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FEATURED Q&A

What's the Outlook for Venture Capital in the Region in 2014?

Q The U.S. Federal Reserve's plans to taper off a program of quantitative easing have raised speculation that an end to a period of "easy money" could suck the air out of Latin America's much-hyped venture capital market, according to media reports. What is the outlook for venture capital in Latin America in 2014? How have startup businesses fared in the region in the "good years" as compared to other parts of the world? What sorts of policies and programs would put Latin American countries ahead of competitors in terms of startups, entrepreneurship and venture capital?

A Juan Pablo Cappello, principal shareholder at Greenberg Traurig LLP: "The venture ecosystem in Latin America isn't driven by easy money from the United States. Actually, very few Latin American startups get their money from U.S. venture capital funds or U.S.-based angel investors. In Latin America, there are more than 100 million people who have accessed the Internet for the first time in the past three years via their 'dumb' Internet-enabled cell phones. And there are another 100 million-plus consumers poised to get online in the next few years. Those 'late' adopters are driving the venture capital market in Latin America. Latin America has been a huge, high-growth market for startups due to the huge growth in connected consumers. In 2000, there were 18 million Internet users in Latin America—about 20 percent of the number in the United States. Today, Latin America has as many Internet users as the United States and Canada combined. By next year, Latin American will have significantly more connected consumers than the United States and Canada. The more governments try to help by trying to 'pick the winners,' the more they distort the local market. Any government policies need to be neutral and focused on education, developing talent and simplifying doing business. It can still take months to get a company formed

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Colombia's President Announces Bid for Re-election

Colombian President Juan Manuel Santos announced Wednesday that he will run for a second term. Santos will face Óscar Iván Zuluaga, the candidate of former President Álvaro Uribe's political movement. See story on page 2.

Photo: Colombian Government.

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NEWS BRIEFS

Mexican Senate Committees Advance Banking Reform

Committees of the Mexican Senate on Wednesday approved a banking-sector reform package that is designed to increase lending, Reuters reported. The full Senate is expected to vote on 70 specific parts of the legislation today, and if they make no changes, will send the measure to President Enrique Peña Nieto. Otherwise, the measure will be send back to the Chamber of Deputies. The reform targets Mexican banks that have high levels of capital, but lend at significantly lower levels than their peers abroad.

Panama Sets $1 Million Fine for North Korean Ship

The lawyer for the crew of a North Korean ship that was seized at the Panama Canal in July said that the Panamanian government on Wednesday has set an "unjust" fine of $1 million before the ship will be allowed to leave, the Associated Press reported. The ship was found to be transporting weapons from Cuba to North Korea, and Panamanian officials had previously said they would levy a fine for putting Panama's security at risk by not declaring the weapons.

SABMiller's Organic Profit Hops 10 Percent in Latin America

SABMiller today reported that its first-half earnings beat estimates of gains in Latin America and Africa, rising 7 percent compared to a 6 percent average forecast by analysts, Bloomberg News reported. Most of the profit of the world's second-biggest brewer comes from emerging markets, including Latin America, Africa and Asia, and the company saw organic profit in Latin America increase by 10 percent in this year's first half.

Political News

Colombia's Santos Announces Bid for Re-election

Colombian President Juan Manuel Santos announced Wednesday that he will run for a second term, a decision that had been widely expected and that Santos announced a day after the one-year anniversary of the government's peace talks with the FARC rebels. "I am running because I am convinced we have advanced sufficiently and finally it is possible to reach that future of prosperity and peace that all Colombians deserve," Santos said in a televised address, Reuters reported. "I am doing it because when you can see the light at the end of the tunnel you don't turn back." In the May presidential election, Santos will face Óscar Iván Zuluaga, the candidate of former President Álvaro Uribe's political movement. Santos, who served as Uribe's defense minister, and the former president split after Uribe left office, with Uribe harshly criticizing his successor for engaging in the peace talks with the rebels. The talks are likely to be a major focus of the campaigns. Polls favor Santos to win, though most likely in a runoff, Reuters reported. Both candidates are seen as market-friendly and are unlikely to cause concerns among investors. Colombia's economic growth has slowed during the past year amid lackluster international demand for Colombia's industrial goods. However, production is expected to increase in coming months, giving Santos a boost. [Editor's note: See Q&A about Colombia's presidential race in the Nov. 13 issue of the *Advisor*.]

Economic News

Ecuador to Increase Oil Output to 555,000 Barrels Daily by Year's End

Ecuador's oil minister, Pedro Merizalde, said Tuesday that the country's oil production is expected to increase to 550,000 barrels per day by the end of the year, Reuters reported. For the last month, production has been at 545,000 bpd and will rise an additional 5,000 bpd by the end of the year. That would amount to a 9 percent increase over last year's average daily production of 504,000 barrels. Merizalde said that the projected increase is being driven by investments made by **Petroamazonas**, the operations division of state oil company **Petroecuador**, and by private investors, as well as by their use of new technologies and techniques. In 2010, the government renegotiated contracts with private companies, who agreed to invest $1.143 billion over three years, but by December they will have exceeded their obligation and invested an estimated $1.253 billion, Merizalde said, according to the statement released by Petroamazonas. Petroamazonas, which is responsible for 60 percent of the crude oil pumped in Ecuador, will invest between $800 million and $1 billion in drilling and well maintenance this year.

Merizalde

File Photo: Ecuadorean Government.

Company News

Banco do Brasil Expects Continued Slowing in Credit to Individuals

Banco do Brasil, the largest lender in Latin America by assets, expects its growth in credit to individuals to continue slowing amid waning demand from the middle class, the bank's chief financial officer told Bloomberg News in an interview Wednesday. Middle-class Brazilians "come to the market and acquire their first mobile, their first plasma TV," said Iván Monteiro. "But they don't change this type of thing every single year. That's why you see a slowdown in consumption." Monteiro added that the bank's mortgage-loan growth and expansion in agricultural loans should remain strong enough to offset lower growth in loans to individuals. "Banco do Brasil will go through an adjustment phase," Andre Riva Gargiulo, an analyst at brokerage **GBM Grupo Bursátil Mexicano** in São Paulo told Bloomberg News in a phone interview.

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Featured Q&A

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and up and running in Latin America. In the United States, that process can take 15 minutes."

Alex Rossi, managing partner of Latin Idea Ventures in Mexico City: "Venture capital in Latin America had a record year in 2013. In Mexico alone, there were more announced deals in the first nine months of the year than in all of 2011 and 2012 combined. I see no reason why 2014 won't be another banner year given the number of new funds and the ever-burgeoning interest in the asset class. Entrepreneurs in the region are more sophisticated than ever and recognize the value of 'smart money' partners. Most start-ups in the region have gained good traction in these 'good years' but invariably there will be fall-out and not all will survive; that is the nature of this industry in Latin America and the rest of the world. Mexico in particular has a very active public program to support start-ups, entrepreneurship and venture capital led by the National Institute of the Entrepreneur (INADEM). Fortifying INADEM's reach and resources could only improve the landscape further and serves as a good model for other countries as well."

Francisco Alvarez-Demalde, founder and partner of Riverwood Capital Partners in New York: "The environment of easy money and over-excitement about early-stage and venture capital, particularly in Brazil, has already changed with this year's significant correction in capital flows, foreign exchange and macroeconomic growth expectations. The change in general investor sentiment and the failures of some venture-backed companies have affected the industry, with entrepreneurs having a harder time raising capital. We expect 2014 to be similar. The bad news is that a more cautious and disciplined investor context would significantly affect future funding, particularly for ventures with aggressive business plans that required several rounds of financing. The good news is that excitement between 2009 and 2012 led to the creation of dozens of interesting companies, as well as the development of an incipient venture capital industry, with firms that will continue to operate for at least the next five years. Latin America is now in a very important phase, where the success of several venture-backed companies will have a significant impact on the industry's future. If most companies fail, it might lead to period of capital scarcity and lack of entrepreneurship. In terms of policies, government support is key. Some countries have launched successful early-stage programs supporting seed funding as well as incubators. However, we don't see a consistent plan to take these early-stage ventures to capital markets. The region needs some examples of successful companies that can transition from early-stage to medium or large companies. Riverwood Capital focuses on these growth companies with sustainable business models and a relevant size. However, governments could take a more active approach to help these types of companies. Some policy examples are: 1.) simplified tax and labor regulations that make it easier for small- to medium-size companies to scale and operate; 2.) focus on developing more liquid and deep capital markets that would allow medium-sized companies to consider an IPO as an exit; 3.) specific initiatives to facilitate financing for small- to medium-size companies that have a high-growth profile; and 4.) actual support for venture capital and growth private funds, which help entrepreneurs create more professional and sustainable enterprises."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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