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FEATURED Q&A

Will Colombia's 'Opportunity Zones' Help Drive Growth?

Colombian President Iván Duque is seeking to establish "opportunity zones" to spur investment in poor areas of the country. // File Photo: Colombian Government.

Q **As part of his proposed tax reform, Colombian President Iván Duque is pushing a version of so-called "opportunity zones," which in Colombia's case would seek to spur investment in economically depressed rural areas by eliminating taxation on investment gains in such areas. Meantime, more organizations around the world are incorporating socially conscious criteria in measuring their performance. To what extent would an initiative like Colombia's help drive development? How would moves to bolster impact investing affect bank lending and profits? How much are such initiatives in Latin America affecting financial services providers and more traditional capital markets?**

A **Michael Chu, co-founder and managing director of Mexico-based venture capital fund IGNIA Partners and senior lecturer of business administration at Harvard Business School:** "Impact investing is in vogue but lacks an accepted definition, so let me first provide mine: the professional practice of investing prior to the involvement of conventional commercial markets, in the delivery of interventions seeking measurable high impact on targeted social issues, and aiming for commercial returns. At first blush, President Duque's initiative seems to fit this definition as it aims to bring capital to where currently there is none, with the subsidy intelligently aligned not with activity but with outcome—it only kicks in if the enterprise is financially successful. Accordingly, the quality of the business models it attracts will likely be a lot sturdier. The total quantity will be lower, but there is no virtue in attracting low-quality projects. When and if those

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TOP NEWS

PENSIONS

CDPQ Acquires Stake in Colombia Pension Fund

Privately owned investment manager Caisse de dépôt et Placement du Québec, or CDPQ, has acquired a minority stake in Colombian pension fund Grupo de Inversiones Suramericana.

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INSURANCE

Auto Insurance Now Mandatory in Mexico

Drivers on all federal roads in Mexico are required to carry at least liability insurance as of Jan. 1. The change was required under a law passed in 2013. Vehicle insurance requirements have been phased in.

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O'Neill Tapped for Inter-American Development Bank

Brian O'Neill was named executive vice president at the Inter-American Development Bank. He has four decades of experience in banking in Latin America, most recently at Lazard.

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O'Neill // File Photo: Rick Reinhard, Inter-American Dialogue.

FINANCIAL SERVICES NEWS

Canada's CDPQ Acquires Stake in Grupo Sura Unit

Privately owned investment manager Caisse de dépôt et Placement du Québec, or CDPQ, on Dec. 21 announced in a statement that it had acquired a stake in a subsidiary of Colombia-based pension fund Grupo de Inversiones Suramericana. The purchase of the minority interest in Grupo Sura's asset management

Sabia // File Photo: CDPQ.

subsidiary will close for $247 million following regulatory approval, the Canadian company said. Bancolombia and Peru's Grupo Wiese own the subsidiary, which manages $135 billion in assets and provides financial services to roughly 20 million clients across several Latin American countries, including Colombia, Mexico, Peru, Chile, El Salvador and Uruguay. "Grupo Sura is one of our most strategic partners in Latin America," Michael Sabia, president and chief executive officer of CDPQ, said in the statement. "Together, we have made major investments through innovative infrastructure platforms focused on long-term, sustainable growth." In recent years, Grupo Sura and CDPQ have jointly invested in Mexican infrastructure projects and financed additional infrastructure projects in Colombia. In November, the Colombian government announced it was partnering with CDPQ and local pension funds to create a 3 trillion peso ($926 million) fund to invest in infrastructure in the country, the largest one in terms of capital contribution for these purposes, Colombian President Iván Duque said, Reuters reported. With this acquisition, CDPQ's investments in the South American country will total $1 billion in 2018, Sabia said.

Latin America Sees Rise in Malware Attacks

Latin America suffered more than one billion malware attacks in 2018, with an average of 3.7 million attacks per day, according to a new report by Moscow-based cybersecurity firm Kaspersky Lab, ZDNet reported Dec. 20. A malware attack is a type of cybersecurity breach through which external software is able to perform activities on the victim's computer system without his or her knowledge. In December, more than 2,000 mobile banking customers in Brazil unwittingly downloaded Android-based malware that controlled their mobile devices and also stole confidential data, ZDNet reported. The number of incidents in the region through last November rose 14.5 percent since November 2017. Argentina was the most common target of the attacks, registering a 62 percent increase from 2017 in the frequency of attacks. It was followed by Peru and Mexico, which saw a 39 percent and 35 percent rise, respectively, the study said. The report also noted that phishing attacks, in which a third party attempts to access sensitive information such as passwords and credit card details by presenting itself as a trustworthy entity, were also up in Latin America, increasing 115 percent for the one-year period through last November, as compared to the previous 12-month period. Mexico suffered the most phishing attacks in 2018, seeing a 120 percent increase since the

> **"Mexican government agencies should mandate controls that improve security standards of middleware and other software..."**
>
> **— Jarrett Benavidez**

NEWS BRIEFS

Auto Insurance Becomes Mandatory in Mexico

As of Jan. 1, all drivers in Mexico are required to have auto insurance if driving on any federal roads or bridges, El Siglo de Durango reported. Drivers must carry at least liability insurance to cover damage to other drivers or their vehicles. The change was codified in a law approved in April 2013, but only fully takes effect for all vehicles this year. A main goal of the law is to protect victims of transit crashes, which make up the second-largest cause of death in Mexico for people between age 5 and 34, according to the Mexican Association of Insurance Companies, or AMIS.

Scotiabank Agrees to Sell Dominican Republic Pension, Insurance Units

Bank of Nova Scotia has agreed to sell its pension and related insurance units in the Dominican Republic, The Canadian Press reported Dec. 20. The Toronto-based bank is selling Scotia Crecer AFP and Scotia Seguros to Grupo Rizek, a diversified business group in the Dominican Republic. Scotiabank said the transaction is not financially material to it.

O'Neill Named EVP of Inter-American Development Bank

The Washington-based Inter-American Development Bank on Dec. 19 appointed Brian O'Neill as executive vice president, effective Jan. 1. O'Neill has served in several roles at Lazard since 2009, most recently as senior advisor. Before that, he served as deputy assistant secretary in the U.S. Treasury from 2007 to 2009. He previously worked for J.P. Morgan Chase for more than 30 years, where he held leadership roles including chairman of investment banking for Latin America and Canada from 2001 to 2006. O'Neill is a member of the Inter-American Dialogue's board.

previous year. "Mexican government agencies should mandate controls that improve security standards of middleware and other software, including secure-coding best practices, vulnerability identification and remediation," Jarrett Benavidez, vice president of sales for Central U.S. and Latin America at BeyondTrust, told the Advisor in May, after Mexico reported an unprecedented level of cyberattacks to its banks. [Editor's note: See related **Q&A** in the May 16 issue of the Financial Services Advisor.]

Argentina's Central Bank Lowers Reserve Requirements

Argentina's central bank said on Dec. 20 that it has reduced reserve requirements for longer-term deposits with the aim of stimulating savings and curbing flight to the U.S. dollar, Reuters reported. "The reduction in reserve requirements for certificates of deposit would allow banks to offer higher rates on CDs," Gabriel Zelpo, chief economist at Argentine consultancy Elypsis, told the wire service. The International Monetary Fund applauded the policy, with an IMF representative saying "the central bank's proposed changes are consistent with the current monetary policy framework and do not alter the announced monetary base targets, while making the current system more transparent, simple and efficient." The IMF last year agreed to a $56.3 billion standby loan for Argentina, which saw a sharp run on the peso following an unexpected recession and interest rate hikes in the United States. Country risk continues to be the top deterrent to investor confidence in Argentina, according to Argentine economist Gustavo Ber, América Economía reported Dec. 22. The central banks modification to reserve requirements seeks to simplify the framework and encourage deposits in local currency, Reuters reported.

The International Monetary Fund applauded the policy.

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high-quality enterprises succeed, they will drive development. So long as programs to promote impact investing stick to the definition proposed above, they should not really affect bank lending or profits, nor traditional capital markets, nor financial service providers. The reason is that we are really talking about venture capital, still dismally scarce in the region and nowhere yet a key factor in the financial systems. The problem occurs when we insist on calling impact investing activities that conventional markets already serve, such as growth capital for energy or housing, or investments in publicly listed microfinance banks, where the entry of well-intentioned public funds, rather than promoting more development, will only distort capital markets and lower returns for commercial investors."

A **Javier Coronado and Marcela Blanco, associate attorneys at Diaz, Reus & Targ:** "The Colombian tax reform, which entered into force on Jan. 1, will contribute to the overall economic development of the country by eliminating the corporate income tax on new agricultural projects for a period of seven years. Critically, these projects will create new employment opportunities in rural areas and possibly increase farmers' incomes, which in turn could also reduce social gaps in certain regions of the country. An increase in the productivity of the agricultural sector of the economy will also result in an expansion of the industrial sector based on an increase in the demand for industrial products. Initiatives such as these create business opportunities for financial institutions in Latin America because financial institutions can develop and administer the vehicles (for example, funds) necessary for conducting them. Financial institutions can also offer their clients to carry out the economic assessment of these investments. Further, the development of certain projects in these 'opportunity zones' might require investors to obtain construction loans from financial institutions. Moreover, if impact investing achieves its goal of driving development into Latin American countries, more businesses in need of financial services will be created. Thus, impact investing might bring new clients to financial institutions. While opportunity zones are certainly attractive based on their tax benefits, they do not

"Initiatives such as these create business opportunities for financial institutions in Latin America..."
— Javier Coronado & Marcela Blanco

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Investment Bankers Expect Increase in Latin America Fees

Investment bankers estimate that Latin America fees will total as much as $2 billion in 2019, the second time it would reach that amount in three years, Bloomberg News reported Dec. 20. Brazil is expected to account for the largest share in the region's fee revenue as President Jair Bolsonaro's government takes charge. "We were in a bit of a wait-and-see mode in Brazil, with some deals on hold until elections gave us a green light," said Alberto Pandolfi, head of investment banking for Citigroup in Latin America. "Now we have it, and there's a lot of excitement and optimism in the private sector." Political uncertainty surrounding last year's elections in Brazil, Mexico and Colombia, paired with Argentina's economic crisis, hurt fee revenue from the region, which fell to $1.43 billion through Dec. 12, in 2018. That is roughly 30 percent less revenue compared to the $2 billion generated in the entire previous year, according to research firm Dealogic. In the year ahead, analysts are more optimistic, mostly due to expected market-friendly policies in Bolsonaro's government. His economic team, led by Paulo Guedes, seems to "have the right diagnosis about what needs to be done," Martín Marrón, head of investment banking for JPMorgan Chase in Latin America, told Bloomberg News. By contrast, analysts forecast that Argentina, which experienced a 2.3 percent GDP contraction last year, will continue to see stalled revenue growth as the country prepares for presidential elections in October.

RESEARCH ALERT

Remittances From Mexico to U.S. Rise Despite Declining Migration: Report

Despite declining migration from Mexico to the United States in the past decade, remittance flows from the United States to Mexico have increased from $22.8 billion in 2014 to $28.7 billion in 2017, driven by more transactions overall and higher amounts of money sent from states with smaller percentages of Mexican immigrants, according to **new research** released by the Inter-American Dialogue's Migration, Remittances & Development program in December.

After weighing the influence of factors such as the level of income of the Mexican population in the United States, the number of years living abroad, average remittances and the amount of transactions and senders, the report concludes that Mexican families are receiving a higher total amount of funds from relatives living in the United States because, first, more Mexicans are sending money home, and second, because Mexican-born individuals in states with smaller populations of Mexican migrants are sending higher amounts of money.

Additionally, the research found that U.S. states with larger percentages of Mexican-born population continue to account for the biggest share of remittances sent to Mexico. Among the states sending the most both in value and transactions, California leads the list with $8.84 billion, Texas sending $4.3 billion and New York sending $1.8 billion from 2016 to 2017.

For states with a lower share of Mexicans, inter-state migration has been a key factor in driving more remittance flows. Increases in the Mexican-born population of states such as Tennessee and Michigan have contributed to the growth of remittances observed in recent years, according to the study.

POLITICAL NEWS

Bolsonaro Takes Office as Brazil's New President

Far-right former army captain Jair Bolsonaro took office Jan. 1 as Brazil's president, vowing to move the country away from socialism and blasting the leftist Workers' Party for the country's ills, including corruption and an economic crisis. "We have a unique opportunity before us to reconstruct our country and rescue the hope of our compatriots," Bolsonaro said in a brief speech in the lower house of the country's Congress, The Guardian reported. "We are going to unite the people, rescue the family, respect religions and our Judeo-Christian tradition," he said. Bolsonaro also vowed to "conserve our values." Additionally, Bolsonaro called for Brazil's "liberation from socialism, inverted values, the bloated state and political correctness." In his inaugural address, Bolsonaro thanked God for his surviving a near-fatal stabbing during a campaign event in September. For the inaugural events, Bolsonaro had requested increased security, the Associated Press reported. Some 3,000 police officers patrolled the events in Brasília, and the military deployed tanks and fighter jets and had anti-aircraft missiles prepared. Officials required journalists to arrive seven hours in advance of the ceremonies, and some complained on Twitter that officials had confiscated food they had brought to eat during the wait. Bolsonaro and his wife Michelle arrived at Brazil's Congress for the inauguration in an open-topped Rolls Royce. Bolsonaro's vice president, Hamilton Mourão, was also sworn in during the ceremonies. Bolsonaro, who has vowed to crack down on criminals, also promised on Tuesday to make it easier for Brazilians to own guns. "Good citizens deserve the means to defend themselves," he said, The Guardian reported. Bolsonaro has pledged to protect police officers who kill criminals and called on lawmakers to provide "legal support" for police to carry out their work. "They deserve it and must be respected," he said. The new president has had the support of Brazil's agribusiness sector, promising from the government an "increase in efficiency" along with "less bureaucracy." Environmental activists have been concerned about Bolsonaro's plans to streamline the environmental licensing process. Indigenous advocates have also raised concerns that appeared to be justified in one of Bolsonaro's first official acts as president. Just hours after taking office, he stripped the power of the National Indian Foundation, or FUNAI, to demarcate indigenous reserves and gave it to the Ministry of Agriculture, Folha de S.Paulo reported. Also during his inaugural address, Bolsonaro blasted the left-wing Workers' Party, saying it is responsible for the country's problems. "Irresponsibility drove us to the worst ethical, moral and economic crisis in our history," he said, The Guardian reported.

NEWS BRIEFS

Pompeo Meets With Peru's Foreign Minister

U.S. Secretary of State Mike Pompeo met Jan. 1 with Peru's Foreign Minister, Nestor Bardales, to discuss tensions over migration from Venezuela, the Associated Press reported. A spokesman said Pompeo thanked Peru for taking in hundreds of thousands of migrants from Venezuela fleeing hyperinflation and shortages of food and medicine. Pompeo also conveyed "the need to increase pressure" on Venezuelan President Nicolás Maduro to improve conditions. Pompeo and Bardales met in Brasilia, where both were attending the inauguration of Brazilian President Jair Bolsonaro.

Colombian Military Kills FARC Dissident

Colombian President Iván Duque said Dec. 21 that the country's armed forces had killed a dissident of the former FARC rebel group who had murdered three Ecuadorean media workers earlier this year, El Tiempo reported. Walter Arizala, known as Guacho, was shot in a police and military operation near the Colombia-Ecuador border. Arizala was accused of drug trafficking, extortion and homicide. [Editor's note: See related **Q&A** in the Nov. 16 issue of the daily Latin America Advisor.]

U.N.-Backed Panel Urges Britain to Allow Assange to Leave Embassy

A United Nations-backed working group on arbitrary detention on Dec. 21 urged British authorities to allow WikiLeaks founder Julian Assange to leave the Ecuadorean embassy in London without fear of arrest or extradition, saying Assange had been illegally held without charge, Reuters reported. Britain says Assange, who took refuge at the embassy in 2012 while facing since-dropped rape accusations in Sweden, will be arrested for skipping bail if he leaves the building.

Following his inaugural address, Bolsonaro drew praise from U.S. President Donald Trump. "Congratulations to President @JairBolsonaro who just made a great inauguration speech - the U.S.A. is with you!" Trump said in a tweet. A posting on Bolsonaro's Twitter account replied to Trump, saying, "Dear Mr. President @ realDonaldTrump, I truly appreciate your words of encouragement. Together, under God's protection, we shall bring prosperity and progress to our people."

Castro Blasts U.S. for 'Confrontation' With Cuba

Former Cuban President Raúl Castro marked the 60th anniversary of the Cuban Revolution on Jan. 1 with a speech blasting the United States for returning to confrontation with the island nation and intervening in Latin America, Reuters reported. "Once again, the North American government is taking the path of confrontation with Cuba," Castro said in Santiago de Cuba, where his late brother Fidel declared victory in 1959. Castro said "high-ranking officials" of U.S. President Donald Trump's administration are "trying to blame Cuba for all the region's ills," adding that they instead stem from "ruthless neoliberal policies."

ECONOMIC NEWS

Colombia to Boost Minimum Wage by 6 Percent

Colombian President Iván Duque said Dec. 20 that the minimum wage for workers would increase by 6 percent in 2019, EFE reported. In a statement, Duque said the wage hike was agreed to in recent talks between his government and the private sector and labor representatives, and he called the increase "the most significant in the last 25 years." Workers will also receive a "transportation subsidy" increase of 10 percent. Together, the changes will boost the minimum monthly salary of works to 925,148 pesos, or $287, according to the report. The inflation rate in Colombia stayed within the government's 3.3 percent target in 2018, according to the Financial Times, and growth in 2019 is forecast at 3 percent. A conservative elected last June in a closer-than-expected race, Duque, 42, said the wage boost will "reactivate the economy" and create more formal employment. His administration has faced some turbulence in its first 100 days in office, with student protesters clogging streets for months across the country, demanding more funding for education. In December, Duque reached an agreement with student leaders, allocating more than 4.5 trillion pesos ($1.4 billion) in additional funds for education over the course of his four-year term. [Editor's note: See related **Q&A** in the Dec. 19 issue of the daily Latin America Advisor.]

Ecuador Cutting Gasoline Subsidies, Workers' Salaries

Ecuadorean officials said Dec. 18 that they will cut gasoline subsidies and lower salaries of government workers in an effort to reduce the country's fiscal deficit by $800 million, El Comercio reported. Ecuador has grappled with falling prices for its oil exports, and President Lenín Moreno has sought to reduce the deficit since taking office in 2017. In November, Moreno secured a $900 million loan from China, and a possible funding agreement with the International Monetary Fund remains a possibility, Reuters reported. Cutting the gasoline subsidies will lead the fuel to increase in price from $1.48 per gallon to $1.85 per gallon, which will put it in line with prices in neighboring countries. Additionally, the government plans to reduce the salaries of public employees, which will save it $300 million annually, said Labor Minister Raúl Ledesma. Under the plan, salaries of cabinet ministers will be cut by 10 percent, while other high-ranking officials will see a salary reduction of 5 percent, El Comercio reported.

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necessarily fulfill every investor's expected return. Further, governments often require investors to meet certain criteria before participating in impact investing initiatives. Accordingly, opportunity zones are narrow in scope and not a threat to traditional capital markets."

A **Beatrice Rangel, director of AMLA Consulting in Miami Beach:** "This move by President Duque obviously aims at planting the seeds of competition in the Colombian economy, which like in most of Latin America, is corporativist in nature. The policy is solidly grounded in the unbalanced growth development theory initially promoted by Albert Hirschman, which surmises that policymakers should promote unbalanced growth given that ' ... disequilibria creates problems, which you need to solve, and this triggers innovation and wealth creation.' Or as Benjamin Higgins put it, ' deliberate unbalancing the economy according to a pre-designed strategy is the best way to achieve economic growth.' President Duque could be defined as a development expert, as he spent the better part of his life at IDB. He thus knows that in Latin America, there is no hope of achieving development lest you deal with aggregate demand growth resulting from wealth creation, not public transfers while unleashing the creative forces of competition. The establishment of opportunity zones promotes the emergence of new development hubs that through investments create jobs and economic value in depressed zones. These zones then begin to compete with more mature development hubs (Medellín comes to mind), attracting more capital and talent thereby entering a virtuous development circle. In short: a great public policy move."

"The establishment of opportunity zones promotes the emergence of new development hubs..."
— Beatrice Rangel

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

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