLITICAL NEWS

El Chapo's Accused Money Launderer Arrested in Mexico

Juan Manuel Álvarez Inzunza, the alleged top money launderer for Mexican drug lord Joaquín "El Chapo" Guzmán, has been arrested by Mexican authorities while he was on vacation in the southern state of Oaxaca, BBC News reported Sunday. Álvarez is accused of laundering between $300 million and $400 million annually for Guzmán's Sinaloa drug cartel, using a network of companies and currency exchanges. Álvarez's alleged money laundering network stretches through Mexico, Colombia, Panama and the United States, according to Mexican police, Reuters reported. Mexico's National Security Commission called Álvarez, who is nicknamed "King Midas," the "principal financial operator" for an undisclosed drug trafficking group and added that he led another criminal group based in Mexico's Jalisco state, the wire service reported. That state is the base for the Jalisco New Generation Cartel, which has historic ties to the Sinaloa cartel, which Guzmán heads. The Jalisco New Generation Cartel last May shot down a Mexican army helicopter, an incident that killed six members of the military. A U.S. federal court has requested Álvarez's arrest, and Mexican authorities are likely to comply, BBC News reported. Mexican authorities recaptured Guzmán in January, six months after he escaped from the country's high-security Altiplano prison. He is also facing extradition to the United States on drug trafficking charges in California and murder charges in Texas. This month, Guzmán asked that the extradition process be completed quickly, saying he hoped for better treatment in a U.S. prison.

Álvarez is accused of laundering between $300 million and $400 million annually for Guzmán's Sinaloa drug cartel.

Brazil's Army Commander Vows Stability Amid Crisis

The commander of Brazil's army, General Eduardo Vilas Bôas, vowed to ensure stability as a political crisis threatens President Dilma Rousseff's government, Brazilian media reported Friday, Agence France-Presse reported. The comments came as Rousseff likened efforts to impeach her to a coup. "Our actions will be fully supported by what is established in the law, from the constitution to additional legislation, always acting under orders from one of the powers of the republic," he said, citing a part of the constitution that says the army is under the president's command. Brazil's economic and political crises have given way to street protests and calls for her impeachment, with some protesters calling for a military intervention. A military dictatorship ruled Brazil from 1964-1985, and Rousseff was jailed for part of that time for her involvement in an armed dissident group. Rousseff has fended off calls for her impeachment amid Brazil's worst recession in recent history, high unemployment and a massive corruption scandal that has implicated many prominent figures in her government. In an interview with foreign newspapers, however, Rousseff argued that any attempt to remove her from office that did not have a legal basis would be tantamount to a coup. "I am not comparing the coup here to the military coups of the past, but it would be a breaking of the

Rousseff // File Photo: Brazilian Government.

NEWS BRIEFS

Bolivia Planning to Sue Chile in World Court Over Access to Water

Bolivian President Evo Morales has said his country will file a suit against Chile over a dispute over access to water at the International Court of Justice (ICJ), BBC News reported Saturday. Bolivia says it had the right to the Silala spring in the border region, and that it is not being compensated by Chile for the use of its waters, but Chile argues that it is an international waterway for shared use. Bolivia has brought up another dispute over water access to the ICJ when it demanded access to the Pacific Ocean, though the ICJ has yet to rule on the case. Chile is planning to file a counterclaim with the ICJ.

Israel Withdraws Ambassador Nominee Over Brazil's Objections

Israel on Monday confirmed it had withdrawn its nomination of a former West Bank settler leader as ambassador to Brazil, appearing to defer to Brazilian objections to the nominee's political past, the Associated Press reported. The decision to rescind Dani Dayan's candidacy is seen as a setback to Prime Minister Benjamin Netanyahu, who had previously vowed to support the nominee.

Chile Confirms Sexually Transmitted Zika Case

Chile has confirmed its first case of sexually transmitted Zika virus, the health ministry said in a statement on Saturday, Reuters reported. The case is that of a 46-year-old woman whose partner became infected with Zika while in Haiti. The mosquitoes that transmit the virus are not found in Chile, but the country has identified 10 cases of Zika involving individuals who were infected outside the country. The virus is suspected to be linked to thousands of instances of birth defects in Brazil.

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the ocean without a life vest. It is time for a rescue mission. Puerto Rico is not asking for a hand-out. It is asking for tool that allows it to responsibly restructure its debt and promote economic development. However, a fiscal control board is not the solution. Any type of financial control board that has the authority to decide where the money of Puerto Rico's taxpayers goes is unacceptable. In a democratic government, the people elect the representatives who are vested with the power of budgeting and spending taxpayers' money. Any scenario that mandates a board of appointed—not elected—officials to execute the constitutional responsibility of elected representatives is closer to a dictatorship than a democracy. Congress should consider giving Puerto Rico equal treatment and allow Puerto Rico the mechanisms of Chapter 9 to restructure its debt. We can only hope that the people of Puerto Rico repudiate a fiscal control board and are willing to protest against it. It is time for Congress to treat Puerto Rico and its 3.5 million American citizens with the respect they deserve."

Rafael Cox Alomar, assistant professor of law at the David A. Clarke School of Law at the University of the District of Columbia: "The current proposals, as they stand, are not only unacceptable as a matter of principle for the vast majority of Puerto Ricans, but wholly misguided as a matter of public policy. The political branches in Washington have so far shown themselves unwilling to comprehend that it will take much more than a fiscal control board and budgetary cuts to set Puerto Rico along the right path. As a threshold matter, it is essential to discard the possibility of blindly extrapolating the 1995 District of Columbia Revitalization Act to the Puerto Rican scenario. The District's $722 million budget deficit and $5 billion unfunded pension liability pale in comparison to Puerto Rico's chronic $2.5 billion per year budget deficits and over $33 billion unfunded pension liability. While certain provisions of the District's Revitalization Act would certainly prove useful in the Puerto Rican context, such as, for instance, those addressing the government's lack of liquidity, these measures

> **"Disentangling the Puerto Rican Gordian knot will require much more than a powerful dose of austerity."**
>
> **— Rafael Cox Alomar**

alone will prove insufficient to assure the island's long-term sustainability. As the 2015 Krueger and the 2014 Federal Reserve Bank of New York reports have both suggested, disentangling the Puerto Rican Gordian knot will require much more than a powerful dose of austerity. Austerity measures on their own, without a comprehensive economic development strategy focused on job creation, will only aggravate the island's woes. Solving the crisis will also require doing away with the applicability to Puerto Rico of a host of federal statutes and regulations, such as the Jones Act (1920 Merchant Marine Act as amended), which have severely diminished the island's competitiveness in the global economy."

Antonio Monroig, founding partner of Lasa, Monroig & Veve: "The Puerto Rico debt crisis has been exacerbated by the inaction and irresponsible acts of its own government. Since taking office in 2013 Governor Alejandro García Padilla has been unwilling to undertake necessary fiscal reforms. The government has maintained a high level of expenditures, and millions of dollars have been wasted in consulting contracts and public relations. More than

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democratic order of Brazil," she said in comments reported by The Guardian.

BUSINESS NEWS

UOL BoaCompra Expanding Into Chile

Digital payments company UOL BoaCompra announced today that it is expanding into Chile. The São Paulo-based company specializes in monetizing online games in Latin America, Portugal, Spain and Turkey, the company said in a statement. "A staggering 71 percent of those online in Chile do not have access to international credit cards to make purchases online, as Chileans primarily use local cards and cash-based payment methods," said Fernando Estevez Vazquez, director of global strategy and payments at UOL BoaCompra. "Additionally, Chile's Internet penetration rate is markedly higher than its neighboring countries, demonstrating high demand for digital products and further growth in e-commerce with a good network and affordable prices. However, it is largely untapped by the giants of the game industry that do not offer local payment options." UOL BoaCompra has a portfolio of 18 localized payment options, including the company's own currency. In explaining the attractiveness of Chile's market, UOL BoaCompra said the South American country has the highest gross domestic product per capita in Latin America and also has some 72.3 percent of its population, as of 2014, connected to the Internet. Additionally, Chileans spent $3.2 billion on e-commerce annually, as of 2013. "The vast potential of Chile's current video game market provides compelling evidence for bringing foreign games to the country," said Marden Silveira Neubert, executive director at UOL BoaCompra.

> **Chileans spent $3.2 billion annually on e-commerce as of 2013.**

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120 government agencies operate on the island, and instead of creating economic development, they hinder it by creating an excessive bureaucracy. The unwillingness of the government to negotiate in good faith with the bondholders has brought the degradation of Puerto Rico's creditworthiness. The lack of reliable financial audits has not allowed the U.S. Congress to respond in a timely fashion. Therefore, a fiscal control board is necessary."

> **"The government has maintained a high level of expenditures, and millions of dollars have been wasted in consulting contracts and public relations."**
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> **— Antonio Monroig**

Charles Venator-Santiago, associate professor at the University of Connecticut with a joint appointment in the Department of Political Science and El Instituto: Institute of Latina/o, Caribbean, and Latin American Studies: "Puerto Rico's fiscal woes are presently insurmountable. The Puerto Rican government has run out of money to meet its current debt obligations and by all accounts is unable to generate new sources of revenue. One of several responses offered to address this crisis is the creation of a financial review or control board that can oversee the government's management of its resources. Legislation for at least three types of financial review boards is being debated in Washington and San Juan. Right-wing Republicans have offered the so-called Duffy Bill, which would impose external or paternalistic oversight, and could promote more privatization of public corporations (some of the main sources of revenue for the government) and ineffective austerity measures. The Menendez Bill would create a hybrid board composed of members appointed by both the federal and local governments, which would provide mutual checks and balances as well as a more comprehensive understanding of the local context. Alternatively, the governor of Puerto Rico is proposing legislation in Puerto Rico to create a local board. At this point, the only way Puerto Rico will begin to fulfill its debt obligations and grow the economy is with a combination of interventions that include amendments to federal legislation, some sort of bailout and/or injection of external funds and a hybrid financial review board that can curtail wasteful spending of public resources by self-serving and corrupt politicians as well as their corporate collaborators. Although it is difficult to predict how Puerto Ricans will react to the imposition of a financial review board, elites and local commentators generally oppose a federal board for three reasons. The imposition of a federal board is seen as reminiscent of the pre-1952 colonialist system of government where Puerto Ricans were marginalized from participation in local affairs. Critics also argue that a federal board disregards the 1952 Commonwealth Constitution and the ensuing autonomic status of the island. Additionally, the Duffy board is perceived as an ideological instrument that will promote failed austerity measures, benefit private companies and dismantle social services or public institutions that are designed to help the local population."

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

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