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THEDIALOGUE

FEATURED Q&A

Would a Major Budget Change Benefit Colombians?

Colombia's Congress is debating whether to shift more money and responsibilities to regions. The country's Congress is pictured. // File Photo: Martinduquea via Creative Commons.

Q Colombia's Congress is debating a measure that would substantially increase transfers from the federal government to regions, requiring the government to move 39.5 percent of its revenue to provinces and cities by 2036, an increase of 26 percent from the current level, Bloomberg News reported. While official estimates point out that the change would cost the central government $76 billion over the next 12 years, officials have said the move would be fiscally neutral as local and provincial governments would assume more spending responsibilities from the government. What are the main reasons behind the proposed change? How would it affect government services for Colombians? What would the change mean for the country's fiscal and economic standing?

A Gunther Baumgarten, senior Americas analyst at Verisk Maplecroft: "Proponents of the reform of the general revenue sharing system, including President Gustavo Petro, say it will advance government decentralization as envisioned in the constitution by giving departmental and municipal authorities more financial and administrative independence. They argue that increasing the revenue share for regional authorities will improve local public services and foster the economic development of neglected areas. The government claims that the reform will have zero fiscal impact, noting that it also involves regional authorities assuming more responsibilities for providing public services and reducing central government responsibilities. But critics, including some government officials, are skeptical and warn that reducing the central government's revenue share will exacer-

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Biden, Xi to Meet at APEC Summit in Peru

Outgoing U.S. President Joe Biden and Chinese President Xi Jinping reportedly plan to meet Saturday at the Asia-Pacific Economic Cooperation summit in Peru.

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ICSID Sides With Telefónica in Dispute With Colombian Gov't

The International Centre for Settlement of Investment Disputes, or ICSID, ruled in favor of Telefónica in a dispute with Colombia.

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Mexico Can Serve as Intermediary Between U.S., China: Ebrard

Mexico can serve as a key intermediary between the United States and China under the incoming administration of U.S. President-elect Donald Trump, said Mexican Economy Minister Marcelo Ebrard.

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Ebrard // File Photo: @m_ebrard via X.

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POLITICAL NEWS

Biden to Meet With China's Xi at APEC Summit in Peru

U.S. President Joe Biden and Chinese President Xi Jinping will meet, likely for the last time, on Saturday on the sidelines of the Asia-Pacific Economic Cooperation summit in Lima, two unnamed U.S. officials told Reuters Wednesday. The leaders will have a candid conversation regarding tensions between the United States and China, one of the sources said, while Chinese officials prepare for increased confrontation with Washington under the incoming administration of President-elect Donald Trump, who takes office in January. Biden leaves today for Peru, where he will be until Saturday for the APEC summit. He then heads to Brazil where he will travel to Manaus and then Rio de Janeiro for the G20 summit, the White House said last week. At the summits, Biden will "have the same message that he's had for four years as president, which is that he believes that America's allies are vital to America's national security," White House National Security Advisor Jake Sullivan told reporters on Wednesday after Biden met with Trump in the Oval Office, the Associated Press reported. "[U.S. allies] make us stronger. They multiply our capabilities. They take a burden off of our shoulders," said Sullivan, the AP reported. Erin Murphy, an analyst at the Center for Strategic and International Studies, said Biden is attending the summits in a weakened position, two months before leaving office. "Not only is he a lame duck, but a super lame duck because his successor is going to have very different policies," Murphy told the AP. Trump announced Wednesday that he will name Sen. Marco Rubio (R-Fla.) as his secretary of state and Rep. Matt Gaetz (R-Fla.) as attorney general, the AP reported. Trump also has asked Rep. Michael Waltz (R-Fla.), a retired Army National Guard officer, to be his national security advisor. [Editor's note: See **Q&A** on what Trump's return means for Latin America in the Nov. 7 issue of the Advisor.]

ECONOMIC NEWS

Mexico Can Serve as U.S.-China Intermediary: Ebrard

Mexico can serve as a key intermediary between the United States and China under the incoming administration of U.S. President-elect Donald Trump, Mexican Economy Minister Marcelo Ebrard said at an event in Mexico City, Bloomberg News reported Wednesday. "The tension with China will be a central part of the United States' strategic reflection," said Ebrard. "But we know that the U.S. is our main trade partner, and we can try to influence, propose, and to some degree moderate the conflict," he added. Trump has threatened to impose tariffs of 60 percent on imports from China, as well as tariffs of as much as 100 percent on imports from Mexico if Mexico's government does not halt irregular immigration to the United States.

BUSINESS NEWS

ICSID Sides With Telefónica in Dispute With Colombia

The World Bank's International Centre for Settlement of Investment Disputes (ICSID) on Wednesday ruled in favor of Spanish telecommunications firm Telefónica in a dispute with Colombia's government, El País reported. The ruling orders Colombia's government to pay more than $500 million, when accounting for legal costs and accrued interest, to the cellular and internet service provider, the newspaper reported. The ICSID decision stems from a 2018 complaint filed by Telefónica, which argued that Colombia's government improperly changed the terms of a pre-existing contract, violating the country's bilateral investment treaty with Spain. Colombia's government in 2017 ordered Telefónica to pay fines for a subsidiary's use of state-owned telecommuni-

NEWS BRIEFS

Mexican Legislators Re-elect Head of Human Rights Commission

Legislators of Mexico's ruling Morena party on Wednesday re-elected Rosario Piedra as head of the country's National Human Rights Commission despite widespread opposition, the Associated Press reported. Civic and nonprofit groups in Mexico have said Piedra has failed to hold the government accountable for abuses. She was first named to the position in 2019, the AP reported.

Man Killed in Apparent Failed Attack on Brazil's Supreme Court

A Brazilian man on Wednesday evening killed himself outside Brazil's Supreme Court in an apparent failed attack on the complex in Brasília, the Associated Press reported. Local officials said the unidentified man first detonated an explosive device in an unoccupied car in the parking lot outside of Brazil's Congress, before attempting to break into the Supreme Court, failing, and then killing himself with a second explosive device, according to the AP. Besides the one fatality, no other injuries were reported in the incident.

Son of Former Ecuadorean Official Pleads Guilty in U.S. to Money Laundering

The son of a former Ecuadorean official convicted of involvement in the Odebrecht bribery scandal on pleaded guilty on Tuesday to money laundering charges in a U.S. federal court, CBS News Miami reported. Miami-based John Polit, a former banker, is accused of laundering millions of dollars in illicit income on behalf of his father, Carlos Polit, who was Ecuador's comptroller general from 2007 to 2017. Carlos Polit was sentenced to a 10-year term in U.S. federal prison in October.

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cations infrastructure, to which the company was originally granted rights in 1994, El País reported. Soon after ICSID's ruling became public on Wednesday, Colombian technology minister Mauricio Lizcano released a statement on social media site X saying that the government will file an appeal to annul the decision "as soon as possible." "This ruling is not yet final," he added in his post on Wednesday afternoon. At the end of 2023, Telefónica's subsidiaries had 25.1 million customers in Colombia, equal to 48 percent of the country's population, according to company data.

Banco do Brasil Reports 8.3% Rise in Profit for Q3

Brazilian state-run commercial bank Banco do Brazil on Wednesday reported that its profit in this year's third quarter grew by 8.3 percent compared to the same period last year, Reuters reported. Banco do Brasil's profit of 9.5 billion reais ($1.6 billion) was greater than the average analyst prediction from market data firm LSEG, according to Reuters. Brazil's rising core interest rates—which have diverged from those of other major Western Hemisphere economies' in recent months—helped boost the bank's profits, according to Banco do Brasil's quarterly earnings release. The bank took in $4.5 billion in revenue from interest in the third quarter, a 9.3 percent increase from the third quarter of 2023, the bank announced Wednesday. Banco do Brasil is the second-largest bank in Brazil, as well as across all of Latin America, when measured by total assets, according to data from S&P Global. While the bank reported increased profits amid high interest rates, outstanding loans and delinquency rates also rose in the third quarter, Reuters reported. "Higher interest rates can dampen demand for loans, particularly in retail and mortgage segments, and they can lead to increased loan defaults," Guilherme Gomes, consultant at BMJ Consultores Associados, told the biweekly Financial Services Advisor in a **Q&A** published Nov. 6. "This can further erode banks' profitability," Gomes added.

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bate fiscal imbalances, even if it offloads some public service provision obligations. Critics argue this will result in larger fiscal deficits, make Colombia's public finances unsustainable in the long term and have negative consequences for its economy, unless there is a substantial fiscal adjustment. Reform opponents also say it will be counterproductive. They say a lower revenue share will significantly limit the government's investment capacity and ability to promote economic development. There are also concerns the initiative will lead to disparate provision of services including education, health care, and water sanitation around the country, as regional authorities may be less capable of delivering those services and are bound to have differing priorities. All of this could deepen rather than reduce regional inequalities, hindering national development efforts and potentially affecting the business operating environment negatively in some parts of the country."

Sergio Guzmán, director of Colombia Risk Analysis: "This proposed reform to the General Participation System was largely off the radar until three weeks ago, as attention had been focused on other reforms like the proposed tax reform and the national budget. The shift intends to decentralize funding, empowering local governments to directly address regional needs. Key motivations include reducing regional inequalities and enabling regions to prioritize essential services such as health and education. However, multiple legislative and judicial steps lie ahead. The Constitutional Court must review the law to ensure it aligns with Colombia's fiscal responsibility principles, a process that will delay implementation. During the Petro administration, the court has acted as a check on government policy, notably blocking aspects of recent tax reform; it may similarly scrutinize this law. Additionally, Congress has made the reform contingent upon a new law governing local use of these funds. Ideally, the upcoming legislative session in February will tackle this challenge, but it's a complex task. If left to a future opposition-led legislature, this could hinder the reform's progress or block it altogether. Investors are rightfully concerned, but perhaps the most viable action is to wait and see how Congress continues the legislative process. While the proposal aims to foster regional development and reduce bureaucratic bottlenecks, it will require rigorous oversight, transparent governance and strategic planning. If successfully implemented, it could offer a model of decentralization, though risks to fiscal stability and service consistency remain significant obstacles."

Gimena Sánchez-Garzoli, director for the Andes at the Washington Office on Latin America: "One of the main disparities that limits Colombia's institutional ability to meet the basic needs of Colombians in the outer regions is the centrality of the government in Bogotá. While the 1991 constitution attempted to address this to an extent, it failed. The political economy of Colombia remains, the national development plan determines the budget, and those funds are transferred to the regions. This has led to significant disparities throughout the country. The combination of armed conflicts, illicit economies, corruption and centralization of the budget helps explain radically different scenarios and levels of development throughout the country. It is that inequality and the concentration of land in the hands of a few that drive conflict, poverty and violence. Building institutional ability to respond to citizens by transferring funds to the regions, especially the most vulnerable ones, is needed. However, just expanding the percentage transferred does not resolve the problem. It will require a formula prioritizing the most excluded regions and populations to address security concerns. Full transparency and independent oversight of the process ensure funds are

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not diverted to corruption or political mafias. The transfers must consider the structural racism and marginalization that exist in Colombia, as well as the need to strengthen institutionality to limit illicit economies and conflict. There is debate about how much this change will cost the government and if it will deepen the national debt. A gradual process over an extended period that allows for corrections can help reduce that impact. If the process is done effectively, it will also make regions that investors previously dismissed due to insecurity and lack of infrastructure more attractive for investment."

Daniel Velandia O., head of research and chief economist at Credicorp Capital in Bogotá: "The reform to increase transfers from the national government to regions aims to strengthen the autonomy of Colombia's regions, with the resources being devoted to the closure of social, institutional and economic gaps. While this goal is sensible, the reform is very likely to pose significant additional pressure on fiscal accounts in the future, considering that more than 80 percent of the national budget is currently inflexible due to the large resources committed to pensions, security, debt and health care, among others. Thus, absent a substantial increase in government revenues in the coming years, the approval of the reform could mean an important increase in total public spending and public debt. Importantly, the current proposal states that the growth of the resources within the transfer system must be in compliance with the medium-term fiscal framework. Meanwhile, the government will have to submit to Congress a bill establishing the new responsibilities of the national and regional governments aimed at transferring part of the government's responsibilities to the regions, leading to lower spending pressures for the central government over time. Although this goes in the right direction, budget rigidness makes it too challenging to materially decrease public spending at the national level. We cannot rule out that, ultimately, the new distribution of responsibilities among levels of government may affect the services that Colombians receive amid political incentives that are always present in politics and considering that 2025 marks one year before the next presidential election."

Juan David Escobar Valencia, director of the Center for Strategic Thought at the Universidad EAFIT in Medellín: "Autonomy is a mixture of maturity and freedom, so increasing the proportion of resources that the government distributes to the country's departments not only makes sense but should be a goal of society. Opponents argue that it is not fiscally viable, because after decades of mismanagement and irresponsible spending, supposedly more than 80 percent of the nation's income is already tied up in state commitments that prevent part of it from being allocated to the regions. Correcting this distortion may not be possible in a short time. However, it must be done, which is why increasing royalties to the departments must be gradual and their distribution criteria should not be based exclusively on population. It should be based on the effectiveness of spending in the regions, so that there is an incentive and an obligation for regional officials to do things well. Voters can demand not only effectiveness but efficiency, and it will also be necessary to ensure that regional control bodies are more professional and less dependent on local political leaders."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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