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## FEATURED Q&A

# Are Argentina's Infrastructure Plans in Peril?



Argentine Finance Minister Luis Caputo (center) met with business leaders on Wednesday to discuss the government's investment plans under a potential agreement with the International Monetary Fund. // Photo: Argentine Government.

**Q** On May 13, Argentina's federal government proposed to cut 30 billion pesos (\$1.22 billion) from its public works budget in response to worsening economic conditions and a request from the administration of President Mauricio Macri for support from the International Monetary Fund, Clarín reported. The ministry of public works and the interior says the cuts in federal funding will not affect projects that are already planned. Argentina's government said in April it received 32 bids for six road projects requiring around \$8 billion in investment through public-private partnerships. Media reports described the auction as a test of how public-private partnerships, or PPPs, can help finance Argentina's infrastructure needs. How has the country's fast-evolving economic situation changed the outlook for infrastructure investment? How might ongoing negotiations between Argentina and the IMF affect Argentina's PPP plans? Does Argentina have the right model in place for advancing ambitious infrastructure plans? What could go wrong?

**A** Kezia McKeague, director at McLarty Associates: "From the outset, Macri's economic policymaking team committed to both shrinking the government's gaping fiscal deficit and boosting spending on Argentina's infrastructure, which had suffered after more than a decade of considerable underinvestment. In this context, the 'PPP Law' was the logical model, allowing companies to finance projects and enter into long-term contracts with the state to ultimately recoup their investments. With the recent acceleration of cuts to the fiscal deficit, the PPP program becomes even more important as a

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## TODAY'S NEWS

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## All Chilean Bishops Offer to Resign Over Abuse Scandal

All of Chile's Roman Catholic bishops today offered to resign over a sex abuse and cover-up scandal.

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### ECONOMIC

## IMF Vows to Move Quickly on Argentina Loans

The International Monetary Fund and Argentina's government are in talks over a loan package.

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### POLITICAL

## Ecuadorian President Removes Extra Security for Assange

Ecuadorian President Lenín Moreno ordered the removal of extra security for WikiLeaks founder Julian Assange, who has been holed up in the country's embassy in London since 2012. Moreno's move followed reports that Ecuador had spent \$5 million on security operations to protect Assange.

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Moreno // File Photo: Ecuadorian Government.

## POLITICAL NEWS

## Ecuador's Moreno Removes Extra Security for Assange

Facing a growing controversy over a secret \$5 million security operation to protect and support WikiLeaks founder Julian Assange, Ecuadorian President Lenín Moreno on Thursday ordered the removal of extra security measures from the London embassy where Assange has been living for nearly six years, The Guardian reported. The special protections included an international security company and undercover agents to monitor his visitors, embassy staff and the British police, according to the report. Former President Rafael Correa, who approved of the operation, this week defended the security measures as "routine and modest." In an interview with The Intercept, Correa called the Guardian story, which the newspaper investigated with research group Focus Ecuador, as highly "sensational," accusing the newspaper of seeking to depict embassy security measures as something scandalous or unusual.

Correa also denounced Moreno, his former vice president, for blocking Assange from receiving visitors, calling it a form of "torture" and a violation of Ecuador's duties to protect Assange's safety and well-being. Ecuador suspended Assange's communication systems in March after his pointed political comments on Twitter, which he had previously agreed not to undertake as a condition of the Andean nation's protection. Despite the fact that Swedish prosecutors dropped a sex crimes investigation into Assange last May, British authorities have vowed to arrest him on alleged bail violations.

## All Chilean Bishops Offer to Resign Over Sex Abuse Scandal

All 31 of Chile's active Roman Catholic bishops today offered to resign over a sex abuse and cover-up scandal, marking the first known occurrence in history that an entire national bishops conference offered to step down en masse, Argentine daily newspaper Clarín reported. The bishops tendered their resignations at the end of an emergency summit at the Vatican with

## NEWS BRIEFS

## Brazil Charges 11 With Attempting to Establish Islamic State Cell

Brazilian federal police charged 11 individuals with terrorism, alleging they were attempting to establish an Islamic State cell in the country, The Guardian reported on Thursday, citing a court filing. The filing says some of the suspects were attempting to recruit members and send them to Syria, and also discussed emulating last year's attack at London Bridge at one of Brazil's Carnival events.

## Nearly 5,000 Evacuated After Dam Overflows in Northern Colombia

Colombian officials have evacuated 4,985 people from their homes after the Hidroituango dam in the country's northern Antioquia province began to overflow, the National Unit for Management of Disaster Risks said, El Tiempo reported. The dam, which was still under construction on the Cauca River some 70 miles north of Medellín, is reportedly in danger of bursting, endangering 17 towns downstream. The overflow was caused by the blockages of three tunnels and has led to the destruction of two bridges and a medical center, the Bogotá Post reported.

## Mexico's Central Bank Holds Interest Rates Unchanged

The board of Mexico's central bank unanimously voted to hold interest rates at 7.5 percent in a surprise move on Thursday, Reuters reported. "In the presence of a highly uncertain environment, the balance of risks for inflation in relation to its expected path remains biased upwards," Banco de México said in a statement. The board of governors cited domestic factors, such as the upcoming presidential election in July, as well as negotiations over a new North American Free Trade Agreement.

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vehicle for attracting private investment to complement dwindling government resources. Since the law's entry into force in February 2017, the government has touted the paradigm shift in public procurement at every relevant international opportunity (including recent visits to Washington by Transportation Minister Guillermo Dietrich and Finance Minister Luis Caputo, who oversees a PPP unit within his ministry). According to most legal analysts, the PPP scheme represents a significant improvement for foreign investors given that it allows for transparent and competitive bidding processes, the conversion of payments into foreign currency, and greater visibility in arbitration and dispute resolution processes. Nevertheless, Argentina will be a test case given its risk profile; the best-laid regulations would come to naught without investor confidence. The

recent period of financial turbulence is over, but the long-term effects of higher inflation and lower growth prospects may dampen the investment outlook. Fortunately for the Macri administration, none of the bidders in the first tranche of road projects pulled out following the currency crisis. Furthermore, in a May 17 press conference in Buenos Aires, Ministry of Finance officials affirmed that an ultimate agreement with the IMF will not place conditions on the PPP program."

**A** **Rebecca O'Connor and Madeleine Elder, specialists in the political and regulatory risk/strategic affairs practice at Ceifeidas Group in Buenos Aires:** "In light of the Macri administration's recent announcement that it will cut 30 billion Argentine pesos (\$1.22 billion) in public works spending to

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Pope Francis, who can now accept all or some of the resignations, reject them or delay making a decision. The pope has accused Chilean bishops of destroying evidence of sex crimes, putting pressure on investigators to minimize allegations of abuse and also displaying "grave negligence" in keeping children safe from pedophile priests, the Associated Press reported. The entire hierarchy of the Roman Catholic Church in Chile had collective responsibility for "grave defects" in handling abuse cases and for the loss of credibility that the church has sustained. "No one can exempt himself and place the problem on the shoulders of the others," the pope wrote in a 2,300-page Vatican report on the Chilean scandals, which was leaked early this morning and published by Chile's T13 television channel. The Vatican has confirmed the document as accurate. The Chilean bishops said the document's contents were "absolutely deplorable" and showed an "unacceptable abuse of power and conscience" in addition to sexual abuse. Pope Francis had called the entire Chilean bishops' conference to the Vatican after acknowledging that he made "grave errors in judgment" in the case of Chilean Bishop Juan Barros, whom victims have accused of ignoring instances of abuse by Rev. Fernando Karadima. In 2011, the Vatican found Karadima guilty of sexually abusing children in Chile and ordered him to retire to a "life of prayer and penitence," The New York Times reported. Karadima has denied the accusations. A Chilean judge previously determined that the abuse allegations against Karadima had merit, but ruled the time limit for prosecuting him had expired, the Catholic Herald reported in 2015.

## ECONOMIC NEWS

### IMF Vows to Move Quickly on Argentina Loan Program

The International Monetary Fund will move quickly to agree on a loan program for Argentina, IMF spokesman Gerry Rice said Thursday, MercoPress reported. The South American

## JOB POSTINGS

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**EDITOR'S NOTE: We are pleased to share Latin America-related job postings that companies reading the Advisor and others have listed recently.**

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- Ryder Systems:** Latin America Export Sales Manager, Miami
- Millennium Challenge Corporation:** Managing Director, Latin America, Washington
- Radisson Hotel Group:** Vice President for Marketing, Americas Region, Minneapolis
- Ecolab:** Regional Director of Marketing, Latin America, Miami
- The Coca-Cola Company:** Senior Manager, Latin America Affairs, Atlanta
- TripAdvisor:** Associate Director for Latin America, Miami
- Inter-American Dialogue:** Communications Coordinator, Washington
- Amazon Web Services:** Senior Manager, AWS Public Policy, Mexico City

country's current situation, with "renewed financial market volatility" that has caused a plunge in the country's currency, is very different from the last time Argentina sought aid from the IMF 17 years ago, said Rice. The fund "can move quickly ... and we intend to move quickly," Rice told reporters. The type, size and terms of the loan package will be determined through the talks between Argentina and the IMF that began last week. "Our ultimate goal is to help support the authorities in their efforts to strengthen the Argentine economy and to protect the living standards of the Argentine people, and particularly for the most vulnerable groups," Rice said. [Editor's note: See [Q&A](#) on Argentina's economy in the May 11 Advisor.]

## BUSINESS NEWS

### Bank of China to Begin Providing Services in Mexico

Bank of China will start providing wire transfers and new loan services in Mexico as Chinese

firms look to gain a foothold in the country, an executive for the bank told Reuters on Thursday. According to Diego Folino, the deputy chief executive of Bank of China Mexico, the firm was only recently granted approval to offer services in Mexico, despite having received a license to operate in the country two years ago. Folino told Reuters that the increased presence in Mexico is needed to support Chinese firms, which are rapidly moving into the country. "There are about 70 strong Chinese companies already investing in Mexico and Chinese financial institutions must follow them," Folino said in an interview. Folino added that the firm is also preparing to offer other services, particularly in exchange operations and offshore management of the Chinese renminbi. "We expect to become the leader in renminbi management eventually," Folino told the wire service. "The use of the currency is increasing significantly." The Chinese renminbi currency is used in foreign transactions, allowing companies and individuals to move funds in and out of China despite currency controls. Bank of China is just one of many East Asian financial institutions, including China's ICBC, South Korea's Shinhan Bank, and Japan's Mizuho Bank, to expand into Mexico in recent years.

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lower Argentina's fiscal deficit and shore up investor confidence, the government's ambitious public-private partnership (PPP) plan becomes even more important. Private sector financing will be key to meeting Argentina's infrastructure needs. The government has taken a number of steps to make its PPP program as attractive as possible, including offering U.S. dollar-denominated contracts, incorporating a dispute resolution mechanism that includes international arbitration and exempting PPP operators from Argentina's value-added tax. The high level of interest in the six 'Safe Highways and Road Network' projects—the first under Ar-

“All eyes are focused on ongoing talks with the IMF ...”

— Rebecca O'Connor and Madeleine Elder

gentina's new PPP framework—demonstrated that investors had taken note. However, the success of the PPP program will depend not only on Argentina's ability to attract bids, but on operators' ability to attract the necessary financing to get infrastructure projects off the ground. Recent economic developments in Argentina—including the depreciation of the peso and cuts to public financing—have presented new challenges for the government's ambitious economic plan. All eyes are focused on ongoing negotiations with the International Monetary Fund to set up a \$20-30 billion 'stand-by' credit arrangement, as well as the upcoming MSCI index announcement indicating whether Argentina will be upgraded from a frontier to an emerging market. Reliance on the IMF to ensure economic stability is a politically risky move for the Macri administration, but a successful outcome on both fronts would contribute to solidifying investor confidence and help PPP contractors attract financing.

The government's efforts to create a more attractive business environment, as demonstrated in its change to the PPP framework and the recently passed capital markets law, will likely factor into these decisions.”

**A** **Rodrigo López, economist and sociologist at the Centro de Estudios Económicos y Sociales Scalabrini Ortiz (CESO):** “The

situation has changed drastically for Macri's government. The central bank managed to stop the run on the Argentine peso, but at a cost of losing reserves and reversing its monetary policy. It had to offer annual interest rates of 40 percent just to slow the purchase of dollars. In the middle of this turmoil, the government announced that it is seeking an agreement with the IMF to negotiate financial support. Unlike the World Bank, the IMF is a Bretton Woods institution that is not interested in economic development. It will not grant loans for any reason other than balancing the external accounts. The loans will be conditioned on a reduction in public spending, for which Argentina will have to postpone some of its infrastructure projects. This will undermine one of the few strategies the government has to win the electorate over on economic issues. Most of them are highway projects, which have high visibility. Some are simple; others are gigantic and unjustified, like the megaproject of creating a train and subway transfer station under the Obelisk in Buenos Aires, an iconic monument. These are not projects that should be priorities, and they are suspected of corruption for their links to the president's family. Some are afraid that we will see a repeat of Brazil here. In addition, the IMF does not appear to agree with the format for the government's public-private partnerships. If the health of the Argentine economy is to depend on loans from the IMF, knowing what happened in the run-up to the crisis in 2001, it is difficult to imagine that the IMF will not question this expensive and poorly timed electoral-minded infrastructure policy.”

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**Erik Brand**

Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Michael Shifter**, President

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