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FEATURED Q&A

What Are the Best Ways to Foster Latin America's Startups?

Five countries account for 86 percent of the fintech companies in Latin America, according to a recent IDB survey. Santiago in Chile, which ranked fifth among those, is pictured above. // File Photo: Renzo Stanley via CC license.

Q **Canada's Scotiabank said this month it has teamed up with Mexican university Tec de Monterrey to launch the bank's first financial technology accelerator, called Factory A. The number of financial technology startups in Latin America has reached 1,166 across 18 countries in the region, according to a report released last month by the Inter-American Development Bank with Finnovista. The figure represents a 66 percent increase from the last version of the report, published in 2017. Do technology accelerators pay off? What is the state of Latin America's fintech sector today, and how does it compare to elsewhere in the world? What policies would do most to increase financial innovation in Latin America and the Caribbean?**

A **Fabian Saide, member of the Financial Services Advisor board and CEO of Paykii:** "Technology accelerators are imperative for all startups. For early-stage startups, they empower entrepreneurs to realize the real potential of their venture from the inside out. For late startups, they can serve as an exercise to stop and review the initial plans and adjust for the future. Fintech accelerators, particularly, make it possible for users to navigate complicated legal requirements and connect with financial institutions. Accelerator programs have become an integral part of startup success in Mexico, responsible for the growth of the startup ecosystem, with 500 Startup, BBVA Open Innovation and Google Launch Pad, among others. University programs, such as Tec de Monterrey's with Scotiabank, are a promising opportunity to empower students with entrepreneurship resources and education to help drive innovation and bring new products to the financial

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FINTECH

López Obrador to Launch Mobile Banking System

Mexican President Andrés Manuel López Obrador has announced plans for a digital payments system that will allow Mexicans to make and receive payments through their mobile phones without charging a fee.

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BANKING

Bolivia Wants Private Banks to Bring Back Money Held Abroad

Bolivia's government has urged private lenders to bring $812 million that are currently held internationally back to Bolivia.

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BANKING

Brazil's BTG Pactual Sees Income Fall

Brazil-based BTG Pactual, led by chief executive Roberto Sallouti, said a 4.4 percent decrease in profit for the fourth quarter came as the bank saw higher expenses that offset rising revenue.

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Sallouti // File Photo: via LinkedIn.

BANKING NEWS

López Obrador to Launch Mobile Banking System

The government of Mexican President Andrés Manuel López Obrador has announced new measures that seek to make banking more affordable and use financial technologies to lift people out of poverty, Reuters reported Feb. 19. The government is planning a digital payments system that will allow Mexicans to make and receive payments through their mobile phones without charging a fee. A pilot roll-out of the platform, which would be built and run by the central bank, is expected by March. More than half of Mexico's population is unbanked. "In the future, it will no longer be necessary to have a bank in the sense of a traditional, established bank," said Arturo Herrera, Mexico's deputy finance minister. "Mobile phones will become banks," he added. The system faces several challenges, including spotty mobile phone and Internet coverage and the lack of basic telecom infrastructure in remote areas. [Editor's note: See **Q&A** on López Obrador's policies affecting Mexico's banks in the most recent issue of the Financial Services Advisor.]

Herrera // File Photo: Mexican Government.

U.S. Detains Brothers Wanted in Ecuador's Filibanco Case

Two brothers wanted in Ecuador on charges that they stole millions of dollars from a now-defunct bank have been detained in Florida by U.S. immigration authorities, the Associated Press reported Feb. 17. William and Roberto Isaías have long stood accused of embezzling millions of dollars from the bank, Filanbanco, in the 1990s before its collapse. The brothers were charged at the time but fled the country before trial. They were found guilty in absentia and sentenced to eight years in prison in 2012. They deny the allegations and have been fighting for the return of businesses and assets seized by the Ecuadorean government. The United States has denied Ecuador's extradition requests three times over the past two decades, under both Republican and Democratic administrations, according to the report. Relatives and employees of the brothers have donated more than $300,000 to U.S. political campaigns since 2010 amid the brothers' ongoing efforts to avoid being sent back to Ecuador to serve their prison sentences, NBC News reported. In a statement, Ecuador's government said the two men would be arrested if they are deported from the United States and that the brothers had been issued "provisional passports with a view to their eventual deportation," EFE reported. The pair are reportedly awaiting a hearing in Miami.

Bolivia Wants Private Banks to Bring Back Money Held Abroad

Bolivia's government on Feb. 19 urged the country's private lenders to bring some $812 million that are currently held internationally back to Bolivia, EFE reported. "It is important that these resources, which were invested abroad, are returned to the country to attend to the financing needs of the Bolivian population and thus continue with the growth of the loan portfolio," the Economy and Public Finances Ministry said in a statement. These resources increase the level of liquidity in other countries, while hurting Bolivians' access to credit, it added. Of the $812 million, approximately $599 million are held in sovereign bonds or foreign investments. These investments are temporary, and the ministry says their level of profitability is lower than the interest generated by the loan

NEWS BRIEFS

Majority of Jamaican Autos Uninsured: Study

More than half the vehicles in Jamaica are likely uninsured, according to a study by Jamaica National Group, The Gleaner reported Feb. 18. Researchers compared data from tax authorities and the Insurance Association of Jamaica (IAJ), which revealed that up to 57 percent of vehicles were not covered by an insurer in 2016. However, the IAJ estimates 30 percent of vehicles are uninsured. Jamaica lacks a database of the country's vehicle inventory, according to the study, which makes obtaining accurate figures difficult.

Mirabaud Gets Approval to Expand Into Uruguay

Geneva-based Mirabaud Group said Feb. 20 it had obtained the necessary authorizations from the Central Bank of Uruguay to open two wealth management subsidiaries in the country. Both units will be located in the capital of Montevideo, with one focused on local clients and the other providing services to clients from other Latin American countries. Earlier this year the company opened its first South America office in São Paulo, Brazil.

Pan-American Life Sees Rise in Revenue, Lower Net Income Last Year

New Orleans-based Pan-American Life Insurance Group, or PALIG, said Feb. 26 that its revenues exceeded $1.1 billion in 2018, a 3 percent increase over the year before. Pre-tax operating earnings increased 6 percent to a record $93 million. However, net income last year decreased by 5 percent to $73 million, due to unrealized investment losses stemming from rising interest rates, which reduced total assets by 1 percent to $5.9 billion and total equity by 5 percent to $1.01 billion. PALIG operates in eight Latin American countries as well as 13 Caribbean markets and the United States.

portfolio in the Bolivian market. Roughly $213 million are in correspondent bank accounts for foreign trade operations. This amount is "completely liquid," since it is to be readily available for any transaction involving Bolivian exports or imports, according to the government. But analysts say that the return of millions of dollars to Bolivia does not guarantee better liquidity in the Andean country, Los Tiempos reported. Instead, it could increase costs for banks, as well as lenders' vulnerability, since having portfolios both domestically and abroad reduces risk. "It's [the banks'] money. The government should not meddle in these type of decisions," Juan Antonio Morales, the former head of Bolivia's central bank, told the local newspaper. "It's good that banks diversify their assets in foreign countries," he added.

Brazil's BTG Pactual Sees Income Fall 4.4 Percent

Brazil-based BTG Pactual on Feb. 25 reported recurring net income of 711 million reais ($189.77 million) for the fourth quarter, a 4.4 percent decline from 744 million reais for the same period a year earlier. The decrease in profit for the fourth quarter came as the bank saw higher expenses that offset rising revenues, Reuters reported. Total revenues for the fourth quarter of 2018 amounted to 1.55 billion reais, a 13 percent year-over-year increase, said the bank, which is headquartered in São Paulo. "We are delighted to report solid results for our shareholders. Our asset and wealth management businesses had record inflows, and investment banking posted its best performance since our IPO, underscoring our leadership in Latin America," said BTG Pactual's chief executive officer, Roberto Sallouti. For the full year, BTG Pactual's revenue totaled 5.35 billion reais, while adjusted net income was 2.74 billion reais. The investment bank added that its total assets under management and administration increased to 207.5 billion reais in last year's fourth quarter, a 43 percent year-on-year increase. Record net inflows were partially responsible for the increase.

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market. Fintech is a critical piece for Latin America's development. Much of the population has some level of distrust in banks and bureaucracy, resulting in more than 60 percent of the market not using banking systems. Unfortunately, fintech hasn't developed its full potential, and there's a big gap between startups, governments and banks. For example, in Mexico, around 50 percent of fintech startups are focused on payments and lending, products that can help develop any market. The problem—due to the gap—is that startups have to offer their products at a high cost. Surprisingly, users prefer to pay this high cost instead of dealing with banking bureaucracy. It's possible for fintech organizations to reach at least 20 percent of bank revenue. With proper attention and strategy, in line with the specific culture and market, fintech accelerators can help startups connect with banks and simplify their reach to the market."

A **Laura Gaviria, entrepreneur in residence at IDB Lab:** "Accelerators have become an integral part of the entrepreneurial journey. Today, more than 11,300 accelerators exist in the world, with perhaps 1,800 in Latin America and more opening their doors every day. Accelerators come in different shapes and forms, varying in program length, type of funding (equity versus non-equity), type of industry (specific or agnostic) and the type of support they offer, so choosing the right one for a startup is not an easy task. The best accelerators have a high entry bar, so being accepted sends a strong signal to venture capital firms and angel investors. In my experience, choosing the right accelerator can speed up the path to success for companies that are already on the right track. Accelerators help with growth, expanding networks and securing funding rounds. Nonetheless, only the founders and their team can make a company great. The sector has clearly become a focus for development and is now getting attention from international players. To continue this growth rate, it is important to address the challenges within the main ecosystem, including having clearer regulation, expanding access to capital markets, enhancing operational services for startups and access to talent. Providing financial services is no longer the sole purview of financial institutions thanks to fintech. Regulating for the nature of the activity rather than the institutions which provide financial services is a shift that all regulators in the region should make. In addition, flexible regulatory frameworks to authorize financial activities need to be put into place with sandboxes that accelerate the process to deploy innovation. It is also integral to create the right incentives for more investment to go into tech startups, such as tax benefits for angel investors that invest in fintech. To promote financial innovation, creating policies is not the only thing that needs to evolve, but also the mindset of the regulator on how they approach the regulatory process and the appetite to test new technologies and services with fintechs, financial institutions and others."

A **Silvina Moschini, founder and CEO of SheWorks:** "Technology accelerators can be very valuable, and especially useful among young entrepreneurs or entrepreneurs that do not have a lot of experience building companies from the ground up. It gives them not only the technical knowledge they need to get from A to Z and to create a proper business plan and investor deck, but also provides the resources to take a startup from the concept and planning stages to reality, and then make it scalable. As an entrepreneur, mentorship is so important; in an accelerator program, you're embracing the power of mentorship, learning from colleagues and mentors to scale up your business at a much faster pace than starting on your own. And for young entrepreneurs,

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Western Union Adds 200 Workers in Costa Rica

U.S.-based money transfer company Western Union plans to expand its operations center in Costa Rica with 200 new hires this year, The Costa Rica News reported Feb. 21. The jobs are primarily operational, technical and administrative positions and require command of at least two languages. Western Union started operations in Costa Rica in 1998 with 35 employees. The new hires would bring its payroll past 1,500 employees this year. In related news, the company said Feb. 13 it is launching a new payment option that allows Amazon.com customers in Chile, Colombia and Peru to pay in local currency for their Amazon.com purchases. The service is being offered in 10 countries in all, including several in Africa and Asia. The new service is aimed at making the complex foreign exchange, settlement and money movement requirements for international e-commerce transactions easier, the company said.

POLITICAL NEWS

U.S. Imposes New Sanctions, Calls for Unity Against Maduro

The U.S. government on Feb. 25 announced a new round of sanctions on allies of Venezuelan President Nicolás Maduro, as Vice President Mike Pence called for regional unity while playing down the possibility of military intervention during a visit to Colombia, The Wall Street Journal reported. The U.S. Treasury added four Venezuelan state governors to a list of almost 70 officials who have had their U.S. assets frozen. Two of them govern states bordering Colombia, and another, Rafael Lacava, had served as an intermediary for Maduro, the Treasury said. Meanwhile, in a meeting of the so-called Lima Group in Bogotá, Pence called on

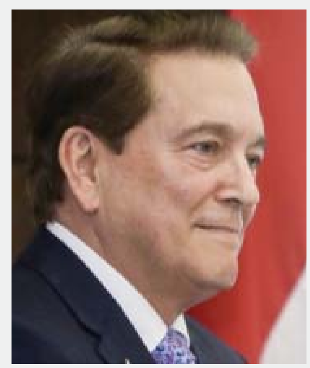
IN PROFILE

Panama’s Presidential Front-Runner

Name:
Laurentino “Nito” Cortizo Cohen

In the News:
Laurentino Cortizo Cohen, widely known as Nito, represents the Democratic Revolutionary Party (PRD) in Panama’s May 5 presidential election. He leads opinion polls with 48.7 percent of support, according to a survey this month by StratMark Consultores. His closest contender, Rómulo Roux of the Democratic Change Party, has 23.9 percent of voter intentions.

Background:
Cortizo, 66, was born in Panama City to a Spanish father and a mother of Greek heritage. He graduated from Norwich University in Vermont with a Bachelor’s degree in Business Administration and later from the University of Texas at Austin with a Master’s degree and Ph.D. in international trade and marketing. He then moved to Washington, D.C., to work at the Organization of American States. Returning to Panama in 1986, he was general manager of Grupo Cortizo, Panablock and Hacienda Hermacor, firms linked to the construction and livestock sectors. He was a deputy for the PRD in the National Assembly between 1994 and 2004, serving as president of the assembly from 2000 to 2001. He was Minister of Agricultural Development during the administration of Martín Torrijos, from 2004 to 2006, when he resigned in protest of what he described as “the relaxing of sanitary norms that were imposed by the negotiations of the free trade agreement with the United States,” according to his campaign website. He participated in the primary elections for the PRD in 2008 and in 2012 but withdrew early from both races. Cortizo won the PRD’s primary endorsement last September with 67 percent of the vote, easily beating Deputy Zulay Rodríguez, with just 18 percent.



Cortizo Cohen // Campaign Photo.

Of Note:
Cortizo has been a sharp critic of the administration of current President Juan Carlos Varela. After winning the PRD primaries, Cortizo said the days were numbered for “this incapable regime, full of lies and promises that they never thought to fulfill,” Panama Today reported. “The Martinelli-Varela disastrous decade ends. Years of looting the people and corrupting the institutions, 10 years of corruption and incapacity were just too much,” he added.

Cortizo has campaigned on addressing what he calls “the sixth frontier,” or the challenge to fight poverty and inequality in Panama. Among his proposals, Cortizo has suggested the creation of a sustainable agriculture policy to serve as the basis for Panamanian development and economic growth for the next 20 years. He has also vowed to encourage job creation and dual education—combining apprenticeships with vocational school—with an emphasis on better employment opportunities for women.

Sources: La Estrella de Panamá, Nito Cortizo campaign, Panama Today.

NEWS BRIEFS

Argentina's Fernández Appears in Court

Former Argentine President Cristina Fernández de Kirchner appeared in a Buenos Aires court Feb. 25 for the third time in connection to the so-called "notebooks" scandal, Agence France-Presse reported. During the court appearance, Fernández refused to answer the judge's questions, but submitted written statements. Fernández has said she is a victim of "persecution and cruelty that only totalitarian governments dared to pursue at a time when the rule of law was suspended." She stands accused of pocketing tens of millions of dollars in bribes in the case, which she denies.

Bolivian Economy to Grow 4.5 Percent in 2019: Gov't

Bolivia's economy is expected to grow by 4.5 percent in 2019, according to the country's financial fiscal report, which was jointly produced by the economy ministry and the central bank and announced Feb. 25, El País reported. Economic growth will be driven by the expansion of the public services sector, as well as restaurant and hotel services, agriculture, and real estate and business services, according to Economy Minister Luis Arce. The minerals sector will experience the slowest growth.

Cuba Sees High Turnout for Constitutional Vote

Cubans went to the polls in high numbers on Feb. 24 to approve a new constitution offering broad economic and social changes while maintaining the one-party socialist system, Reuters reported. More than 80 percent of Cuba's electorate of 8.7 million had cast votes by 5 p.m., an hour before polls closed, according to the national electoral commission. The new constitution would also restructure government, adding a prime minister and setting term limits for the president, among other changes. [Editor's note: See related Q&A in the Aug. 3 issue of the daily Latin America Advisor.]

member countries to restrict visas for Maduro's inner circle and follow the United States' lead in freezing assets of state oil company PDVSA. "There can be no bystanders in Venezuela's struggle for freedom," Pence said in a speech. After the meeting, which Colombian President Iván Duque also attended, 11 of the group's members issued a statement calling Maduro's "illegal regime" an "unprecedented threat to the security, peace, freedom and prosperity of the whole region." The statement didn't specify steps to take in support of opposition leader Juan Guaidó, whom more than 50 countries recognize as Venezuela's interim president and who was also present at the meeting. Pence also said he reassured Guaidó that all options remained on the table, but that the hope was for a peaceful transition, The Wall Street Journal reported. Venezuela's opposition had called on the international community to consider the use of military force after soldiers opened fire on civilians and Maduro loyalists set trucks carrying humanitarian aid on fire. Also on Feb. 25, Univisión anchor Jorge Ramos and five other journalists were detained while interviewing Maduro at the Miraflores presidential palace in Caracas. Maduro reportedly demanded the interview end after Ramos showed him a video of children rummaging through a trash truck looking for food, Ramos said. Officials confiscated the journalists' equipment and cellphones. The team was released roughly three hours later. [Editor's note: See Q&A on Venezuela's outlook in the Feb. 26 issue of the daily Latin America Advisor.]

ECONOMIC NEWS

Mexico Growth Slows in Fourth Quarter

Mexico's economic growth slowed in the fourth quarter of last year amid a decline in industrial output, which offset increases in agricultural production and services, the country's National Statistics Institute announced Feb. 25, The Wall Street Journal reported. In the quarter, gross domestic product grew a seasonally adjusted 0.2 percent as compared to the previous three-month period. Industrial output declined 1.2 percent, as agricultural production grew 2.2 percent and services rose 0.7 percent. Overall, GDP grew 1.7 percent as compared to the same quarter a year earlier. For the full year, Mexico's economy grew 2 percent in 2018, as compared to 2.1 percent in 2017. "The late 2018 and early 2019 growth momentum has been weaker than expected across a number of the large economies—Brazil, Mexico and Argentina—and inflation somewhat more benign than expected in Brazil, Chile, Colombia and Mexico," Goldman Sachs said in a note to clients informing that the investment bank had lowered its 2019 growth outlook for Mexico by 20 basis points to 1.5 percent. Earlier this month, Mexico's statistics institute said the country's annual rate of inflation slowed to 3.89 percent in the first half of February, its lowest level in more than two years. Goldman Sachs said it expects Mexico's central bank to "gradually prepare the ground for more moderate rate cuts" during the second half of this year. Goldman added that it expects the Bank of Mexico to cut interest rates three times later this year, by a quarter percentage point each time, driving the policy rate to "a still above neutral" 7.5 percent. On Feb. 7, the central bank kept the benchmark interest rate unchanged at a 10-year high of 8.25 percent.

Ecuador Lays Out Plans for IMF Loans

Ecuador's finance minister, Richard Martínez, said Feb. 21 he plans to use $4.2 billion in new International Monetary Fund loans to boost foreign reserves, make changes to the tax regime and optimize government spending, Reuters reported. The Andean nation, which has an annual GDP of about $100 billion, is also set to receive an additional $6 billion from other multilateral organizations, which Martínez said will help to build new infrastructure as well as pay for social programs such as pensions for the elderly. Ecuador stabilized its economy nearly 20 years ago by adopting the U.S. dollar, but low oil prices have strained the government's coffers. [Editor's note: See related Q&A in the Jan. 28 issue of the Latin America Advisor.]

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these programs tend to have a ripple effect. It's an opportunity to share contacts and build networks that can lead to future funding deals and long-lasting partnerships, which can then be further leveraged for expansion into global markets. Access to financing is still a major challenge among entrepreneurs and often for female entrepreneurs. Although investment opportunities and entrepreneurial activity has been on the rise in Latin America—reportedly more than a 50 percent increase over the past year—new funding models and paid pilot programs for greater access to capital still need to be explored in order to support new business ventures, increase financial innovation and have more women register their businesses."

A **Wally Swain, managing editor at Mirador Communications:** "There is no question that Latin Americans, especially young ones, want to join their peers in other parts of the world by creating startups. There are lots of investors looking for opportunities in fintech because it seems that this is the next industry to be disrupted by innovation. Banking regulation is fragmented across the region, and even multinational and multi-latino banks need to have local implementations of almost everything. This creates a need for local solutions of common applications, adding to the multiplicity of initiatives. But 1,166 startup initiatives and growing at 66 percent per year? Even with an expansive definition of Latin America and no synergy between countries, that is still a lot of startups per country. Inevitably, most are copies of ideas that have arisen elsewhere, and not all will survive or even make it to the stage at which one of the big banks acquire them. There are only so many ways to do micro-loan platforms, payment systems or personal finance assistants. And hyper-conservative Latin American banking regulators put strict boundaries on just how innovative one can be. In many countries, unless there is a bank standing behind the app, it will not be successful or even allowed to operate."

A **Jorge Ruiz, founder and CEO of FinConecta:** "The fintech ecosystem in Latin America is growing and evolving. In the past three years, the quality of the solutions has improved in terms of problem-solving, user interface design and, more importantly, are now starting to shift from 'copy/paste' to innovative solutions. We also see a broader base for funding options, still small but improving. There are more dedicated venture capital funds as well as corporate investments from traditional financial institutions. The aggregated amount available is still the smallest of all regions but more relevant now than in previous years. In general, the ecosystem in the region is the least advanced. In terms of what could accelerate the impact of fintech in the region and the strengthening of the industry, I see three critical elements: first, regulation around open application programming interfaces (as in Mexico). Once markets adopt policies around portability of financial data, the fintech industry will play an important role in reducing friction and increasing financial inclusion. Second is a more robust investment network—in size, and with a more solid understanding of the industry, scalability across markets and valuation models. And finally, accelerating the technology integration between fintechs and financial institutions. Fintechs and traditional players must partner to accelerate their businesses. The challenge is the time and effort that it takes to integrate and go live. In 2017, the Inter-American Development Bank funded a project to build an integration platform that today is supporting financial institutions around the region. Ideally, all countries should participate."

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

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