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The Interactive Forum for the Region's Leaders

Friday, March 14, 2003

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Advisor ANALYSIS

Q

A British official last week called for granting the International Monetary Fund greater autonomy from political influence by empowering the Fund to be more forthright in its criticism of loan recipients.

Would unfettered criticism of government implementation improve the effectiveness of the Fund's lending programs? Is honesty the best policy in IMF lending?

A

Guest Commentary: José Angel Gurría: "Criticism of loan recipients by the IMF, if made public, would make countries think twice before getting anywhere near the IMF, much less borrow from them, in the fear that they could be embarrassed by the institution. What you want is a process of dialogue

where the outcome is part of an agreement to borrow and where the conditions set by the IMF are made public, but not the discussions leading to the agreement and the practical, political and economic considerations exchanged in the discussions. Debt issues and threats have become much more public and transparent, and Article 4 consultations are now sometimes put on the Web, with the countries' permission. Already, numbers and facts are a matter of public record in most countries, and there is growing public debate about them. If the IMF would join the chorus of analysts, newspapers, bankers, business people, academics, etc., it would lose its quality as a privileged interlocutor and would create animosity and 'antibodies' to any IMF agreement. Remember the IMF is a lender of last resort and it comes in when there is a crisis. Its clout comes from being able to lend. Advice is a penny a ton while loans give you the leverage to be heard. Also, IMF financing detonates other flows of resources, as it is assumed that good policies will follow. So, keep the criticism to smoke-filled rooms (although today nobody smokes anymore), and let everybody else do the public, loud criticism. Do the deals, fix the policies, support good decisions, finance good programs, but don't embarrass the customers because you could end up without clients."

Guest Commentary: Steve Hanke: "The IMF is by definition a political organization. Not surprisingly, therefore, it engages in political shenanigans. In 1998, Indonesia was a classic example. As former US Secretary of State Lawrence Eagleberger put it: 'we were fairly clever in that we supported the IMF as it overthrew [Suharto].' Even the former managing director of the IMF, Michel Camdessus, had no quarrel with that assessment. Indeed, on the occasion of his retirement, he proudly proclaimed that 'we created the conditions that obliged President Suharto to leave his job.' Now a British official, Ed Balls, trots out a reform proposal designed to remove politics from an institution that is inherently political. As P.G. Wodehouse's character Ukridge said, this will have 'about as

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much chance as a one-armed blind man in a dark room trying to shove a pound of butter into a wild cat's left ear with a red-hot needle."

Board Commentary: Beatrice Rangel:

"Criticism without serious restructuring would only achieve catharsis. What the world needs is a slimmer Fund and a more effective World Bank in terms of preventing fiscal crises and opening access to credit to new entrepreneurs, respectively. Enhancing the taxpayer base with the proceeds of new and successful market entrants that create jobs and add to exports is a matter for new policies, not for international chit chat."

José Angel Gurriá is a former Minister of Finance, Foreign Relations, and Commerce for Mexico.

Steve Hanke is Professor of Applied Economics at The Johns Hopkins University.

Beatrice Rangel is a member of the ADVISOR board and Senior Advisor to the Chairman at the Cisneros Group of Companies.

Economic News

Brazil's Petrobrás Corrects "Confusing and Incorrect" Oil Find Estimate

Brazil's state-owned oil company **Petroleo Brasileiro** (Petrobrás) said Thursday two oil fields discovered off the northern coast of the country are "drastically" smaller than originally estimated by the National Petroleum Agency (ANP), the country's energy regulator. Petrobrás is now calling Tuesday's announcement of the discovery of the fields close to Sergipe state "confusing and incorrect." Tests have shown the fields may contain less oil than first believed, a finding which would force the company to "drastically reduce projections in relation to initial estimates," Petrobrás said. Although initial tests indicated their may be 1.9 billion barrels at the sites, only 20-30 percent can actually be tapped, the oil giant noted. The now questionable discovery had boosted Petrobrás' shares up 4 percent on Tuesday and 7 percent on Wednesday on investor optimism that more reserves would mean faster and increased production, a calculation that now has to be re-evaluated. The rise in Petrobrás' stock prompted Brazil's Securities Exchange Commission (CVM) to launch an investigation into possible insider trading, Reuters reported. The CVM is expected to conclude its probe in 10 to 15 days. Oil and Gas Secretary Maria das Graças da Silva Fortes said the release of the wayward estimates was "unacceptable" without "a big discus-

Lula's Approval Rating Slides to 45 Percent Amid Early Frustration

By Mica Rosenberg

March 13 - Brazilian President Luiz Inacio "Lula" da Silva's popularity is slipping, according to a poll released Thursday.

Popular approval of Lula has fallen more than 10 points to 45 percent, down from the 57 percent rating recorded shortly after Lula took office in January. The poll, conducted by the Sensus Institute and commissioned by the National Transportation Confederation, had a margin of error plus or minus three percentage points.

In the wake of Lula's landslide election victory in October, when the leftist former union leader won with more than 60 percent of the vote, many Brazilians are already disillusioned with his failure to fulfill many optimistic campaign promises, such as raising workers' salaries, fighting hunger, and improving conditions for Brazil's poorest citizens.

"If there is a drop in popularity, it means that Lula is not acting as 'Lula' as he can be," said Melvyn Levitsky, who was US ambassador to Brazil from 1994 to 1998. "He's had to worry about traditional things like exchange rates, interest rates, social security. He's no longer the darling of his constituency," Levitsky told the *Advisor*. "Those

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sion" because of the impact on shares. The ANP has denied any wrongdoing, saying it issued a preliminary estimate for total potential oil volume provided by Petrobrás.

Company News

Uruguay Judge Issues Summons for Former Ahold Executives

An Uruguayan judge has requested a formal summons of former **Ahold** executives Cees van der Hoeven and Michiel Meurs on April 2, 3 and 4 to question the chief executive and chief financial officer about the global grocery group's controversial accounting practices at its South American retail outlets, Bloomberg News reported Thursday. Both men resigned over two weeks ago when the company disclosed a gaping hole in the books at its **US Foodservice** subsidiary and began an investigation into the legality of certain transactions at its Argentine unit, **Disco**. The summons may have been sparked by revelations from Henny de Ruiter -- the company's supervisory board chairman -- that Ahold knew about irregularities in Argentina two weeks before actually revealing the facts. The Uruguayan judge, Pablo Eguren, is investigating a deal Ahold made last August when it paid \$492 million to bail out **Velox Retail Holdings**, a former partner in the Disco venture. Four members of the Peirano family, which ran Velox, have been arrested in Uruguay on fraud charges. A fifth warrant has been issued for the arrest of Juan Peirano, who was chairman of Disco until July of last year.

Italy's BNL Selling Brazilian Asset Management Unit to Votorantim

Brazil's **Votorantim Asset Management** will take over the asset management operations of the local unit of Italy's **Banca Nazionale del Lavoro** (BNL), the Italian bank announced Thursday. BNL said the transaction will involve the sale of all 700 million reais (\$US 204 million) in

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funds included under BNL's asset management in Brazil. However, BNL did not disclose the sale price, Reuters reported. Votorantim -- part of the industrial giant **Grupo Votorantim** -- already has \$1.74 billion in assets under its care. BNL is one of several foreign banks that have reduced their exposure in the country as a result of concerns about

economic volatility. On Monday, British bank **HSBC Holdings Plc** said it had acquired **Bank of America's** Brazilian asset management arm.

Quilmes Reports 2002 Net Loss of \$135.9 Million

Quilmes Industrial, the holding company in control of Argentina's largest

... from *Lula Poll*, page 2

aren't the things that appeal to a lot of the people that elected him," he added. One of the obstacles Lula has had to face from the outset is his lack of a congressional majority, which is critical for implementing initiatives, such as reform of Brazil's burdensome pension system.

"Having high popularity can give you more weight against congressmen," that are in the opposition, said Thomas Skidmore, a Brazil specialist and director of the Center for Latin American Studies at Brown University. "They will be more inclined to cooperate."

THE DIALOGUE CONTINUES

Q Since the September 11 terrorist attacks, the US has not paid enough attention to Latin America, according to report released last week by the Inter-American Dialogue. Do you agree? What concrete actions should the US take to address the region's most pressing problems and show it is engaged in the region?

A **Guest Commentary: Steve Johnson:** "Latin Americans have every right to withdraw confidence in their political and economic institutions. But it's not Washington's fault. Where there's trouble, democratic and market reforms have slowed following acceptance of elected leadership and tentative openings to market economics. For instance, the lingering tradition of strong presidencies makes elections in some countries little more than beauty contests. It promotes bottleneck bureaucracies where centralized decision-making marginalizes grassroots desires and congeals the flow of public services. At worst, it fosters elected dictatorships where demagogues like Hugo Chávez and Jean Bertrand-Aristide can bludgeon opponents and bend institutions. Electoral schemes, in which congressional candidates are chosen by party bosses instead of by primary and which allow at-large and non-elected seats in legislatures, cut out the voice of local citizens in lawmaking. Third, markets can't function if the state is the biggest commercial actor, as it has been traditionally in Venezuela. The state should protect rights, provide safety, defend the homeland, and regulate commerce to ensure vigorous competition, but not be in business for itself nor concede monopoly rights to well-connected private interests. Finally, there's lagging rule of law. Weak judiciaries protect elites from laws and regulations and thus are inadequate to counter rampant criminality. Until these issues are addressed, troubled states will not be able to overcome economic decline, predatory terrorists on their soil, nor lagging confidence in their leaders. While Latin Americans must tackle these problems themselves, the United States can help by encouraging goals and by leveraging homegrown reforms through targeted assistance rather than wasting money on stop-gap environmental programs and rural health projects that perpetuate dependency. Free trade agreements championed by the Bush administration are one positive step in this direction."

Steve Johnson is Latin America Policy Analyst at The Heritage Foundation.

Editor's note: the above is a continuation of a Q&A that first appeared in the March 10, 2003 issue of the Latin America Advisor.

brewer, on Thursday posted a net loss of \$135.9 million for 2002. The loss compares to a profit of \$43.3 million in 2001. The Luxembourg-based firm said EBITDA (earnings before interest, taxes, depreciation, and amortization) fell to \$91.5 million from \$233.1 million a year ago. Quilmes also saw an operating loss of \$3.6 million versus an operating profit of

\$136.6 million in 2001. The earnings decline came as beer sales declined 6.5 percent in terms of volume. Beer sales totaled \$468.6 million in 2002, compared to \$938.7 million the year before. Last year, the Argentine economy contracted an estimated 12 percent amid one of the worst crises in the country's history, which included a 70 percent currency devaluation.

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