

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

Dirk Donath

Senior Partner,
Catterton Aimara

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman,
Monarch Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carl Meacham

Associate VP for Latin America
Int'l Advocacy Division, PhRMA

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Ernesto Revilla

Head of Latin American
Economics, Citi

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty

Head of Sovereigns Ratings,
Latin America, Fitch

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

Can External Actors Bring an End to Nicaragua's Crisis?



Four years ago, U.N. Secretary General Ban Ki-moon (right) met in Managua with President Daniel Ortega to praise the Central American country's "forward-looking" energy policy. // Photo: United Nations.

Q Brazil recalled its ambassador in Nicaragua on July 24 after a Brazilian medical student was killed there the day before. Brazil also denounced "the worsening repression and disproportional and lethal use of violence" in the Central American country, where more than 300 people have been killed in three months of violent clashes. The Organization of American States has issued a resolution condemning the violence in Nicaragua, calling on all parties to resume a "National Dialogue" and urging President Daniel Ortega to support the re-scheduling of presidential elections to next year instead of 2021, but Ortega has steadfastly refused to go along with early elections. How much influence does Brazil and other individual states of the region have on Ortega? What does the OAS resolution mean for Ortega's position on the elections? Can other countries do more, and should they? How long will leftist allies, including Bolivian President Evo Morales and Venezuelan President Nicolás Maduro, stand by Ortega if bloodshed continues?

A Francisco Campbell, Nicaraguan ambassador to the United States: "The Nicaraguan police, with community support, defeated a coup attempt that, through barricades and violence, sought to overthrow a democratically elected government. Violence has subsided since the last barricade was removed. The tragic killing of a Brazilian medical student was an exception. A suspect was arrested and is standing trial, and we are confident justice will prevail. The government and people of Nicaragua are committed to restoring the peace and security enjoyed before April 18 this year. The destruction of

Continued on page 3

TODAY'S NEWS

ECONOMIC

Brazilian Agencies Pay Millions in Extra Salaries

Internal auditors in Brazil found that 44 percent of the federal government's agencies spend nearly \$200 million each year combined on improper payroll costs.

Page 2

BUSINESS

Businessman Confesses Bribery in Argentina Case

A former head of the Argentina unit of Spanish construction company Isolux Corsán said he was forced to pay officials in Cristina Fernández's administration for political campaigns in order to get the government's business.

Page 3

POLITICAL

Venezuela ID's 'Masterminds' of Alleged Plot

Venezuelan Attorney General Tarek William Saab said officials had identified the "masterminds" behind an alleged foiled effort to kill President Nicolás Maduro and senior military officials with armed drones.

Page 2



Saab // File Photo: Angel Ching via CC license.

POLITICAL NEWS

Venezuela Identifies ‘Masterminds’ of Alleged Plot

Venezuelan officials said Monday they had identified the “masterminds” behind an alleged foiled effort to kill President Nicolás Maduro and senior military officials with armed drones at a public function in Caracas on Saturday, Agence France-Presse reported. Attorney General Tarek William Saab also said the investigation has led to the arrests of two of the drone pilots. “We have identified the people who made the explosives and prepared the weapons and their international links,” Saab said. Saab did not release the names of the purported masterminds of the scheme. Supporters of the government rallied in the streets of Caracas on Monday to show support for the administration, with foreign minister Jorge Arreaza again blaming the United States and neighboring Colombia’s outgoing president, Juan Manuel Santos, for being behind the plot, state-backed broadcaster Telesur reported. Conservative Iván Duque, who has close ties to the United States, takes over as Colombia’s president this week. The Maduro regime’s critics have said they hold doubts about the facts of the incident as presented by the government and fear Maduro will use the attack to step up repression of the opposition and dissidents. The secretary general of the Organization of American States, Luis Almagro, said Monday he questioned the official version released so far of the drone incidents against Maduro, Tal Cual reported. “The zero credibility of the Maduro regime prevents knowing the truth of what happened,” Almagro said on Twitter. “In any case, we reiterate: the General Secretariat of the OAS will always condemn the use of violence as a political tool,” he added. In related news, Brazil on Monday reopened its northern border with Venezuela to those fleeing economic and political turmoil there after briefly closing it, BBC News reported. The country’s Supreme Court overturned an earlier order to shut the crossing until Brazil could put in place better conditions

to receive the huge influx of migrants in the state of Roraima in Brazil’s Amazon region. “It is not justified to take the easy path to ‘close the doors’ because of difficulties in hosting refugees,” Supreme Court Justice Rosa Weber said in a ruling issued shortly before midnight, according to the report.

ECONOMIC NEWS

Nearly Half of Brazil Agencies Pay Extra Salaries: Audit

Internal auditors in Brazil found that 44 percent of the federal government’s agencies spend nearly \$200 million each year combined on improper payroll costs, Folha de S.Paulo reported Monday. The audit by Brazil’s Federal General Accounting Office found that all three of the main branches of government made irregular payments to a combined 12,658 employees. More than 4,000 cases are under investigation. The report identified 21 different kinds of problems, ranging from payments for pensioners already deceased, employees receiving disability payments who have kept their employment, people who kept two government jobs in situations where this was not allowed, and employees who kept jobs in the private sector while concurrently working for the government. Last March, when the audit took place, Brazil had a monthly payroll of around \$6 billion. A separate auditing unit in Brazil disclosed this week that a government program aimed at helping low-income citizens paid about \$1.4 billion to people who should not to have received benefits. The government acknowledges that nearly a third of the program’s benefits are paid improperly, but cited a recent Supreme Court decision that changed the formula used to determine benefits. Because it has been “too complicated” to delete some individuals from the program, the benefit is still being paid to 151,000 people, according to the report. Brazil has been trying to pull out of its deepest recession on record, as many families in Brazil’s “fragile middle class,” boosted by the commodities boom of

NEWS BRIEFS

Chile’s Agrosuper to Buy Salmon Producer

Chilean food producer Agrosuper on Monday announced it would buy Chilean salmon company AquaChile, Reuters reported. Agrosuper signed a deal with AquaChile’s majority stakeholders to buy two-thirds of the company, and it is moving to finance the acquisition of the entire salmon farmer for \$850 million through public offerings. The sale would create the world’s second-largest farmed salmon producer, industry sources told Undercurrent News.

Mexico Offers U.S. New Rules of Origin Proposal

Mexican Economy Minister Ildefonso Guajardo said Monday his negotiating team has put forward a proposal to update the North American Free Trade Agreement’s “rules of origin” clauses, a sticking point in talks with the United States the two countries hoped to wrap up this month, Reuters reported. The rules would establish new levels for what percentage of a car needs to be built in the NAFTA region to avoid tariffs. Guajardo also said Monday that Canada might join Mexico and the United States for the NAFTA talks next week.

Draft Hydrocarbon Law Would Extend Peru Contracts to 40 Years

Peru’s Energy and Mines Minister, Francisco Ismodes, on Monday announced plans for a new hydrocarbon law that allows oil concession contracts signed between the state and private companies to extend for 40 years rather than 30, state news agency Andina reported. “Major investments need to be made to take advantage of these resources. This is not happening [now] because investments might not be recouped in two or three years,” Ismodes told local media, adding that the royalty terms in the oil contracts remain unchanged under the new hydrocarbon law.

the past decade, have struggled to remain out of poverty. Inflation in Brazil likely slowed in July for the first time in two months, a Reuters poll released Monday showed, suggesting high unemployment and idle capacity have kept a lid on underlying price pressures.

BUSINESS NEWS

Businessman Admits to Role in Argentine Corruption Case

A businessman accused of corruption in Argentina under the government of former President Cristina Fernández de Kirchner and her late husband and predecessor, Néstor Kirchner, on Monday admitted he paid government officials for public works contracts, the Associated Press reported. Juan Carlos de Goycochea a former head of the Argentina branch of Spanish construction company Isolux Corsán, said that he was forced to pay officials in Fernández's administration for political campaigns in order to get the government's business. Under an investigation sparked by the revelation of notebooks kept by a driver for high-level government officials that was obtained by La Nación newspaper, more than a dozen people have been detained or gone into hiding. Fernández, who enjoys immunity as a sitting senator, was called to testify on Aug. 13. In related news, Argentina's main prosecutor's office said on Friday it has reached a deal with its Brazilian counterpart to use testimony reached through plea bargains in the "Operation Car Wash" corruption case in local graft investigations, Reuters reported. Until now, prosecutors' efforts had been hampered by uncertainty over whether Argentina's judicial system would respect the terms of plea deals reached in Brazil. The move may quicken prosecutions related to investigations into kickbacks offered by companies for government projects, according to the report. That probe and related investigations have implicated hundreds of government officials and corporate executives worldwide.

FEATURED Q&A / Continued from page 1

public and private property, lootings, kidnappings, as well as disruption of regional trade, is enormous and will require reconciliation and hard work to recover. A clear understanding that a solution to the crisis is possible only through dialogue between Nicaraguans, with respect for the Constitution and laws of the country, is essential to this effort. Nevertheless, the government has acknowledged that regional organizations such as the OAS can make a positive contribution. The government accepted the presence of the Inter-American Human Rights Commission and a group of independent experts to investigate the deaths and claims of human rights violations. Likewise, the OAS is collaborating with the government in implementing the memorandum of understanding to strengthen democratic oversight of the electoral process and ensure that our system of participatory democracy is consistent with the principles of the Inter-American Democratic Charter. These initiatives with the OAS are making progress in support of a peaceful solution through dialogue between Nicaraguans. Adoption by the OAS's Permanent Council of an illegal additional measure on Nicaragua is unwarranted and counterproductive."

A **Kevin Casas-Zamora, managing partner of Analítica Consultores:** "Almost four months into a popular insurrection, the course of events in Nicaragua remains difficult to predict. It is all but impossible to imagine a scenario in which Nicaragua would be governable with Ortega at the helm until 2021. The pact that sustained his semi-authoritarian, kleptocratic rule—a pact that rested on the private sector's complicity, the Church's silence, the population's acquiescence and Venezuela's largesse—is irretrievably broken. Unable to count on the support of any major social actor, Ortega's hold on power looks increasingly reliant on the naked repression unleashed by the two actors he still fully controls: the police and the

paramilitary groups affiliated to his regime. By upping brutality levels and hardening his rhetoric against the Church, Ortega seems to have embraced a 'scorched earth' strategy to stay in power, closely resembling Maduro's in Venezuela. This is a risky gamble on the opposition's exhaustion and the international community's impotence. Unlike Venezuela, Nicaragua does not have any commodity the rest of the world needs. Diplomatic pressure is certain to increase at the OAS, which has a track record of flexing its muscle against small states such as Honduras or Haiti. The other Central American countries look paralyzed, but that may change as the costs of the crisis for the region begin to mount. And then there is the Trump card: the ability of the U.S. administration (and Congress) to inflict economic pain on Ortega and his clique. Nicaragua looks set for a prolonged crisis. Even if Ortega manages to cling on to power, he will not be able to govern in any meaningful way. Worryingly, even if he steps down, with paramilitary groups on the loose, it may mean that nobody else will be able to make Nicaragua governable for some time."

A **Eduardo Ulibarri, former ambassador of Costa Rica to the United Nations:** "Outside influence on the behavior and, especially, the nature of the Nicaraguan regime is limited. Brazil, of course, is a major player in the Americas, and even more so is the OAS. Their decisions and calls are very important, reflect the widespread condemnation of Ortega's regime throughout the hemisphere, provide key support to the opposition and strengthen the international legitimacy of the protest movement in Nicaragua. It should be welcomed and joined by as many countries as possible. But the leverage of Brazil and the OAS is mainly political and, therefore, insufficient to affect events inside the country in a determinant way. The key to exerting stronger pressure from the outside against repression and toward democracy instead lies with major trading partners and

Continued on page 4

FEATURED Q&A / Continued from page 3

sources of cooperation and financial support to Nicaragua. These chiefly include the United States, the European Union and major European countries, the Inter-American Development Bank and other lenders. Through targeted sanctions on members of the regime, curtailment of financial flows and support to Nicaraguan civil society, these actors could put stronger and more successful pressure on Ortega to stop repression, open dialogue and allow earlier elections. The United States could be particularly important in persuading the Nicaraguan business sector to support the opposition movement and keep distance from the regime. ALBA countries such as Bolivia, Cuba and Venezuela will certainly insist on their rhetorical support of Ortega, but their real influence is minor, beyond providing some symbolical coverage to repression."

A **Gavin Strong, director for Mexico, Central America and the Caribbean at Control Risks:** "Nicaragua is increasingly being viewed as a pariah state amid the regime's continued systematic repression of the protest movement against it, not to mention its obstinate refusal to proffer meaningful political concessions that will lead to a swift resolution to the crisis currently engulfing the country. The regional community in particular appears to be losing patience (finally). The United States has imposed sanctions on high-profile members of President Daniel Ortega and First Lady and Vice President Rosario Murillo's inner circle, while the Organization of American States recently issued a resolution condemning human rights abuses committed by the national police and paramilitaries. The latter demonstrated that the hemisphere is by no means united in its condemnation of the regime—the list of countries that abstained or voted against the resolution reflected the lingering influence wielded by the regime's long-time ally Venezuela in the poorest corners of the region. Nevertheless, not only is there a groundswell of opinion against the

regime, there is also a growing consensus as to how to affect the course of political events in Nicaragua from the outside: suspend multilateral aid to the country. This is the regime's Achilles' heel. By the Nicaraguan central bank's own admission, almost 70 percent of Nicaragua's external debt relates to multilateral development banks (MDBs). We may now see the ratification of the Nicaraguan Investment Conditionality Act, which has languished in the U.S. Senate since December and proposes preventing the regime from accessing credit from MDBs unless it implements reforms."

A **Manuel Orozco, program director at the Inter-American Dialogue:** "There are at least five OAS member states (Canada, Mexico, Brazil, Costa Rica and Colombia) that are in a position to put pressure on Ortega to negotiate a solution to the crisis, starting with support of the clear OAS resolutions, especially the one creating the special commission. In the short term, these states and others can apply three measures of pressure. First, these countries can make use of their diplomatic muscle to demand a stop to state-sponsored repression and recognize the legitimacy of the Civic Alliance in leading the call for political change. This concerted effort would be not only multilateral, but also individual, since each state has a wide range of issues—including foreign assistance for Canada, trade for Mexico and Costa Rica, and remittances and tourism for all three—at stake with their relationship with Nicaragua. Second, they can also step up sanctioning, freezing visas and assets of members of the Ortega family and his closest supporters. Third, they can influence the special commission's mandate, in order for it to propose political reforms, increase the presence of human rights monitors, establish a conflict resolution table and address the potential of mass migration. The need to urgently act is insurmountable because the regime's repressive tactics are politically and morally indefensible."

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2018

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Peter D. Bell Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Alejandro Ganimian, Nonresident Fellow

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.