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FEATURED Q&A

Why Aren't Lenders Financing Projects in Latin America?



The Octávio Frias de Oliveira bridge, which opened in 2008, has become one of São Paulo's most recognized landmarks // File Photo: Rodrigo Soldon via Creative Commons license.

Q The multi-country Odebrecht bribery scandal, which has also led to accusations against several other construction companies, has complicated plans for infrastructure projects in Latin America. In Peru, Finance Minister Claudia Cooper said recently that corruption investigations may halt at least \$9.5 billion worth of projects because banks are refusing to extend financing for the projects. What is needed to make financial services companies and investors more comfortable in taking on new projects following the corruption accusations against construction companies in the region? Will lenders continue to be reluctant to extend financing for projects involving companies that have been accused of corruption? What mechanisms can be put in place so that allegations and instances of graft do not have crippling economic consequences?

A Héctor L. García Salgó, region president for Latin America at Bechtel: "Latin America is facing a significant infrastructure gap. International institutions have reported that infrastructure investment in the region should be around 5 percent of GDP, whereas actual investment is 3 percent of GDP at best. Governments alone cannot finance infrastructure needs, so the private sector must play an active role. Many countries in Latin America have implemented successful public-private partnership programs, attracting private investment in infrastructure, including power, transport (highways, airports, ports), telecommunications and oil and gas. This is encouraging. International financing institutions that look to expand their presence or enter the region require that projects meet certain characteristics. Unquestionably, proj-

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TOP NEWS

BANKING

Scotiabank Sees Record Earnings From Int'l Unit

Strong business momentum in Pacific Alliance countries led to double-digit growth at Canada's Bank of Nova Scotia during its first fiscal quarter.

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FINTECH

Mexico's Congress Approves Bill to Regulate Fintech

The bill, which has already passed the Senate, seeks to prevent money laundering across a host of emerging technologies, such as crowdfunding, cryptocurrencies and new payment methods.

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COMPLIANCE

U.S. Legislators Explore Bank De-Risking

Chaired by Rep. Blaine Luetkemeyer (R-Mo.), the Financial Institutions Subcommittee of the U.S. House of Representatives on Feb. 15 held a hearing to examine de-risking among international banks and its effect on access to financial services.

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Luetkemeyer // File Photo: Office of Rep. Luetkemeyer.

BANKING NEWS

Scotiabank Sees Record Earnings From Int'l Unit

Canada's Bank of Nova Scotia on Feb. 27 announced it had earned a record \$571 million from its international unit in its first fiscal quarter, up 14 percent from a year earlier, Bloomberg News reported. Net income overall at the bank, which operates in 50 countries, rose 16 percent. "The strong momentum in our business was driven by double-digit growth in loans in the Pacific Alliance countries, positive operating leverage and good credit quality," chief executive Brian Porter said in an earnings release, referring to holdings in Mexico, Peru, Chile and Colombia. "Growing our market presence in Chile and Colombia, and building out our asset and wealth management capabilities here in Canada, will provide a stronger platform to grow and expand our business," he said. Scotiabank recently acquired a controlling stake in Spain's BBVA unit in Chile for \$2.9 billion, and in a separate deal bought Citigroup's consumer and small business operations in Colombia. At home, the bank's Canadian business reported a strong quarter with earnings exceeding \$1 billion. Porter was also upbeat about the bank's outlook in Mexico. In spite of uncertainty about the tense negotiations underway over the North American Free Trade Agreement, or NAFTA, he said Mexico's other trade relationships leave the country "well positioned to adjust to any NAFTA outcome," The Globe & Mail reported.

Grupo Sura Reports 13 Percent Decline in Net Profit

Colombian holding company Grupo Sura on Feb. 27 said its net profit fell 13 percent in 2017 as compared to the year before, to \$508.7 million, Reuters reported. The company cited higher interest charges, nonrecurring costs

and exchange rate variations for the drop, according to a regulatory filing. Total income rose 12 percent, while costs grew 14.5 percent. The company posted stronger fourth quarter results, however, with net profit more than doubling. Headquartered in Medellín, Sura generates more than \$23 billion in annual revenues. Its holdings include significant stakes financial services companies, insurers, pension management firms and asset managers.

REGULATORY NEWS

Mexico's Congress Approves Measure to Regulate Fintech

Mexico's lower house of Congress on March 1 approved a bill to regulate the financial technology sector, Reuters reported. The bill, which has already passed the Senate and is now expected to receive President Enrique Peña Nieto's signature, seeks to establish stability and prevent money laundering across a host of emerging technologies in the financial services sector such as crowdfunding, cryptocurrencies and new payment methods. The law permits open banking, or the sharing of user information by financial institutions through public application programming interfaces, or APIs.

U.S. Legislators Explore De-Risking

Chaired by Rep. Blaine Luetkemeyer (R-Mo.), the Financial Institutions Subcommittee of the U.S. House of Representatives on Feb. 15 held a hearing to examine de-risking among banks and its effect on access to financial services. The term refers to international banks' practice of terminating correspondent banking relationships in locations deemed to be "high-risk" for compliance violations. The de-risking trend has been particularly threatening to banks operating in the Caribbean basin in recent years. "This problem has existed in some form over the past 20 years but has grown more

NEWS BRIEFS

Pan-American Life Announces 6.8% Rise in Revenues for 2017

New Orleans-based Pan-American Life Insurance Group on March 1 said its revenues reached \$1.08 billion in 2017, a 6.8 percent increase over 2016, with total premiums growing 3 percent, to \$1.10 billion. Net income last year reached \$60 million. The company employs nearly 2,000 people with affiliates in Costa Rica, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama and the United States, as well as 13 Caribbean markets.

InvestaBank to Acquire Deutsche Bank Assets in Mexico

InvestaBank, a Mexico-based lender that agreed in 2016 to buy Deutsche Bank's broker dealer business in Mexico, is considering steps to renegotiate the \$175 million purchase price, Bloomberg News reported Feb. 23, citing unnamed sources with direct knowledge of the matter. Regulatory changes have wiped out most of the revenue the German lender generated through its monopoly on custodial services in the corner of the Mexican stock market where foreign securities trade.

Peruvian Court Freezes Former President's Bank Accounts

A court in Peru on March 2 ordered four bank accounts belonging to former President Alejandro Toledo frozen as part of Odebrecht-related corruption probes, state news agency Andina reported. Judge Santos Roger Benites Burgos barred Toledo, who was president from 2001 to 2006, from accessing his accounts at Scotiabank, Banco de Crédito del Perú and Banco de la Nación. Toledo stands accused of corruption and money laundering linked Brazilian construction company Odebrecht. He denies the charges and currently resides abroad.

pronounced following the global 2009 recession,” Manuel Orozco, a program director at the Inter-American Dialogue and a witness at the hearing, said in written testimony. De-risking has had unintended consequences for international charities, independent ATM operators, and non-bank financial services providers. Increasingly, de-risking is impeding anti-money laundering efforts by reducing the visibility of regulators and law enforcement into the financial activities of criminals, witnesses said. By excluding whole categories of customers, banks can push these customers—including criminals—to unregulated, informal financial networks. [Editor’s note: See related Q&A in the Dec. 13 edition of the Financial Services Advisor.]

INSURANCE NEWS

Zurich Insurance Buys QBE’s Latin America Business

Switzerland’s Zurich Insurance said Feb. 25 that it had reached a deal to buy Australian insurer QBE’s Latin America operations for about \$400 million, the Associated Press reported. The move would make Zurich among the biggest insurers in Argentina and provide a strong presence in Ecuador, as well as footholds in Brazil, Colombia and Mexico. QBE said in January that it had forecast a loss of approximately \$1.2 billion for last year, in part due to “the particularly disappointing deterioration in our emerging markets businesses,” chief executive Patrick Regan said in an earnings release. The company plans to remain in its other geographical regions following the sale of its Latin American business, Regan told Insurance Business after news of the sale broke. “Latin America in terms of countries was definitely the significant move we wanted to make,” Regan told the magazine. “Maybe certain products we do a bit less of in certain markets but not really looking to exit any other countries outside of Latin America,” he added. Devastation caused by Cyclone Debbie, and

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ects must be financially sustainable, meaning in some cases that governments have to provide financial support and maintain such commitments regardless of changes in administration. Also, projects must have robust commercial and financial structures, where risk allocation is adequately defined. We all know that infrastructure projects have long-term effects, so they must respect the environment and work together with the host communities, leaving a positive legacy of upskilling the population and businesses for future activities. However, even all of this is not sufficient to make projects successful and attract investment. Infrastructure undertakings are complex by definition, which means that they can be delivered only when all involved parties work in true partnership and in a spirit of collaboration. Investors require reliable engineering and construction companies that demonstrate proven technical capabilities, but increasingly they demand that contractors observe high standards of ethical behavior and have robust compliance programs at the corporate level that are effectively cascaded to project execution teams. We believe countries and communities in Latin America will benefit from international investors and contractors that bring unwavering commitment to protecting their long-earned reputation, including expectations that every actor in the project commits to the same principles.”

A Richard Fogarty and Arnold Castillo, managing directors at Berkeley Research Group: “Latin American governments should create mechanisms that provide legal stability for foreign investment so that they return confidence to the financial sector and investors, in order to ensure investment in large infrastructure projects. We can mention the following examples: public-sector ownership of P3 initiatives (non-political ownership—technocrats); clear statutory environment (legal and regulatory structure); standardization of the P3 contract (multiple

standards if required—e.g. concessionary versus other types of projects; clearly defined revenue streams; collaboration, transparency and communications; clear requirements/outcomes and monitoring—set up at the initial bidding stage of the project (fair competition); defined-value equation—value for money; external audit/monitoring requirements. The companies involved directly or indirectly in corruption should reinforce or implement compliance programs in order to recover credibility and fix their reputations in the industry. First, the ability of the government to appoint a proxy (that is, a third party—such as a reputable accounting or law firm—that was agreed upon in the original contract documentation) during the project and institute a monitoring program at the expense of the contractor. Also, bonding should be allowed, but it can be tiered to control the cost by timing or value. Finally, a trust administration and judicial stability should be set forth in the initial contract if the construction company fails to perform or needs to be replaced. The costs to ‘swap out’ a contractor should be covered by a bond/escrow amount as set forth in the initial contract termination/removal language.”

A Norman F. Anderson, president & CEO of CG/LA Infrastructure: “The word to describe infrastructure in Latin America right now is ‘crisis’—the famous flip side of opportunity. According to the InfraLatam database, the region invests only around 2 percent of GDP in infrastructure, about a third of the target amount. Odebrecht is only a symptom of a disease, which is a broken model that people rightly mistrust, with a vengeance. Recently I was asked to deliver a keynote in Toronto for the CanInfra challenge. We launched a nationwide effort to crowdsource Canada’s next generation of infrastructure projects. Why was this important? Why would this be relevant for Latin American countries? It addresses three

Continued on page 6

Hurricanes Harvey and Irma last year, cost the company \$1.23 billion, ABC reported. QBE also wrote down \$700 million worth of goodwill in its latest financial statement. Before those natural disasters and charges, QBE's full-year net profit last year was a healthier \$844 million.

POLITICAL NEWS

Peruvian Lawmakers Planning New Push to Oust Kuczynski

Peruvian lawmakers are planning a new attempt to oust President Pedro Pablo Kuczynski over his alleged ties with scandal-plagued Brazilian construction company Odebrecht, Peru's state-run Andina news agency reported March 5. Opposition lawmakers are preparing to file a new impeachment motion against Kuczynski within days. Kuczynski narrowly survived a similar attempt to remove him from office in December. Soon after surviving that attempt, Kuczynski controversially pardoned imprisoned former President Alberto Fujimori, a move Kuczynski's critics saw as payback after Fujimori's son, lawmaker Kenji Fujimori, helped Kuczynski remain in office. In response, Kuczynski said in a posting on Twitter that the new move to oust him would create "tremendous chaos" in Peru. He urged Congress to work with his administration in the country's interests. The president is facing accusations that he lied to Congress over his ties to Odebrecht, Bloomberg News reported. Daniel Salaverry, a lawmaker and member of the Popular Force party, told television network Canal N that the party said the impeachment motion would need to be presented to the full Congress. Support for ousting Kuczynski among legislators with the Popular Force, the largest opposition party in Congress, has declined since December, as 12 of the party's lawmakers, led by Kenji Fujimori, have broken from the party. [Editor's note: See [Q&A](#) on whether Kuczynski will be able to complete his term in the Jan. 9 issue of the daily Latin America Advisor.]

ADVISOR Q&A

Will Brazil's Military Bring Law and Order to Rio de Janeiro?

Q Following months of escalating violence, Brazilian President Michel Temer on Feb. 16 put the country's military in charge of public security in Rio de Janeiro State. The action marked the first federal intervention in a Brazilian state since the country's return to democracy three decades ago. Why has violence worsened in Rio de Janeiro? Was Temer's decision to deploy the military the right move? Will the military be able to rein in the state's violence, and how long will it take before civilian policing can be restored? What safeguards are needed to prevent human rights abuses and other potential misdeeds by troops?

A Henrique Rzezinski, member of the executive committee and former president of Amcham Rio and member of the board of the Council of Foreign Relations of Brazil:

"There are no simple answers that can explain why the security situation in Rio has deteriorated so fast in the last years. There are numerous causes. We cannot definitely dissociate Rio's situation with the endemic corruption that has prospered all over the country during the last decade and specifically in Rio de Janeiro State. Rio has become one of the most important world centers for the trafficking of arms and drugs, as corruption in the state's police and politics have become institutionalized. There are many other reasons that have contributed to the present chaotic situation, such as a landscape that favors the favelas' growth and the state's difficulty in combating criminal organizations that have been established in Rio. Many others also exist. President Temer's decision to deploy the military in Rio de Janeiro State was the only possible option that the

government had for reversing a very difficult situation. It is important to note that since the country's return to democracy in the 1980s, the military has played an important role in maintaining democracy as a fixture of Brazilian society. It is also the only institution that has the intelligence and logistic resources to combat corruption in the police and intervene in the trafficking of arms and drugs. A majority of Rio's population also

“The plans that are being worked out are deeply concerned with minimizing casualties of innocents.”

— Henrique Rzezinski

supports the move. The military has developed elite troops who are primarily trained for insurgency situations that are very similar to what is needed in Rio. It is very difficult to foresee the level of violence that will arise from the field operations to be launched, but the plans that are being worked out are deeply concerned with minimizing casualties of innocents. Many grassroots organizations are mobilizing to avoid human rights abuses. We can only hope for the best and raise our voices in defense of democracy and social peace and justice.”

EDITOR'S NOTE: More comments on this topic appear in the [Q&A](#) published in the March 2 issue of the daily Latin America Advisor.

NEWS BRIEFS

Clarke Wins Special Parliamentary Election in Jamaica

Jamaican businessman Nigel Clarke on March 5 won a special parliamentary election that kept the St. Andrew North West constituency under control of the governing Jamaica Labor Party, or JLP, the Jamaica Gleaner reported. The first-time candidate for parliament defeated the People's National Party's Keisha Hayle with 61 percent of the vote, compared to 39 percent for Hayle. The win maintains the JLP's relatively comfortable cushion in the House of Representatives, which remains at a 33-30 margin.

Venezuela's Economy Shrank 13.2 Percent Last Year: Opposition

Venezuela's economy contracted 13.2 percent last year, the country's opposition-controlled National Assembly said March 5, Reuters reported. The opposition has been calculating gross domestic product and inflation in the absence of official data from the administration of President Nicolás Maduro. The GDP report examines oil industry activity, vehicle assembly, tax collection and bank loans.

Fernández to Face Trial in Alleged Cover-up in 1994 Jewish Center Bombing

Former Argentine President Cristina Fernández de Kirchner will face trial on charges she covered up the alleged role of Iranians in a deadly 1994 bombing at a Jewish center in Buenos Aires, the Associated Press reported March 5. Judicial authorities announced that 11 other former officials and people close to Fernández's government will also be tried on charges of cover-up and abuse of power. A trial date has not been set. As a sitting senator, immunity protects Fernández from being arrested, but she can still be tried, according to the report.

Falcón to Run Against Maduro, Defying Opposition

Henri Falcón, a former governor of Venezuela's Lara State, on Feb. 27 defied his own opposition coalition by announcing he would run against President Nicolás Maduro in the country's presidential election, El Universal reported. The Democratic Unity Roundtable, or MUD, opposition alliance previously announced it would boycott the election, saying it would be rigged. In a statement, it blasted Falcón's decision to enter the race. "We can not validate a fraudulent electoral system," the opposition alliance said in a tweet. In announcing his candidacy, Falcón called Maduro the "hunger candidate," referring to the severe economic problems, including shortages of basic foods and medicines, that have worsened during Maduro's presidency. In response to Falcón's candidacy, Maduro pushed back the date of the country's election from April to May, in order to provide more time for campaigning, he said.

ECONOMIC NEWS

Chile's Piñera Eyes Pension Reforms

Chile's president-elect, Sebastián Piñera, plans to present a proposal to reform the country's pension system to Congress in the first half of 2018, Reuters reported March 5, citing an interview with his future labor minister published in local newspaper La Tercera. Nicolás Monckeberg, who is to take office when Piñera's term starts on March 11, said that lower-than-expected payouts and aging demographics have made reforming the private system, once touted as a model for many countries, an urgent priority. "It is an obligation and a moral duty to present a pension reform," Monckeberg said. "We expect to do it in the first half of this year." Some elements of a reform plan presented by outgoing socialist President Michelle Bachelet, including the creation of a new state firm to

increase competition between private pension fund administrators, known as AFPs, would be included in the new plan, he added. Last year, tens of thousands of people protested in the streets against the privately managed pension system, chanting "No more AFPs." Piñera's older brother, José Piñera Echenique, who served as minister of labor and social security in the military government of Augusto Pinochet, is considered the architect of Chile's private pension system.

Trump Announces Plans for Steel Tariffs

U.S. President Donald Trump on March 1 announced plans to impose tariffs of 25 percent on steel imports and 10 percent on aluminum imports, following through on campaign promises to protect domestic U.S. producers, The Wall Street Journal reported. The move sparked fears of a global trade war and rattled markets, as the Dow Jones Industrial Average sank 420 points on the news, or 1.68 percent. Trump also drew sharp rebukes from trading partners around the world. Brazil, Mexico and Canada would be particularly affected by the increased levies, CNBC reported. Canadian and Brazilian steel respectively comprised 16 percent and 13 percent of U.S. steel imports as of September 2017, according to Commerce Department data. Mexican imports made up 9 percent, about the same as South Korea and Russia. Mexico has been working on plans to place retaliatory tariffs on U.S. goods in the event of a new steel tax, Bloomberg News reported. Members of Trump's own Republican Party also spoke out against the decision. "The president is proposing a massive tax increase on American families," said Sen. Ben Sasse, a Nebraska Republican, according to The Wall Street Journal. "You'd expect a policy this bad from a leftist administration, not a supposedly Republican one." The largest federation of labor unions in the United States has praised Trump's tariff plan, however. "For years, we have called attention to the predatory practices of some steel exporting countries... We applaud the administration's efforts today to fix this problem," AFL-CIO President Richard Trumka said.

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big issues critical for a country to build a sustainable infrastructure investment model: First, engage the population. The 'trust gap' in infrastructure is enormous—bring users into the conversation, think seriously about what users want and give them a voice. A strong middle class exists in Latin America, listen to them. Second, use technology. Technology is transforming infrastructure—not just how we design and build, but what we build. Bring citizens into the discussion about priority, type and ownership of projects, right now. Third, create a vision. 'Without a vision, the people perish,' and without an infrastructure vision, the people walk in circles. What does each country in the region need to be successful, locally and globally? Depending on how you count, there are seven or eight elections this year in Latin America, a tremendous moment to rethink, and then to relaunch, the region's infrastructure strategy."

A **John Price, managing director of Americas Market Intelligence in Miami:** "The fallout from the Odebrecht scandal requires years to run its course and involves four phases: 1) an investigative phase, including the work of independent journalists and (sometimes reluctantly) the judiciary; 2) a prosecutorial phase in which targeted officials and business leaders are fined or imprisoned; 3) a political phase in which careers are tainted, or worse, and finally, 4) a litigation phase in which shareholders, customers and vendors seek retribution. Brazil, where this Hydra was conceived, is furthest along with its most popular political leader, Lula, in the final death throes of his career. He is facing 12 years in prison, and a litigation process in Brazil is in full bloom. Lenders across the region are loath to fund projects through construction firms that have a history of collaborating with Odebrecht, which includes all the major firms in Peru and Colombia. Until those firms are cleared of suspicions of malfeasance, proj-

ects will remain unfunded. To help accelerate the process, lenders are conducting their own enhanced due diligence on construction firms and other key vendors, as well as doing their best to read the plans of prosecutors so they can focus on 'clean' players that will carry projects forward. There are also new players, like Chinese construction and lending conglomerates, that can bring a turnkey approach to much-needed infrastructure projects without the baggage of incumbent players, though Chinese firms bear their own reputational risks. Even without Odebrecht, the industry faces another source of delays in 2018—major elections in which incumbents cannot run. This is the case in Brazil, Mexico and Colombia, home to 80 percent of Latin America's construction industry. It appears that the infrastructure sector faces another idle year in Latin America."

A **Juan Sebastián Soto and Daniel Marroquín, attorneys at A.D. Sosa & Soto in Guatemala:**

"Latin America is in desperate need of legal certainty. This is particularly the case in Guatemala, as Odebrecht is not the only corruption case. Investors and lenders are led to believe—by the actions of government officials—that legal certainty exists. Nevertheless, we have seen that corruption is exactly the opposite, as official government actions create a false expectation of legal certainty. In due time and after an adaptation period, which implies stronger compliance policies, lenders will be less reluctant to extend financing for projects. Eventually, lenders should take into account that companies are being accused of alleged involvement in corruption cases, but until there are convictions, a presumption of innocence should prevail. Latin America needs stronger courts, as the only mechanism that can fully provide legal certainty, contract enforceability and a correct administration of the rule of law. In the end, people will come to realize that lenders are victims and could file claims to compensate for damages."

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