

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Merike Blofield

Professor of Political Science,
University of Hamburg

Devry Boughner Vorwerk

CEO, DevryBV Sustainable Strategies

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

Paula Cifuentes

Director of Economic & Fiscal Affairs,
Latin America & Canada,
Philip Morris International

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados (McDonald's)

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

Director,
Adtalem Global Education

Jon E. Huenemann

Council Member,
GLG Inc.

James R. Jones

Chairman,
Monarch Global Strategies

Craig A. Kelly

Senior Director,
Int'l Gov't Relations, Exxon Mobil

Barbara Kotschwar

Professor of Political Economy,
Georgetown University

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Beatrice Rangel

Director,
AMLA Consulting LLC

Ernesto Revilla

Head of Latin American
Economics, Citi

Gustavo Roosen

President,
IESA

Andrés Rozental

President, Rozental &
Asociados

Shelly Shetty

Managing Director, Sovereigns
Fitch Ratings

FEATURED Q&A

Will Colombia Make Big Changes to its Tax Overhaul?



Colombian President Gustavo Petro said last month that he wants changes to the tax reform that the country put in place last year. // File Photo: Colombian Government.

Q Colombian President Gustavo Petro on Dec. 29 said he wanted changes to a tax reform passed last year, which cuts taxes for businesses and raises them for the wealthy. Colombia's constitutional court in 2023 struck down a law that prevented deducting royalties from taxable income for extractive industries, but Petro is seeking to reverse that outcome and raise Colombia's total tax take. How is the tax reform affecting the Colombian economy, and what are the most important changes Petro is seeking to make? Which industries and sectors are benefiting or hurting the most under the reforms? How likely is Petro to achieve changes to the tax reform?

A Michael Heydt, senior vice president for global sovereign ratings at Morningstar DBRS: "When the tax reform passed in late 2022, we viewed the legislation positively overall but with some clear drawbacks. From a macroeconomic perspective, the benefits were threefold. First, the reform supported fiscal consolidation, which was needed given the scale of the fiscal deficit. Second, the reform was contractionary in the near term, which helped ensure that fiscal policy was working in concert with monetary policy to moderate inflation. And third, the reform mobilized additional revenue to finance public investment, which was important given Colombia's large social and physical infrastructure needs. The main drawback was that by focusing on higher corporate and wealth taxes instead of expanding the tax base on individuals, the reform raised an already-high tax burden on firms, potentially affecting investment and growth. The reform raised taxes

Continued on page 2

TODAY'S NEWS

POLITICAL

Ecuadorian Authorities Arrest Two in Killing of Prosecutor

Authorities in Ecuador arrested two people in connection with the killing of César Suárez, the prosecutor who was leading the investigation of an attack last week at a television station during a live broadcast.

Page 2

POLITICAL

Mexican Marines Capture Alleged Drug Gang Leader

Mexican marines captured José Alberto García Vilano, a purported top leader of a violent faction of the Gulf drug cartel.

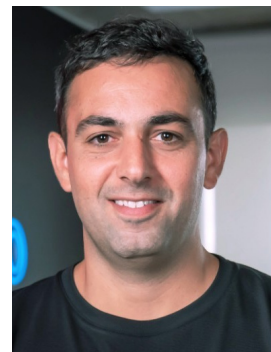
Page 2

BUSINESS

Argentina's Pomelo Gets \$40 Million in Series B Funding

Argentina-based start-up Pomelo, led by CEO Gastón Irigoyen, announced \$40 million in a Series B funding round, led by venture capital fund Kaszek.

Page 3



Irigoyen // File Photo: LinkedIn Profile of Gastón Irigoyen.

POLITICAL NEWS

Ecuador Authorities Arrest Two in Killing of Prosecutor

Authorities in Ecuador arrested two people on Thursday in connection with the killing of a prosecutor who was heading the investigation into gunmen's attack of a television station during a live broadcast last week, Agence France-Presse reported. In addition to making the arrests, police seized a rifle, two pistols and two cars as "evidence," said Police Commander César Zapata. The two people who were arrested belong to a criminal gang that has connections to a powerful Mexican drug cartel, BBC News reported, citing local media reports. The prosecutor, César Suárez, was killed Wednesday in Guayaquil as he drove to a court hearing. Meanwhile, Ecuador launched an operation that sent hundreds of soldiers and police officers into a penitentiary complex in Guayaquil, AFP reported. "Army and police personnel are carrying out a new intervention" in order to "control the external and internal perimeters of the penitentiary center," the army said in a statement, AFP reported. The raid happened at La Regional prison, the same facility from which notorious gang boss Adolfo

Macías Villamar, also known as "Fito," apparently escaped. Soldiers and police said they had restored order at the facility, BBC News reported. The prison is considered to be the base of drug gangs' operations in Guayaquil. Violence surged last week in Ecuador following Macías Villamar's disappearance from his cell. Riots broke out in at least six penitentiaries, prison guards were held hostage and bombs were detonated in several cities, BBC News reported. President Daniel Noboa last week declared a 60-day state of emergency and said the country is in an "internal armed conflict" and ordered the military to "neutralize" 22 gangs, which he identified as terrorist groups. [Editor's note: See [Q&A](#) on Ecuador's surge in violence in Wednesday's Advisor.]

Mexican Marines Capture Alleged Top Leader of Drug Gang

Mexican authorities arrested a purported top leader of the Gulf Cartel on Thursday, the Associated Press reported. José Alberto García Vilano, better known as "La Kena," allegedly led a violent faction of the Gulf Cartel called "Los Ciclones." Mexico's navy announced in a statement that marines had detained García Vilano in Nuevo León, describing him as "one

NEWS BRIEFS

Mexico, Chile Want Int'l Criminal Court to Investigate Crimes in Gaza

The governments of Mexico and Chile have requested that the International Criminal Court investigate crimes against civilians in Gaza and the Oct. 7 Hamas-led assault, the Associated Press reported. Mexico's Foreign Relations Department issued a statement explaining that the request came "because of a growing concern about the recent escalation in violence, especially against civilians," the AP reported. Gaza's health ministry says more than 24,400 Palestinians have died since the start of Israel's invasion.

Gangs Overrun Area of Haiti's Capital That Is Home to Many Police

A community in Port-au-Prince known to be the home of many police officers, Solino, has been under a violent siege by the nation's gangs all week, the Associated Press reported. Constant gunfire has trapped residents inside their homes or forced them to flee the neighborhood. Haiti's gangs now control an estimated 80 percent of the capital city, having completely overwhelmed law enforcement. Nearby neighborhoods have begun erecting homemade barricades in hopes of preventing gang members from entering.

Bolivia's YLB, Chinese Consortium Sign Deal for New Lithium Plant

Bolivian state-owned Yacimientos de Litio Bolivianos (YLB) signed an agreement with Chinese consortium CATL, BRUNP & CMOC (CBC) on Thursday to install a new lithium plant at the Uyuni salt flat, MercoPress reported. The lithium carbonate plant will involve an investment of \$90 million and make use of direct lithium extraction technology to produce 2,500 tons of lithium per year.

FEATURED Q&A / Continued from page 1

on a number of sectors, but the extractive industries are being hit hardest, with oil and mining firms subject to additional windfall taxes and the elimination of deductions on royalties paid. In that sense, the decision by Colombia's Constitutional Court raises opportunities and challenges for the Petro administration. Cutting business taxes and raising them on individuals, as President Petro mentioned, could potentially strengthen the investment outlook. The challenge is that Colombia will need to recover the lost revenue from the court's decision in order to prevent a deterioration in the fiscal accounts. Moreover, Petro would need to

build support for the change even as his congressional coalition is fragmented and his personal popularity is low. Jumpstarting the administration's stalled legislative agenda in 2024 may depend on Petro's ability and willingness to restore old congressional alliances."



Daniel E. Velandia O., head of research and chief economist at Credicorp Capital in Bogotá:

"The proposal to cut taxes for businesses and raise them for high-net-worth individuals goes in the right direction to make the tax system more efficient

Continued on page 4

of the key leaders of one of the most powerful criminal organizations in Tamaulipas,” and “one of the main targets of the Drug Enforcement Administration,” the AP reported. The Gulf Cartel is widely believed to be responsible for the kidnapping of four U.S. citizens last March, two of whom were killed. The four U.S. citizens had purportedly driven across the border to the town of Matamoros, across the Rio Grande from Brownsville, Tex., to get cosmetic surgery, but were kidnapped by armed men who threw them into a pickup truck, BBC News reported. Mexican authorities believed it was possible the group was mistaken for rival cartel members. Two of the group, Zindell Brown and Shaeed Woodard, were killed by the cartel members and a bystander, a 33-year-old Mexican woman, was also shot and killed at the scene. A faction of the Gulf Cartel called the “Scorpions Group” apologized for the kidnapping and turned over to the authorities five men who they blamed for the attack, BBC News reported.

BUSINESS NEWS

Argentine Start-up Pomelo Announces \$40 Mn in Funding

Argentina-based start-up Pomelo, which develops the technological infrastructure for payment card issuance, management and processing, on Wednesday announced \$40 million in funding from its Series B round, Bloomberg Línea reported. Venture capital fund Kaszek led the round, the news service reported. “It’s quite unprecedented for Argentina and Latin America,” said Gastón Irigoyen, Pomelo’s chief executive officer and one of the start-up’s founders. “It’s very good news,” he added. Irigoyen said the amount the company was able to raise in the funding round was significant, particularly given a less robust market for venture capital as compared to previous years. Pomelo, which was started in Buenos Aires, saw strong growth in payment volumes last year, and it recently made the decision to start operations in Chile, Bloomberg Línea reported. For this

THE DIALOGUE CONTINUES

How Much Will Brazil’s Tax Reform Spur the Economy?

Q **Brazil’s Congress approved a landmark overhaul of the country’s byzantine tax system in December, marking a major victory for President Luiz Inácio Lula da Silva, who said the reform will “facilitate investment.” The overhaul includes a merging of five consumption taxes into two value-added taxes. What are the most important parts of the reform? What are the main benefits and drawbacks of the reform? How will it affect investment in Brazil, and what industries will be most affected?**

A **Peter Sufrin, independent Washington-based analyst:** “While the recent passage of the tax reform certainly represents a watershed in Brazilian economic history, revisionary initiatives and impetus have been in process for decades. As a legacy of the national empire dating back to the constitution of 1934, the tax system’s complexity increased significantly as a result of storage capacity reform in the 1960s. By 1988, the new constitution saw the liberalization of tax reform with the aim of addressing

social inequality, and the past 34 years have witnessed the introduction of more than 800 related federal, state and municipal regulations. Leading up to passage of the reform in December, a flurry of activity took place in Brazil’s Congress in 2023, and Lula scored a major victory for his administration that will have profound macroeconomic implications. In a certain way, tax reform epitomizes Brazil’s ongoing struggle and triumph over inequality, whereby citizens were often subject to systemic power and coercion from tax authorities. As a man of the people, Lula is the personification of such defiance. But perhaps the overarching theme of the tax reform has been that of simplification. The product of months of political activity in the House and Senate, Lula now has a feather in his cap to propel policy as he confronts domestic and foreign agendas in 2024. His challenges for the new year await.”

EDITOR’S NOTE: The comment above is a continuation of the Q&A published in the Jan. 10 issue of the Advisor.

year, the start-up’s leaders want to work toward profitability and also consolidate the company’s expansion into new markets, the news service reported. “It’s a year of consolidating our leadership in the markets of Brazil, Mexico, Argentina, Colombia, Peru and now the new launch in Chile,” Irigoyen told Bloomberg Línea. “We are working on technology that allows us to help our clients serve other countries in the region,” he added. Pomelo currently has 120 clients in the Latin American countries where it operates, and Irigoyen said the company is working toward becoming a unicorn, or a start-up with a valuation of more than \$1 billion. Pomelo’s country manager for Argentina, Santiago Witis, told Bloomberg Línea that the

start-up has high hopes for Argentina, where new President Javier Milei has launched broad deregulation efforts. In the past year, Pomelo multiplied its processed payment volume by seven, Witis told the news service. To date, Pomelo has raised \$103 million, including a Series A round that Tiger Global Management led in October 2021, Fintech Futures reported. In addition to extending its market presence, the start-up is planning to use its latest round of funding to invest in its technology. The company’s payment technology allows embedded finance companies and financial technology providers to launch their own payment card programs and virtual accounts in multiple jurisdictions, Fintech Futures reported.

FEATURED Q&A / Continued from page 2

and effective as, currently, most of the tax burden falls on companies rather than on natural persons, which is the opposite of what is observed in developed countries. In addition, recall businesses last year saw the simultaneous effect of the two reforms approved in 2021 and 2022, which increased the effective corporate tax rate for all economic sectors while targeting strategic sectors (for example, oil and financials) with additional increases. This has significantly

“**The proposal would have a rough road ahead if formally presented.**”

— Daniel E. Velandia O.

contributed to a sharp reduction in investment during the last year in the context of interest rates at multi-decade highs. Having said all this, this is not the first time that a government has proposed this shift of the tax collection mix. However, politically speaking, it is tough to get approval because materially increasing tax collection from individuals would entail a need to lower the threshold from which a person must pay income tax, eliminate VAT exemptions and pose a more significant wealth tax, and those are highly unpopular measures. In addition, Petro's proposal seeks to 'uncover' the final beneficiaries behind companies, which is also a challenging task. Thus, the proposal would have a rough road ahead if formally presented. In any case, I firmly believe that corporate taxes should be cut as companies have lost competitiveness in recent decades, considering that most tax reforms have raised their tax burden.”

A **Juan Camilo Riveira, tax and foreign exchange senior counsel at Holland & Knight:** “The tax reform approved in December 2022 continues to affect Colombia's economy as it has introduced a higher level of taxation, not only for specific sectors like hydrocarbons and mining, but also for Colombian and foreign investors. The uncertainty of the application of some of the taxation rules and the recent decisions by Colombia's Constitutional Court, including the possibility of a new tax reform, continues to affect the sentiments of taxpayers. Recent comments from Petro and the minister of finance indicate that the government will seek to reduce the corporate income tax rate from 35 percent to a possible 20 percent. However, the uncertainty of such a reduction is based on the possible increase in personal taxes. Additionally, the extractive industries have been the most affected sectors of the economy with the latest tax reform. However, hotels and the electric energy sector were also hurt by the increase of their tax rates or the inclusion of a surcharge for corporate income tax purposes. In order to analyze the government's proposed tax reform and how it will affect or benefit such sectors, we will need to understand how the government is planning to apply the reduction of the corporate income tax rate. Considering the recent changes to the 2022 tax reform and the decisions of the Constitutional Court, the government will use all possible mechanisms to raise the initial budget. Therefore, a new tax reform will likely be presented to Colombia's Congress in the near future.”

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue ISSN 2163-7962

Gene Kuleta
Editor

Carl David Goette-Luciani
Reporter

Nili Blanck
Reporter



Rebecca Bill Chavez, President
Bruno Binetti, Nonresident Fellow
Sergio Bitar, Nonresident Senior Fellow
Álvaro Botero, Nonresident Senior Fellow
Joan Caivano, Senior Advisor
Kevin Casas-Zamora, Nonresident Senior Fellow
Cristóbal Cobo, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Sandra García Jaramillo, Nonresident Senior Fellow
Rasheed Griffith, Nonresident Senior Fellow
Peter Hakim, President Emeritus & Senior Fellow
Selina Ho, Nonresident Senior Fellow
Edison Lanza, Nonresident Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Michael Matera, Nonresident Senior Fellow
Ángel Melguizo, Nonresident Senior Fellow
Margaret Myers, Director, Asia and Latin America Program
Manuel Orozco, Director, Migration, Remittances and Development Program
Jeffrey Puryear, Senior Fellow
Michael Shifter, Senior Fellow
Daniela Stevens, Director, Energy Transition and Climate Program
Tamara Taraciuk Broner, Director, Peter D. Bell Rule of Law Program
Lisa Viscidi, Nonresident Senior Fellow
Carlos Winograd, Nonresident Senior Fellow

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

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.