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THEDIALOGUE

FEATURED Q&A

Would Eliminating Lotto Scams Aid Jamaican Banks?

The U.S. ambassador to Jamaica, Luis Moreno, said recently that the perpetrators of lotto scams use loopholes in the financial services system to carry out their schemes. // File Photo: Jamaican Government.

Q The U.S. ambassador to Jamaica said last month that the de-risking trend facing Jamaican banks, whereby international banks have severed correspondent banking relationships with financial services firms on the island, could be linked to the explosion of lotto scams in the Caribbean nation, the Jamaica Gleaner reported. Speaking at a conference, Luis Moreno said more needs to be done to close loopholes in banks that allow scammers to launder illicit funds. Would dismantling Jamaica's lotto scam criminal gangs improve the Caribbean nation's correspondent banking problem? How well have tough banking regulations and due diligence requirements on customers proven effective in countering corrupt activities elsewhere? Looking ahead to 2017 and beyond, have Caribbean banks identified strategies to counter the de-risking trend?

A Sally Yearwood, executive director of Caribbean-Central American Action: "While the Jamaica lottery scam may well be an example of parties exploiting the banking system for illegal purposes, the challenges to the banking and financial services sector in Jamaica and the Caribbean are significantly more complex. The perception and management of risk is a central theme, along with the size of regional markets, and the costs and benefits of doing business for large multinational banking entities. Specific to Jamaica, it is important to highlight the fact that Jamaica's Anti-Lottery Scam Task Force is adopting an aggressive position vis-à-vis the scammers, sending the signal that the political will exists to enforce and prosecute financial crimes. Increased enforcement in conjunction with efforts to strengthen

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TODAY'S NEWS

ECONOMIC

APEC Leaders Defend Free Trade at APEC Summit

Following this month's election of Donald Trump, who has expressed support for protectionist trade policies, as U.S. president, leaders at the APEC summit defended free-trade policies.

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BUSINESS

Judge to Hear Charges in Brazil Dam Collapse Case

A federal judge has ordered 21 people to answer to homicide charges after last year's deadly collapse of a Brazilian dam.

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Haitians Vote in Long-Delayed Election

Haitians cast ballots for president and members of Parliament in the country's long-delayed election. Jovenel Moïse, the top finisher in the country's annulled October 2015 election, appeared to have an early lead.

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Moïse // File Photo: Moïse Campaign.

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POLITICAL NEWS

Haitians Vote in Long-Delayed Presidential Election

Haitians went to the polls Sunday to select a president and members of Parliament in the country's elections. The country held a presidential vote in October 2015, but those results were annulled amid widespread allegations of fraud. A rescheduled vote that had been planed for last month was postponed after Hurricane Matthew struck the impoverished country, leaving as many as 1,000 people dead and 1.4 million in need of aid, BBC News reported.

Exit polls suggested an early lead for Jovenel Moïse, the top finisher in the annulled October 2015 election.

Election officials are counting paper ballots by hand and do not expect to release results for at least a week. Twenty-seven presidential candidates were on the ballot, and no candidate is likely to receive more than 50 percent of the vote, the threshold needed to avoid a runoff, the Associated Press reported. The two top finishers are scheduled to face off in the second round on Jan. 29. Exit polls on Sunday suggested that Jovenel Moïse, who has the support of former President Michel Martelly and belongs to his Haitian Bald Head party, had an early lead, BBC News reported. Moïse was the top finisher, ahead of former state construction company leader Jude Célestin, in the disputed October 2015 election. Despite the exit poll data, supporters of Maryse Narcisse, a doctor who has the support of former President Jean-Bertrand Aristide, said their candidate was ahead. Narcisse is one of two women running for president in Haiti. There were several reports of voting fraud on Sunday, but election observers had generally positive reports, saying the balloting went more smoothly than last year, Reuters reported. In some cases, voters said they were unable to cast a ballot because their names did not appear on lists at polling stations. In other cases, some voters appeared at the polls and were told that someone had already cast their ballot. Police said 43 people were arrested for interference in the election, and an attempt was made to burn a polling station in the southeast part of the country. Still, the electoral council's president, Leopold Berlanger, called the election an overall success. Since February, the country has been led by interim President Jocelerme Privert, whose caretaker government took power when Martelly stepped down at the expiration of his term as president. [Editor's note: See **Q&A** about Haiti in the Oct. 24 issue of the Advisor.]

ECONOMIC NEWS

APEC Leaders Defend Free Trade

Leaders at the Asia-Pacific Economic Cooperation Summit over the weekend in Lima defended free-trade policies in the wake of this month's election of Donald Trump as U.S. president, BBC News reported. During his campaign, Trump called for more protection for U.S. jobs and criticized the unratified

Peña Nieto // File Photo: Mexican Government.

Trans-Pacific Partnership trade deal. But in a communique issued at the end of the two-day APEC summit, leaders said they "reaffirm our commitment to keep our markets open and to fight against all forms of protectionism." Also at the summit, Mexican President Enrique

NEWS BRIEFS

Nephews of Venezuelan First Lady Convicted on Drug Conspiracy Charges

Two nephews of Venezuela's first lady were convicted Friday in New York of conspiring to import 800 kilograms of cocaine into the United States, BBC News reported. Franqui Francisco Flores de Freitas and Efraín Antonio Campo Flores were arrested a year ago in Haiti in a U.S. DEA sting operation.

Former Ecuador Soccer Chief Convicted in FIFA Corruption Case

Former Ecuadorean Soccer Federation President Luis Chiriboga and two co-defendants were convicted on Friday of laundering nearly $6.12 million that they allegedly received form 2010-2015 in a case tied to the larger FIFA corruption scandal, The Wall Street Journal reported. Chiriboga and Hugo Mora were given 10-year sentences, and Pedro Vera was given a 40-month sentence. Because of his age, 65-year-old Chiriboga will serve his sentence under house arrest if the sentence imposed by Judge Miriam Escobar is upheld. The lawyers of all three defendants said they would appeal the decision.

Five Police Officers Killed in Rio de Janeiro

Five police officers and at least seven civilians were killed over the weekend in Rio de Janeiro, The Wall Street Journal reported Sunday. Four state military police were killed after their surveillance helicopter crashed Saturday night during a security operation at the City of God favela, where shooting between authorities and drug traffickers raged all day. A fifth police officer was killed while on patrol in another Rio neighborhood. City of God residents said they found the bodies of seven youths who had gone missing after hundreds of police descended on the community following the crash.

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Peña Nieto defended NAFTA, which Trump has pledged to renegotiate or withdraw from. Peña Nieto said the trade accord benefits both the United States and Mexico, the Associated Press reported.

Correa, Xi Launch Coca Codo Sinclair Hydroelectric Plant

Ecuadorean President Rafael Correa and Chinese President Xi Jinping on Friday jointly launched the Chinese-backed Coca Codo Sinclair hydroelectric plant, the Associated Press reported. The launch took place during Xi's state-visit to Ecuador as part of a week-long tour of three Latin American countries, also including Peru and Chile. The plant has the capacity to generate 1,500 megawatts of power and is located in the Amazon-region province of Orellana. The plant's capacity is equal to 30 percent of the country's current level of electricity consumption. Xi on Friday said Ecuador has become China's "most important partner for investment and financing, works contracts and cooperation in energy and resource" in Latin America. Ecuadorean officials say Chinese investment has led to the creation of 14,000 jobs in the Andean country. Both leaders attended the Asia-Pacific Economic Cooperation meeting in Peru on Saturday and Sunday.

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compliance are positive steps. That being said, Jamaica and the region cannot solve the de-risking problem without international cooperation and support. This includes the ability and willingness to collect and share information, and embracing technology and data tracking solutions, including FinTech, to provide more security, more transparency and more efficiency—an important tool for small jurisdictions where costs of tracking and managing risk are high. The region also needs to advance consolidation within the industry to ensure that its market size makes it a viable space for large multinationals to do business. The reality is that the world of banking is changing faster today than at any other point in history, and fortunately in Jamaica and the Caribbean, there are leaders who understand the changing landscape. I expect us to see significant regional progress in 2017, especially if we see support for the efforts from the region's principal trading partners."

Melissa Diaz and Karel Suarez, associate attorneys at Diaz Reus & Targ, LLP: "Jamaica's third-largest foreign exchange earner over recent years comes from income related to a prospering lottery gang criminal enterprise. These lotto gangs use international correspondent banks to funnel money that they receive from victims abroad in the United States. Finally, apparently tired of penalties and the negative publicity that stems from 'dirty money' flowing through their institutions, some banks are doing something about it. At least seven international correspondent banks that do business in the region have begun 'de-risking' by either ceasing to offer their services in Jamaica or restricting the types of services offered there. This concern and action has been prompted, in part, because Jamaica is considered a high-risk region. If Jamaica intends on stopping the bleeding, then it needs to stop these lotto gangs. Dismantling Jamaica's lotto gangs would lower the region's overall risk level, thereby making the area more appealing to correspondent banks. The tightening of security and banking regulations domestically would also be appealing to correspondent banks worried about the more lax banking regulations and due diligence requirements in the area. Indeed, toughening of banking regulations and due diligence requirements on customers has proven a very effective measure to

> **"If Jamaica intends on stopping the bleeding, then it needs to stop these lotto gangs."**
>
> **— Melissa Diaz & Karel Suarez**

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BUSINESS NEWS

Judge to Hear Charges in Brazil Dam Collapse Case

Brazilian federal Judge Jacques de Queiroz Ferreira has ordered 21 people linked to mining giants Vale, BHP Billiton and their joint venture Samarco Mineração to answer to homicide charges related to the Samarco dam collapse in November of last year, The Wall Street Journal reported Friday. Prosecutors last month filed charges against suspects, including current and former executives of the mining companies. Under Brazil's legal system, a judge must accept the charges in order for those accused of the crimes to formally become defendants. The accused now have 30 days to present a defense and will likely have to stand trial. Ferreira also indicted the companies for environmental crimes, as well as inflicting bodily harm and causing floods. Samarco did not immediately respond to requests for comment, but in October rejected the charges. Last year, Samarco's Fundão tailings dam at an iron ore mine in Minas Gerais state collapsed, releasing toxic sludge that killed 19 people, flattened villages and polluted 400 miles of waterway. The incident is said to be Brazil's worst-ever environmental disaster. Prosecutors claim the companies knew of structural issues at the dam before the burst, yet failed to address the issues and ultimately prevent the disaster from occurring. The defendants, "by not fulfilling their duties despite knowing the risks and being aware of their responsibilities, contributed to the collapse," Ferreira said in his decision.

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stop criminal activity. For example, in the United States, the government was able to take on the Cali and Medellín drug cartels by tracking the criminal organization through the banking system and other formal transactions. Tighter regulations and monitoring could help dismantle the Jamaican lotto gangs in a similar fashion. Stemming the tide of de-risking is a hot topic in the region. In a meeting of heads of government in July 2016, the Caribbean Community's Committee of Finance Ministers proposed the establishment of a global forum in the region to bring interested parties (that is, banks and policymakers) together to work on a solution, and embraced the Financial Stability Board's proposed four-point plan for addressing the growing issue of de-risking: a further examination of de-risking, clarification of regulatory expectations, capacity building in jurisdictions where respondent banks are affected and the strengthening of tools for correspondent banks to perform due diligence checks."

Yuri Seedial, analyst at First Citizens Investment Services in Port of Spain, Trinidad and Tobago: "The 'de-risking' movement has hit the Caribbean islands, threatening to cut these smaller economies off from access to global financing. While many U.S. correspondent banks have cited enhanced scrutiny from their regulators as the main reason for terminating the relationship with Caribbean banks, a disconcerting notion is that these correspondent banks are more concerned with terminating risk than managing it. However, while banks in the Caribbean are heavily regulated in terms of customer protection and the prevention of systemic sector collapse, the oversight falls somewhat short on AML and CFT legislation and enforcement. Dismantling Jamaica's lotto scam criminal gangs, while only one contributing factor to the nation's correspondent banking issue, should help the situation. Identifying the members of any criminal gang/organization, collecting evidence that in most cases traverses international borders, and initiating criminal proceedings against these individuals would be extremely difficult. The more practical approach, as has been pushed by the United States, would be to totally expunge the ability of these individuals to benefit from the proceeds of their crimes, and this has to be done through the stringent implementation of AML/CFT regulations by the Jamaican banks. When looking for empirical evidence illustrating the success of regulations in countering corrupt activities, the developed economies of the world are the most prevalent examples. Corrupt activities can't be stopped by tough banking regulations and due diligence requirements alone. There has to be a concerted effort by the banks to enforce these regulations as well as the investigative and prosecuting bodies assisting in doing their part when suspicious activity is highlighted. Currently, the numbers of criminal prosecutions, due to banking regulations such as AML and CFT legislations, are targeting the banks itself. Major entities such as HSBC, Commerzbank and Standard Bank PLC have all faced prosecution regarding the failings in the implementation of their AML policies. The strategic targeting of banks could be viewed as the first step in a more elaborate playbook designed by regulators to combat money laundering and terrorist financing."

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> **— Yuri Seedial**

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

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