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FEATURED Q&A

What's the Future of ESG Investing in Latin America?

Institutional investors have increasingly identified socially responsible investing, such as environmentally friendly initiatives, as a priority. // Image: pxfuel.com.

Q An overwhelming 96 percent of institutional investors in a May survey by Natixis Investment Managers said they have an important role to play in addressing global challenges, such as climate change, the need for infrastructure development, and social and economic inequality. Sixty percent of respondents in the survey said they would be willing to invest in projects that help address societal challenges as long as they meet their portfolios' long-term goals. How important has environmental, social and governance, known as ESG, investing become in Latin America and the Caribbean? What types of projects in the region are most primed for such investment? How do Latin America and the Caribbean compare to other regions of the world in their levels of ESG investing?

A Dominik Rohe, head of Latin America at BlackRock: "The concept of sustainable investing can mean different things. Asset owners and managers often operate with multiple definitions, messages and motivations. For BlackRock, sustainable investing means combining traditional investing with environmental, social and governance (ESG) related insights to improve long-term outcomes for our clients. In our view, companies with strong profiles on material sustainability issues have the potential to outperform those with poor profiles. We believe companies managed with a focus on sustainability should be better positioned versus their less sustainable peers to weather adverse conditions while still benefiting from positive market environments. In general, many Latin American investors are in the early stages of incorporating sustainable investing. Pension funds

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Japanese Fund Managers Trim Latin America Debt Holdings

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Credit Suisse to Buy as Much as 35% of Modalmais

Credit Suisse has agreed to buy a stake of as much as 35 percent in Brazilian digital bank Banco Modal, or Modalmais. Credit Suisse executive Philipp Wehle said the acquisition underscores the company's growth ambitions in Brazil.

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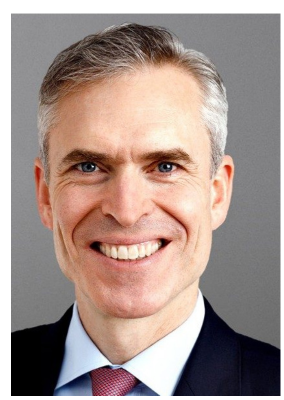

Wehle // File Photo: Credit Suisse.

FINANCIAL SERVICES NEWS

Brazil Central Bank Suspends WhatsApp Payment Service

Brazil's central bank and the country's antitrust regulator on June 23 suspended the payment features of Facebook's WhatsApp message service, Bloomberg News reported. The decision is an effort to "preserve an adequate competitive environment that ensures the functioning of a payment system that's interchangeable, fast, secure, transparent, open and cheap," the central bank said in a statement. At the same time, the central bank asked Visa and Mastercard to halt its money transfer activities through WhatsApp, the news service reported. Additionally, Brazil's antitrust regulator, Cade, said June 24 that it is halting WhatsApp's partnership with electronic payment company Cielo. WhatsApp's large database of users added to Cielo's high market share in payments could mean too high of a barrier for entry for any potential new competitors. The action by the central bank is "an unusual, extraordinary move," Tiago Severo Gomes, a partner at Caputo, Bastos and Serra, told Bloomberg News. Facebook introduced the WhatsApp payments system in Brazil earlier in June after testing it in various markets for two years. India and Mexico were among the test markets. WhatsApp has long planned to offer commerce within the app, and a payments feature is reportedly a main element of that plan. Worldwide, more than five million merchants use a business version of the WhatsApp messenger app. "Our goal is to provide digital payments to all WhatsApp users in Brazil using an open model, and we will continue to work with local partners and the central bank to make this possible," an unnamed representative of WhatsApp told Bloomberg News. "In addition, we support the central bank's PIX project on digital payments, and together with our partners are committed to work with the central bank to integrate our systems when PIX becomes available." PIX refers to the proposed instant-payments system in Brazil. The central bank's decision to shut down the WhatsApp payments service came as a surprise to the company, an unnamed person familiar with the matter told Bloomberg News. The central bank and WhatsApp were regularly in contact during the time leading up to the payments service's launch, the person told the news service. The central bank said its suspension of the service will allow it to evaluate potential risks to Brazil's payments system and determine whether it meets applicable rules.

Japanese Managers Trim Latin America Debt Holdings

Japanese fund managers are trimming holdings of debt from countries in Latin America, including Brazil and Mexico, as the Covid-19 pandemic continues to spread across the region, giving rise to political tensions, Bloomberg News reported June 22. The cautiousness comes even as Latin American bonds have returned yen-based investors almost 7 percent this quarter, approximately half the gain from emerging-market peers, according to Bloomberg Barclays indexes. "Now is the time to choose safety over winning big in a rebound rally," said Takeshi Yokouchi, the senior fund manager of Sumitomo Mitsui DS Asset Management Co. in Tokyo. The fund manager recently oversaw the equivalent of $138 billion as of the end of March. "The low yields in Latin American assets are another reason that make them less attractive," Yokouchi added. Japanese mutual funds have been net sellers of Mexican and Brazilian bonds every month since at least February, according to a Bloomberg analysis of data from Japan's Investment Trusts Associations. They have sold a net 4.27 billion pesos' ($264.5 million) worth

> **"Now is the time to choose safety over winning big in a rebound rally."**
> — Takeshi Yokouchi

NEWS BRIEFS

European Investment Firms Threaten Brazil Divestment

Seven major investment firms in Europe have threatened to divest from Brazilian beef producers, grains traders and government bonds if they do not see progress in protecting the Amazon rain forest, Reuters reported June 19. The investors, who have more than $2 trillion in assets under management, include Finland's Nordea and Britain's Legal & General Investment Management, the wire service reported.

BBVA Units Reach Deal With China's CHEC on Planned Bogotá Subway

Spanish bank BBVA's units in Asia and Colombia have reached a deal with China Harbour Engineering Company, or CHEC, to build, operate and service line 1 of the subway in Bogotá, BBVA announced June 24. The agreement will contribute to the financing of the Andean nation's largest infrastructure project ever, and it is also the most ambitious cooperation project between Colombia and China. The transaction is the first one certified by BBVA in Asia in compliance with its sustainable transactional banking framework.

Banco Sabadell to Use IBM's Cloud for Mexico Unit

Spain's Banco Sabadell will use the IBM Cloud for its mobile bank in Mexico, IBM said June 16 in a statement. The bank will also use Red Hat Enterprise Linux in order to modernize its applications and provide services to its customers. IBM said it will manage Banco Sabadell's information technology infrastructure in Mexico. Banco Sabadell said IBM Services will help it expand and manage its banking as a service model, or BaaS. The collaboration will help Sabadell address flexibility, scalability and security, the bank said.

of Mexican bonds this year, and 1.09 billion reais ($286.3 million) of Brazilian debt, the data showed, Bloomberg News reported. Signs of the pandemic worsening in Latin American countries, with both Brazil and Mexico recently setting new daily records for infections, are a big deterrent for fund managers, with Yokouchi saying such developments lead him to prefer putting his money in Asia for the time being. "We're seeing a faster recovery from the pandemic [in Asia], and the synergy you see from China's recovery is larger," he added, the newspaper reported.

Credit Suisse to Buy Stake of as Much as 35% in Modalmais

Credit Suisse has agreed to buy a stake of as much as 35 percent in Brazilian digital bank Banco Modal, or Modalmais, Reuters reported June 23. Modalmais, which operates a digital brokerage, has almost one million clients, and Credit Suisse wants to market its wealth management services and products to them, the wire service reported. Modalmais currently has nearly $2 billion in assets under management. Modalmais, which was created in October 2015, is seen as the fastest-growing such platform in Brazil, according to Zacks Equity Research. Modalmais provides its users access to more than 400 funds from approximately 140 managers. It also provides credit card accounts, currency exchange and payments services. "This announcement underlines our strong commitment to our Brazilian clients and our growth ambitions for this priority market," Philipp Wehle, Credit Suisse's chief executive officer for international wealth management, said in a statement. "This transaction further enhances our ability to serve our clients digitally while getting access to additional client segments in a fast growing environment." The move is Credit Suisse's latest action to strengthen its business internationally. Also in June, Credit Suisse took a majority stake in a China securities joint venture by increasing its stake in Credit Suisse Founder Securities to 51 percent from 33.3 percent.

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have historically been first movers in incorporating investment best practices. This holds true for sustainable investing—we are seeing growing interest in sustainable strategies from pension funds across the region, including in Mexico, Colombia and Peru. While institutional investors in Latin America can already access sustainable investment strategies with exposure to international markets, domestic exposures are largely unavailable. In that regard, we are looking forward to launching a new ETF strategy in Mexico that tracks an ESG-optimized index of local companies. Finally, we believe increased awareness about sustainability among consumers and investors will continue to drive change in the region's economy and financial markets, with more companies adopting best practices on sustainability and more investors adopting global principles such as the United Nations' Principles for Responsible Investing."

A **Roland Potts, partner, and Ravika Rameshwar, associate attorney, both at Diaz, Reus & Targ:** "Latin America and the Caribbean are increasingly relying on environmental, social and governance, or ESG, investments to help address their financial needs. The region faces an infrastructure gap and has recently seen financial institutions withdraw, in part due to the region's vulnerability to natural disasters and climate change. While some financial institutions have withdrawn from the region, according to the Climate Bond Initiative, Latin America and the Caribbean saw an increase in the green bond markets in 2019, contributing to 2 percent of green bonds issued globally. With oil and gas markets hitting record lows, the region and global investors may use this opportunity to shift their focus to sustainable and green investments. With the arrival of the Covid-19 pandemic, ESG in Latin America and the Caribbean is needed now more than ever, offering a potential growing market for investors looking at the space. Specifically, Covid-19 revealed gaps in infrastructure globally, including in Latin America and the Caribbean. Pandemic-response bonds are already emerging and are designed to deal with the social and economic repercussions of Covid-19. It would seem that at this point in time, Latin America and the Caribbean present a unique market for ESG investment. Indeed, the region, once heavily associated with corruption, has increased anti-corruption efforts, in part to increase global investment and make the region more inviting to investment dollars on projects other than the exploitation of natural resources. Companies are eager to boast ethically conscious and socially responsible investments in an effort to differentiate themselves and receive attention from international investors."

A **Andrea Bonime-Blanc, CEO and founder of GEC Risk Advisory:** "Latin America, like anywhere else, has companies that care about ESG issues and others that don't. It's important to understand what lens you are looking at ESG through: are you an investor or asset manager, or are you the company's board and c-suite overseeing and implementing an ESG strategy? Any way you look at it, ESG has arrived globally—especially in the investor community—and cannot be ignored locally or regionally by any company. ESG is here to stay and even more so because of the global disruption Covid-19 has wreaked. There are two key factors in whether a company is ESG responsive: 1.) how enlightened and responsible leadership and the board are on these issues, or how superficial, greenwashing-oriented or downright irresponsible they are; and 2.) how committed, proactive or outright activist key stakeholders are—especially investors but also communities, customers, NGOs, suppliers, regulators and employees. Additionally, the seriousness with which ESG is taken also depends on the sector and how immediately exposed that sector is to ESG, or what I call 'ESG&T.' Thus, a company

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POLITICAL NEWS

Authorities Arrest 12 in Attack on Mexico City Security Chief

Mexican authorities have carried out a series of raids while investigating the attempted assassination of Mexico City's security secretary on June 26, BBC News reported. Heavily armed gunmen attacked Mexico City's top police official, Omar García, in an incident that left three people dead and García wounded, Mayor Claudia Sheinbaum said. Authorities on June 28 said the Jalisco New Generation Cartel made alliances with three other criminal groups to carry out the brazen attack, El Universal reported. Two of the people killed were part of García's security detail, while the third one was a passerby. García said he had suffered three bullet wounds as well as injuries from various pieces of shrapnel, but he is expected to recover. Twelve alleged assassins have been detained and charged with homicide, attempted murder and other crimes. The three criminal groups, La Unión Tepito, Tláhuac Cartel and the ACME group, provided vehicles, warehouses and sheltered the hitmen prior to the attack. The operation cost several million pesos to undertake, according to the report.

Venezuela Expels E.U. Envoy Over New Sanctions

Venezuelan President Nicolás Maduro on June 29 ordered the European Union's ambassador to leave the country, the Associated Press reported. Isabel Brilhante Pedrosa's expulsion follows sanctions imposed Monday by the European Union against 11 Venezuelans, including Luis Parra, 41, a politician who is in a dispute with Juan Guaidó over who is the president of the country's National Assembly based on a vote in January. The sanctions include travel bans and freezes on assets. European leaders said they will "continue working to foster a peaceful democratic solution in Venezuela, through inclusive and credible legislative elections." Venezuela's Supreme Court, which is dominated by Maduro's supporters, in June seated a new electoral commission after ruling that the opposition-controlled National Assembly did not appoint rectors to the country's electoral authority in time. "[Maduro's] strategy appears based on manipulating the electoral process, deepening rifts in the faction-prone opposition and exploiting those divisions to 'win' the election and thereby separate Juan Guaidó from his base of legitimacy," Peter DeShazo, a former U.S. State Department official now teaching at Dartmouth College, told the Advisor recently. Since early last year, Guaidó has been recognized as the legitimate interim president of Venezuela by more than 50 countries, including the European Union, but his popularity has suffered after a series of missteps, and the path to political transition in the country remains uncertain. [Editor's note: See related Q&A in the June 23 issue of the daily Latin America Advisor.]

ADVISOR Q&A

Why Has Almeida's Departure Rattled Brazil's Markets?

Q Brazilian Treasury Minister Mansueto Almeida announced in June that he would be stepping down. Bruno Funchal, currently the ministry's director of programs, will succeed Almeida by the end of July. Financial markets in Brazil were turbulent following the news, with the real currency dropping as much as 3 percent against the U.S. dollar. Why is Almeida resigning, and what does his replacement mean for Brazil's direction in terms of economic policy? What message does Almeida's stepping down send to investors and the business community? To what extent will his resignation hurt support for and confidence in the government of President Jair Bolsonaro?

A Erich Decat, partner and political analyst at XP Investments: "Treasury Secretary Mansueto Almeida's decision to step down had an impact on the stock market and raised some questions from investors about the future of Brazil's economic policy. Bear in mind that Almeida is well known as an advocate for fiscal discipline and for his strong support of the federal spending ceiling. In short, the ceiling establishes that the federal government cannot spend more than it raises. However, it's important to point out that the reaction to Almeida's resignation only had a short-term impact on investors' moods. This is because, first, the writing had been on the wall since the end of 2019, and second, because the new secretary, Bruno Funchal, has been on the economic team since the beginning of President Bolsonaro's term. Funchal is also an economist and did an excellent job when he was the finance secretary of Espírito Santo state. This means he is intimately familiar with the current economic policies, and that we won't see a turnaround. In other words, we do not expect any continuous turbulence due to the change of secretary, which is crucial for investors. However, in the medium term, Funchal has to find answers to complex issues left behind by his predecessor, such as how to balance the budget and the disastrous fiscal outcome that will emerge after the Covid-19 crisis and how to revive the economy. The lack of answers can have a potential impact on investor confidence, but surely not only in the short term."

EDITOR'S NOTE: More commentary on this topic appears in the June 29 issue of the Latin America Advisor.

NEWS BRIEFS

World Bank Approves $300 Million Loan for Costa Rica

The World Bank on June 26 announced it had approved a $300 million loan for Costa Rica to face the economic fallout brought on by the coronavirus pandemic, Reuters reported. The money will be earmarked toward supporting small and medium-sized businesses as well as developing environmentally sustainable projects.

Mexico's Exports Plummet 54 Percent in May

Mexican trade plummeted for a second consecutive month in May, registering plunges in both imports and exports due to the economic fallout of the coronavirus pandemic, the national statistics agency said June 26, Reuters reported. Mexico's international sales fell 54.1 percent year-on-year, while imports declined by 43 percent. The shutdown of nonessential businesses since mid-March mostly affected the country's manufacturing sector, especially the auto industry, whose sales sank 89 percent.

Brazilian Support for Democracy Hits Record Amid Institutional Clashes

Support for democracy among Brazilians rose to a record 75 percent this month, according to a Datafolha poll released June 28, Folha de S.Paulo reported. In December, when Datafolha previously asked the same question, 62 percent supported democracy. The survey of 2,016 people taken last week found only 10 percent would say that a dictatorship is acceptable on some occasions. The shift in sentiment follows high-profile confrontations between President Jair Bolsonaro and other branches of government. [Editor's note: See related **Q&A** in the June 19 issue of the daily Latin America Advisor.]

ECONOMIC NEWS

Argentina Sends New and 'Final' Offer to Foreign Bondholders

Argentina's government has submitted what it called a new and "final" payment proposal to restructure nearly $65 billion in debt held by external creditors, Clarín reported June 28. Officials told the local newspaper that this is the "first time" that, at the highest level of government, there is confidence that the proposal will be accepted. According to the report, government officials have received a positive response from a "good number" of foreign bondholders, but the largest companies, which include BlackRock, Fidelity and Ashmore, have yet to react to the offer. A response from them is expected within days, according to the report. Earlier in June, Argentina pushed back the deadline for its restructuring to July 24 as the two sides appeared to be at an impasse. The so-called Ad Hoc creditor group, which is made up of 13 international asset managers and is the largest bondholder group, and Argentine negotiators had accused each other of refusing to cede ground in the negotiations, CNBC reported. The government of President Alberto Fernández said it could not "responsibly commit" to new terms creditors had proposed, saying parts of the offer were "largely inconsistent with the debt sustainability framework necessary for Argentina to restore macroeconomic stability and make progress towards a program with the IMF." The South American country technically fell into its ninth sovereign debt default in May after having missed overdue interest payments, and a deteriorating economic outlook could make the situation more difficult for all parties involved. Argentina's economy was facing recession for a third year even before the coronavirus pandemic hit, and now some analysts are expecting a record economic contraction. The South American country's industrial output plunged 33 percent in April, and the IMF in June cut its forecast for growth this year, to a contraction of 9.9 percent.

Brazil Sheds 332,000 Formal Jobs in May

Brazil's Economy Ministry said June 29 that the nation lost 331,901 formal jobs in May, Reuters reported. The figure, which was less than half the previous month's record loss due to the Covid-19 crisis, brings the total number of formal jobs Brazil's economy lost between January and May to more than 1.14 million. Average salaries fell 4.35 percent in May. "We expect the decline in formal sector jobs to continue in coming months given the still complex Covid viral outbreak," Goldman Sachs analyst Alberto Ramos told clients in a research note June 29. Brazil has confirmed 1.36 million cases of Covid-19, the second-highest number of confirmed cases in the world after the United States, according to data from Johns Hopkins University's Coronavirus Resource Center.

U.S. Says Venezuela Allies Should Boost Humanitarian Aid

The United States on June 25 called on Russia and China to provide more humanitarian aid to Venezuela in its fight against the Covid-19 pandemic, Reuters reported. The Andean nation has so far reported more than 5,500 cases of the novel coronavirus and 48 deaths. The United States' special envoy to Venezuela, Elliott Abrams, said Venezuela had also jailed doctors and journalists for trying to expose the true extent of infections. "We do think the numbers are tragically a good deal higher," Abrams said during a diplomatic event by the U.S. mission to the United Nations in Geneva. Referring to China and Russia, Abrams said the United States "would like to see them contribute more on the humanitarian side. There has been, I believe, some contributions of goods with respect to Covid-19 by Russia and China." However, he said "the scale, the dollar amount of this aid, is really quite low in comparison to the needs." The United Nations Children's Fund, or Unicef, in June sent a third shipment of aid to Venezuela, the Voice of America reported.

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in the mining and extractive industry will or should be much more attuned to environmental and social issues than most (though these also interconnect directly with good, mediocre or poor governance, as we have seen in several notorious scandals in Latin America—Petrobras, Odebrecht, Vale). While other sectors may think they don't have a strong ESG remit or profile, they should think again—for example, the rise of ESG awareness is especially strong in the investor and asset management community globally. Add to the mix we already had pre-Covid-19 (for example, climate change), additional pandemic-induced systemic changes such as supply chain disruption, social and racial inequality, popular unrest, health care and economic failures potentially on a massive scale. Now more than ever is the time for both investors and issuers in Latin America to adopt and fully integrate an ESG or ESG&T agenda as part of their daily business, long-term strategy for value creation, resilience and sustainability. It's a matter of survival, not just competitive advantage, to do so."

A **Ivonne Cuello, CEO of LAVCA:** "ESG has been a growing theme for private capital investors in Latin America over the last decade, with fund managers dedicating new resources to monitor and measure the social and environmental impact of their investments. Since 2014, LAVCA has been tracking deal cases with important environmental, social, governance and gender outcomes. These examples are wide-reaching and range from traditional impact sectors such as financial inclusion and renewable energy to businesses in consumer/retail, IT, agribusiness, financial services, health care, education, real estate and infrastructure. In addition, we have seen a number of traditional fund managers co-investing alongside those with an impact-only mandate in Latin America, indicating that there is an appetite and opportunity to invest in companies and projects that yield tangible social and environmental objectives across sectors and countries. Correlated to an increasing limited partner/general partner focus on climate change, investment in clean tech, alternative and renewable energies in Latin America has gone from $470 million invested across 35 deals in 2014-2016 to $2 billion across 63 deals in 2017-2019, according to LAVCA Industry Data."

A **Cate Ambrose, CEO of EMPEA:** "Climate change and environmental considerations have never been more prominent in investment conversations across emerging markets. More than three-quarters of commercial limited partners (LPs) participating in the latest EMPEA LP survey on emerging markets private capital cited taking such factors into account when making investment decisions. While most LPs do not yet face specific restrictions on their allocation choices, a multitude of factors—including pressure from boards and beneficiaries and increasing evidence of ESG's role in positive investment outcomes—has generated significant momentum behind sustainable investing. One family office that EMPEA surveyed said, 'In recent years, we have been actively divesting our public stock portfolio in developed markets to increasingly focus on private capital in emerging markets for social/charitable purposes.' With a shift in priorities becoming even more obvious in the current world scenario, we are seeing investors better understand their role in maintaining the long-term sustainability of global markets by way of responsible investing."

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

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