LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Thursday, November 5, 2015

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

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
Co-chair, Manatt Jones
Global Strategies LLC

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
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

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

Shelly Shetty
Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo
Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

THEDIALOGUE

FEATURED Q&A

Are Brighter Days Ahead for Private Equity?

Economies in Latin American countries have faced headwinds, but private equity investors are seeing opportunities. // File Photo: Pictures of Money via Creative Commons.

Q Executives at international private equity firms see strong opportunities to invest in Latin American companies despite economies battered by recession and currency woes, according to a survey released last month by the Latin American Private Equity and Venture Capital Association. Are brighter days ahead for private equity in Latin America? How does the region compare to other parts of the world in terms of appeal for private equity? Which sectors in the region are most promising for private equity firms, and what strategies for investment will be most popular? What are the biggest challenges PE faces in Latin America over the next five years?

A **Julio Marquez, director for Latin America at Young America Capital:** "Brighter days are ahead, but only in certain sectors and geographies. Latin Americans' fates depend largely on the kind of government they have, the type of natural resources they possess and the extent to which they can generate increasing savings and productivity. Mexico, Colombia and Peru appear to currently combine the most positives; Chile is stagnant; Brazil and Ecuador appear to be taking a step backward; Argentina is on the brink of political change, which could usher in a very positive PE climate, and Cuba may not be far behind. Bolivia and Venezuela are practically blacklisted. The other countries, and Central America, offer generally good but smaller opportunities. Latin America has historically lagged behind the more developed world in terms of private equity appeal. Only a handful of international funds have been formed over the last few decades to invest in Latin America, and their size pales in comparison to those of Europe, Asia or North

Continued on page 3

TODAY'S NEWS

POLITICAL

Mexican Supreme Court Moves Toward Marijuana Legalization

A ruling by a Supreme Court chamber could pave the way to legalization of the drug.

Page 2

BUSINESS

Ecuador Vows to Pay Reduced Award to Oxy

Ecuador's finance minister said Wednesday that the government will pay a reduced award of about $1 billion to Occidental Petroleum in compensation for its seizure of one of the company's oil fields in 2006.

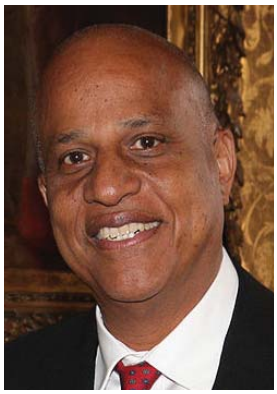
Page 3

POLITICAL

Barrow Wins Unprecedented Third Term in Belize

Belize's prime minister, Dean Barrow, on Wednesday won a third consecutive term as his party won a decisive victory in snap parliamentary elections.

Page 2



Barrow // File Photo: British Government.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

POLITICAL NEWS

Mexican High Court Moves Toward Legal Marijuana

The Mexican Supreme Court's criminal chamber ruled Wednesday that individuals should have the right to grow and distribute marijuana for personal use, a move that opens the door to legal challenges to the country's strict substance abuse laws, The New York Times reported. The ruling was the result of an effort to change the law by four members of a Mexican anti-crime group, called Mexico United Against Crime, which appealed for a license from Mexico's drug regulatory agency to form a cannabis club. The criminal court's ruling only applies to the club that filed the lawsuit, but sets the precedent for challenging Mexico's strict drug policy. In order for recreational marijuana consumption to become legal across the country, the justices in the court's criminal chamber would have to make the same ruling on five different petitions, or eight out of the 11 members of the full court would have to vote in favor. Mexico has some of the strictest drug laws in Latin America, according to The New York Times, but the decision Wednesday is seen as reflecting a growing frustration with Washington-led efforts to control drug trafficking. "We are killing ourselves to stop the production of something that is heading to the U.S., where it's legal," said Armando Santacruz, a plaintiff in the case decided Wednesday and a member of the anti-crime group. However, marijuana use is still considered to be low in Mexico, with one survey in 2011 estimating that only 2 percent of Mexicans had used the drug in the past year. Popular opinion is generally against legalizing marijuana in Mexico, members of the cannabis club said, and the Mexican government, legislators, health officials and the Roman Catholic Church have all taken positions against legalization.

Mexico's government, legislators, health officials and the Catholic Church have opposed legalization.

Belize's Prime Minister Wins Third Term

Belizean Prime Minister Dean Barrow on Wednesday won an unprecedented third consecutive term in a snap election as his party received a majority in the Central American country's parliament, Reuters reported. With 29 of the country's 31 constituencies reporting, Barrow's United Democratic Party, or UDP, won 19 while the opposition People's United Party, or PUP, took 10, according to an election official, the wire service reported. "It is a magnificent victory," Barrow told supporters Wednesday night in Belize City. "The magnitude of this victory still hasn't properly set in." The election happened more than a year early, but Barrow in September called for the balloting as it appeared his opponents were regrouping and amid concerns about whether aid from Venezuela will continue. Belize's $1.6 billion economy relies heavily on Petrocaribe, Venezuela's aid program that provides oil to member countries on preferential terms. Venezuelan President Nicolás Maduro has voiced continued support for Petrocaribe, but some polls show that his ruling party may lose control of the National Assembly in the country's Dec. 6 legislative elections. "There are looming crises facing the Belizean nation and people. The Petrocaribe monies are drying up, the banking system is in trouble," PUP leader Francis Fonseca, who was Barrow's main opponent in the election, said before the vote, Reuters reported. Fonseca had run on a platform of reducing the cost of living and also creating 25,000 new jobs, BBC News reported. Belize also faces a looming threat from Guatemala, which has long claimed a large swath of Belize's territory as its own. Guatemalan President-elect Jimmy Morales has pledged to aggressively pursue the claim.

NEWS BRIEFS

Guatemala's Morales Vows to Strengthen Anti-Corruption Bodies

Guatemalan President-Elect Jimmy Morales vowed Tuesday to bolster the anti-corruption investigative bodies that uncovered the graft scandals that ultimately pushed former president Otto Perez Molina to step down, the Associated Press reported. He said in an interview with the Associated Press that he will ask the U.N. International Commission Against Impunity in Guatemala and Guatemalan prosecutors to help him vet his cabinet.

U.S. Trade Representative Releases Text of TPP

The U.S. Trade Representative's office this morning released the text of the sweeping Trans-Pacific Partnership trade deal, which was finalized a month ago in Atlanta, The Hill reported. The TPP's text is more than 2,000 pages long and is contained in 30 chapters. The text will be under public scrutiny for 90 days before U.S. President Barack Obama can sign it, and lawmakers will have to approve or reject it in an up-or-down vote.

Colombia's Constitutional Court Allows Adoption by Same-Sex Couples

In an historic ruling on Wednesday, Colombia's constitutional court lifted restrictions on same-sex couples adopting children, BBC News reported. The ruling said that gay couples could adopt in the same manner as heterosexual couples, as long as they meet all of the adoption requirements expected of a heterosexual couple. The law previously stated that same-sex couples could only adopt offspring of one of the partners. After hours of debate, the constitutional court overturned the law, saying that barring gay couples from adopting children "limits children's right to a family."

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

ECONOMIC NEWS

Peru's Government Authorizes Second Anchovy Season

Peru's government on Wednesday authorized a second anchovy season, but set the quota at a lower-than-usual 1.11 million metric tons, due to El Niño's effect on water temperatures and its subsequent effect on supply of the cold-water fish, Reuters reported. The production ministry had twice delayed the approval for a second season after detecting low levels of anchovies, which the Andean country exports for use as animal feed. The decision was welcomed by Peru's fishing community, which had been suffering from the effects of warmer waters for the past year. A surge in fishing activity could also help Peru's economy, especially after its sharp slowdown in 2014. The anchovy season is expected to continue until the end of January. Peru has forecast a "strong" El Niño, which would warm the surface temperature of the Pacific Ocean during the summer months, which begin in December in the Southern Hemisphere. Peru produces about 30 percent of the world's fishmeal.

FEATURED Q&A / Continued from page 1

America. Latin America's rapid population growth, however, and its proximity to the United States will continue to fuel fund growth. Moreover, local fund formation is on the upswing as countries' pension funds and institutional investors grow and mature. Consumer and population growth, natural resources and export-oriented industries appear to be the most promising. These last two sectors are natural hedges against currency risk, while the first allow PE funds to mimic strategies that have been successful in the more advanced economies, and with added scale. As for investment strategies, it would seem natural for PE funds to make investments they control, but always in partnership with local players who know the markets. PE's largest challenge is the lack of exit strategies. Until recently, local stock markets were seen as providing an avenue for realizing investment returns, but the roads were paved with good intentions more than solid foundations. This leaves PE funds with the limited alternatives of strategic sales and sales to other funds, which are difficult to achieve. Hence, Latin American PE funds' investors expecting higher returns may indeed achieve them, but will need to be patient to realize them."

> **"Brighter days are ahead, but only in certain sectors and geographies."**
>
> **— Julio Marquez**

Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach: "Yes, brighter days are ahead. Three developments affect this scenario. First, the economic slowdown reduces valuations, creating a great opportunity for private equity. Second, as commodities return to their historic values relative to manufactures and services, countries and private concerns within countries realize

Continued on page 4

BUSINESS NEWS

Ecuador Pledges to Pay Reduced Award to Occidental

Ecuador will comply with a World Bank tribunal's ruling that it pay about $1 billion to Occidental Petroleum for seizing the company's assets in 2006, the country's finance minister said Wednesday, Reuters reported. The World Bank's International Centre for Settlement of Investment Disputes, or ICSID, on Monday announced its decision to lower by 40 percent the arbitration award originally set in 2012. The Ecuadorean government has fought to annul ICSID's ruling since then. However, the government said it is now willing to comply with the adjusted award amount. "As a sovereign country, we are going to comply fully with the international courts," Finance Minister Fausto Herrera told reporters. "We are going to continue working and negotiating in order to find a means of financing these resources." Herrera said the country would seek financing in order to pay the award, Reuters reported. The award is compensation for Ecuador's seizure of Occidental's assets after the government terminated the company's contract in May 2006. The government seized Occidental's Block 15 oil field, saying the company had sold the block to China's Andes Petroleum for $400 million without the government's consent. U.S.-based Occidental was Ecuador's largest oil investor at the time, extracting around 100,000 barrels of oil a day. Occidental, which is headquartered in Houston, filed the arbitration request with ICSID in July 2006. The arbitration panel awarded Occidental $1.77 billion in 2012, but reduced it Monday, saying that it "manifestly exceeded its powers by wrongly assuming jurisdiction with regard to the investment now beneficially owned by the Chinese investor Andes." Occidental confirmed that the reduced award amounted to $1 billion plus interest, but declined to comment further.

Herrera // File Photo: Ecuadorean Government.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 3

that the time has come to hedge their bets through diversification. Thus, many will be entering manufacturing particularly now that countries such as Mexico can compete with China on account of the increase in the relative price of Chinese manpower. Finally, there is infrastructure. Over the last decade, many countries, in particular small countries, in the region have concentrated on fostering infrastructure development through multilateral financing or public-private partnerships. Partnerships are bound to increase in larger economies such as Brazil and Argentina. Brazil because it will need to reignite development, and Argentina because it seems to be on the verge of experiencing a significant shift in economic policies. "

Andrew Gunther, managing director at Darby Private Equity: "With the end of the commodity super cycle, tepid growth around the world and the prospect of an interest rate rise in the United States, we can look back with nostalgia on the 'good times' of just a few years ago when pundits were predicting the inevitable ascendancy of the BRICS and emerging markets generally. Instead, around Latin America, economic growth has slowed and many currencies devalued. That said, it is difficult to generalize about private equity prospects in Latin America, where economies are diverse and whose governance and institutions vary widely. Slowing growth in China has adversely affected commodity exporters like Peru, Colombia and Chile, while Mexico is a manufacturing hub whose economy has strong ties to that of the United States. Meanwhile, Brazil has a very large domestic economy but suffers from a political crisis as its president may face impeachment. We also know that economic and political cycles will continue, so today's pessimism will not last forever. In that context, there are safe harbors for Latin American private equity in areas such as infrastructure. Many opportunities exist around the region to invest in companies or projects that have stable cash flows and low risk but provide attractive returns particularly in a time when interest rates in developed markets are at historical lows. One can also find infrastructure investments whose cash flows are denominated in dollars or in local currency but indexed to inflation. These types of assets provide full or partial hedges against currency fluctuations and are less sensitive to possible economic volatility going forward."

> **"There are safe harbors for Latin American private equity in areas such as infrastructure."**
>
> **— Andrew Gunther**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2015

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

THEDIALOGUE

Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Kevin Casas-Zamora, Director, Peter D. Bell Rule of Law Program
Maria Darie, Director, Finance & Administration
Ramón Espinasa, 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, Senior Fellow
Jeffrey Puryear, Senior Fellow
Lisa Viscidi, Director, Energy Program

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:

1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036

Phone: 202-822-9002
Fax: 202-822-9553

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.