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FEATURED Q&A

Would Stricter Rules Reduce Financial Access in Paraguay?



Paraguay's Congress has approved and sent to President Mario Abdo Benítez legislation to implement stricter user verification rules for electronic money transfers. // File Photo: Paraguayan Government.

Q Paraguay's Congress on Sept. 16 approved legislation that would implement tougher requirements for people making electronic money transfers to certify their identity before they can execute the transactions. The rules would effectively require stringent know-your-customer rules for people making even small transfers. Supporters of the measure say it is needed to increase security and fight identity theft. However, opponents say the new rules are onerous and will lead to financial exclusion, particularly in rural areas and among economically vulnerable populations. What are the most important changes Paraguayan consumers and businesses would face under the legislation? If President Mario Abdo Benítez signs it into law, which stakeholders stand to gain or lose the most? How would the measure affect financial inclusion goals and the evolution of the country's emerging fintech sector?

A Beltrán Macchi Salín, president of the Latin American Federation of Banks (Felaban) and president of the Association of Paraguayan Banks (Asoban): "The law is among the most modern of its kind and is based on the version suggested by the United Nations Commission on International Trade Law (UNCITRAL), and it is part of a series of laws that seek to facilitate commerce and digital services. It seeks a solid and coherent legal environment within which different economic operators and providers of public and private services can act safely and reliably. The measure fills a legal void and will surely enhance electronic commerce. It will also help speed up digitization, giving legal certainty to operators and users. The law will give a high

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At Least 24 Inmates Killed in Ecuador Prison Riot

The riot between rival gangs happened at the Litoral penitentiary in Guayaquil. It was the third flare-up of prison violence this year in Ecuador.

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Venezuela's Opposition Eyes Talks Over Citgo

Opposition leaders are seeking to engage creditors whose deals have Citgo as collateral.

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Venezuela's Medical Academy Concerned About Cuban Vaccine

Venezuela's medical academy expressed "deep concern" about Cuba's Abdala vaccine against Covid-19, saying it lacks scientific study. Cuban President Miguel Díaz-Canel's government has started exporting the vaccine, including to Venezuela.

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Díaz-Canel // File Photo: Cuban Government.

POLITICAL NEWS

At Least 24 Inmates Killed in Ecuador Penitentiary Riot

A prison riot in the Ecuadorean city of Guayaquil left at least 24 inmates killed and two dozen injured on Tuesday, The Washington Post reported. The riot between rival gangs at the Litoral penitentiary was the third deadly flare-up of violence this year in Ecuador, including a riot in February at the same penitentiary. The latest violence began at about 9:30 a.m. when rival gang members shot at each other and set off explosives as they sought to gain control of a main unit in the prison, The Washington Post reported, citing police. At least five inmates were decapitated, a regional police command-



It's an unfortunate fact that this is happening in our society, in our country."

— Bolívar Garzón

er, Gen. Fausto Buenaño, told reporters. Police entered the prison about an hour after the riot began and regained control of the prison at about 2 p.m., according to authorities. Last February, seemingly coordinated riots at three Ecuadorean prisons left 79 inmates dead. Those incidents, the deadliest prison riots in Ecuador's history, were sparked by a turf battle between rival gangs after the killing of the leader of the Los Choneros gang, which has controlled drug trafficking routes between Ecuador and Colombia, The Washington Post reported. "It's an unfortunate fact that this is happening in our society, in our country," Bolívar Garzón, who took office Tuesday as the country's prisons director, told the newspaper. He said this has been a "particularly difficult year." Garzón vowed to find solutions to growing gang violence in Ecuadorean prisons. "I hope we can begin to initiate a change," said Garzón, adding that he would travel today to Guayaquil. Prison violence in Ecuador has left at least 145 people

dead this year, The Washington Post reported. More than 103 inmates were killed last year in Ecuador, and prison violence has been growing since 2018, according to Ecuador's Ombudsman's Office. Following the riots in February, the Inter-American Commission on Human Rights condemned the violence in Ecuadorean prisons. The human rights body said the rise in violence at the country's penitentiaries mainly resulted from "a failure to adequately design, implement and assess public policies targeting detainees." In August, President Guillermo Lasso said the government would provide more funding for the country's overcrowded prisons and would construct new wards and install new equipment to bolster security, Reuters reported.

Venezuela's Medical Academy Concerned About Cuban Vaccine

Venezuela's National Academy of Medicine on Monday expressed "deep concern" over the use of Abdala, the Cuban homegrown vaccine against Covid-19, due to a lack of scientific research on its safety and efficacy, Reuters reported. Cuba just began exporting the three-dose vaccine, sending it to Venezuela and Vietnam, the Associated Press reported. The academy compared the Cuban vaccine to Russia's Sputnik V and China's Sinopharm, which the government of Venezuelan President Nicolás Maduro has relied on for its vaccination plans so far. "The characteristics of the Sputnik V vaccine have been published in scientific journals and its quality has been verified in independent clinical trials ... [and] the Sinopharm vaccine has been approved by the World Health Organization," the academy said in a statement, Reuters reported. "Abdala has not been approved by the WHO or any international regulatory agency," it added. The academy "expresses its deep concern that a product for which there is no scientific information on safety and efficacy ... is being administered to Venezuelans." The Andean nation received a first shipment of 30,000 Abdala doses in June as part of clinical trials.

NEWS BRIEFS

U.S. Judge Rules Toledo Can Be Extradited to Peru

A U.S. judge on Tuesday allowed for the extradition on corruption charges of former Peruvian President Alejandro Toledo back to his home country, ruling there was "sufficient" evidence of criminality in the case, Reuters reported. Peruvian authorities have accused Toledo, who lives in California and was president from 2001 to 2006, of taking part in bribery schemes with Brazilian conglomerate Odebrecht. Toledo has denied the graft accusations. The U.S. State Department will now decide whether to extradite him.

Chile's Lower House Takes Step Toward Decriminalizing Abortion

The lower chamber of Chile's Congress on Tuesday took a step toward decriminalizing abortion, voting to draft legislation that would prohibit prosecution of women who undergo abortions during the first 14 weeks of pregnancy, the Associated Press reported. Currently, Chilean law allows abortion only in cases of rape, medical conditions that endanger a woman's life and situations in which a fetus would be unable to survive.

Argentina Ramps Up Money Printing to Finance Government Spending

Argentina's central bank has accelerated the pace of printing money to finance government spending ahead of legislative elections in November, a move that could drive up inflation in the months ahead, the Buenos Aires Times reported, citing data released Tuesday. Central bank funding of the government totaled \$2.5 billion in the first 22 days of September, the largest amount of any month this year, according to the central bank data. Argentina's annual inflation rate was 51 percent last month, among the highest in the world.

Cuban President Miguel Díaz-Canel announced Sunday that Cuba had sent a second batch to Venezuela, without detailing how many doses were part of the package.

BUSINESS NEWS

Opposition Leaders in Venezuela Eye Talks Over Citgo

Venezuelan opposition leaders are considering potential talks with three large creditors whose deals have state oil company PDVSA's U.S.-based refiner, Citgo, as collateral, Bloomberg News reported. Citgo is Venezuela's most important foreign asset, and it is currently under the control of the opposition faction led by Juan Guaidó, whom the United States deems the Andean nation's legitimate interim president. Citgo's parent company, PDV Holding, hired JPMorgan Chase earlier this year as an advisor and has since been engaged in an "exploratory process" for potential negotiations with creditors including mining company Crystallex, oil firm ConocoPhillips and holders of a PDVSA bond that matured in 2020, according to the opposition-controlled PDVSA ad hoc board. "We are trying to explore if some creditors would be willing to talk about possible alternative options to resolving the disputes," said Horacio Medina, president of the PDVSA ad hoc board, Bloomberg News reported. He added that there are not yet any formal proposals. A Delaware court has already issued a judgment ordering the sale of PDV Holding's shares to satisfy creditors' claims. For now, Citgo is shielded by the United States' suspension of a 2018 license that effectively blocks bondholders from seizing the refiner as collateral. The Biden administration earlier this month extended the suspension until January 2022. However, in a Sept. 10 letter, the U.S. Treasury Department recognized that the Venezuelan opposition-controlled National Assembly's mandate ends next January, which could put Guaidó's claim to power at risk, Argus Media reported.

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level of security in identity verification for the disposition of money and sensitive data. A high security standard safeguards the integrity of transactions, avoids vulnerabilities, secures traceability and, above all, allows local and international interoperability with other platforms for the benefit of all users. Identity verification will happen virtually; it does not require a physical presence, and it need not be a complicated process for the user. It will happen with minimal friction and does not have to cost the user more. The implementation of the law will promote financial inclusion, not only for access to payment systems, but to the entire range of digital financial services. The noise around this new regulation comes from regulatory asymmetries with electronic money companies that offer wallet services. Regulation in the most modern countries responds to principles, and one of these is equal regulation for equal service, regardless of whether it is provided by a bank, a phone company or a supermarket. Security in verifying people's identity is only one component of regulatory asymmetry. The law is good. It is good for users and good for the country's digital development."

A Fernando Filártiga, board member of the Central Bank of Paraguay: "The statute intends to modernize existing regulations on identification and trust services for a wide scope of electronic transactions. It would replace statutes that have already covered much of the same topics since 2010. In general, the proposal follows international standards, but it includes a new, unprecedented article to set the highest security requirement in advance of all types of electronic payments, transfers and other financial transactions. In Paraguay, primary laws and administrative regulations already—and heavily—promote integrity of electronic transactions within the financial sector. As per the nonbank electronic subsystem, the central bank in

2014 issued comprehensive regulation on electronic payments and transfers conducted through nonbank and mobile companies. Moreover, in 2020 the Financial Intelligence Unit (SEPRELAD) issued a new anti-money laundering regulation that targets nonbank payments and transactions with a risk-based approach (RBA). The central bank supervises compliance with both sets of rules. RBA is not only the right approach on anti-money laundering grounds, but also on financial inclusion ones. Otherwise, there is a risk of unduly limiting (through higher costs and red tape) access to low-risk financial products, which are particularly suitable for low-income populations. While strengthening security standards for financial transactions—including those conducted through electronic means—has always been and remains a top priority, the level of security applicable should be determined through a RBA, so that standards are proportionate to the risks involved. As there is no one-size-fits-all solution, financial regulators should retain—as now—power to set security standards on a RBA, as opposed to having just one single standard predefined in primary legislation."

A Karim Lesina, executive vice president and chief external affairs officer at Millicom: "Paraguay is currently at a crossroads in terms of its digitalization agenda. Article 103 of this law puts at risk \$1.5 billion in low-value transactions by more than two million Paraguayans, particularly those with low income who have no access to traditional banking services. The level of security that the law defines indicates that a third party will be required to validate the identity of the user—without any clarity about implementation. This will make know-your-customer requirements for transactions worth \$20 the same as transactions worth \$2 million. Requiring in-person verification for transactions of minimal value will force vulnerable populations to return to the use of cash,

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marking a setback in the country's formalization. Mobile wallets have had a high impact in the improvement of financial inclusion indicators—31.1 percent of Paraguay's adult population has access to financial services. Mobile phone penetration has reached 96.7 percent of households. Therefore, most people have a mobile phone, with which they can access financial services more easily than via traditional methods. Mobile money operators have a network of 14,000 agents throughout the country, and although banks have correspondents in rural areas, only mobile agents provide 100 percent coverage across the country. The measures put forward in this bill, which do not take into account the concept of gradualness of services or risk levels, would also discourage fintech innovations and investment by new players, as they will completely lack legal and operational certainty as a result of the significant changes that will occur in the market. The inclusive and innovative financial ecosystem being developed in Paraguay is at risk. Without a partial veto of this law, the digital transformation of the country will regress. Regulatory oversight of the issue should remain in the hands of the central bank."

A **Patricia Ortigoza, director in the financial crimes division at Morgan Stanley:** "The law was inspired by the amount of fraud that is done via mobile transactions, but there was little thought behind it. Unfortunately, the changes that are being implemented put consumers and businesses under a lot of unnecessary scrutiny and confusion. The major changes include being able to verify a user's identity before sending money, requires a 'trusted service delivery point of contact' (something that does not yet exist), and they must verify the identity of the sender before a transaction. It's unclear how that will be done. The mobile banking industry is questioning how a service that does not exist yet can do this. Currently, Par-

aguay has 80 million of these transactions annually. The same requirements will be applied to transfers of \$10 or \$10,000. The measure will affect those who are unbanked, as the average amount of money sent is around \$22 at most. Those who stand to lose are the ones most vulnerable to financial exclusion and those who most depend on these services. It will affect those who live far from metropolitan areas where they can access physical banking institutions and those whose income is lower and who are sending minimal amounts. It's unclear who will stand to gain the most. At the moment, there seems to be only losers. Twenty-nine percent of Paraguayans have a mobile bank account, far above the 5 percent average when compared to the region. This number will definitely decline. It will increase the economy's informality yet again and put a strain on gains in the fintech sector. People will revert to cash, a relative or the mail, hindering the possibility of knowing how much money flows into the economy and elevating costs to the consumer."

A **Sebastián Acha, executive director of PRO Desarrollo Paraguay:** "The legislation is a direct consequence of the failure of the country's financial inclusion strategy over the last seven years. The highest volume of transactions are money transfers of \$20 to \$50 dollars each, so it is clear that a new regulation will mean higher costs as the law requires a 'high level of security.' That means certification of customers. If the goal is to give a higher security level, it should not cost consumers more. There is a number of levels of security to gradually improve user identification. First and foremost would be developing digital identification that the Inter-American Development Bank has backed for several years."

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

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