



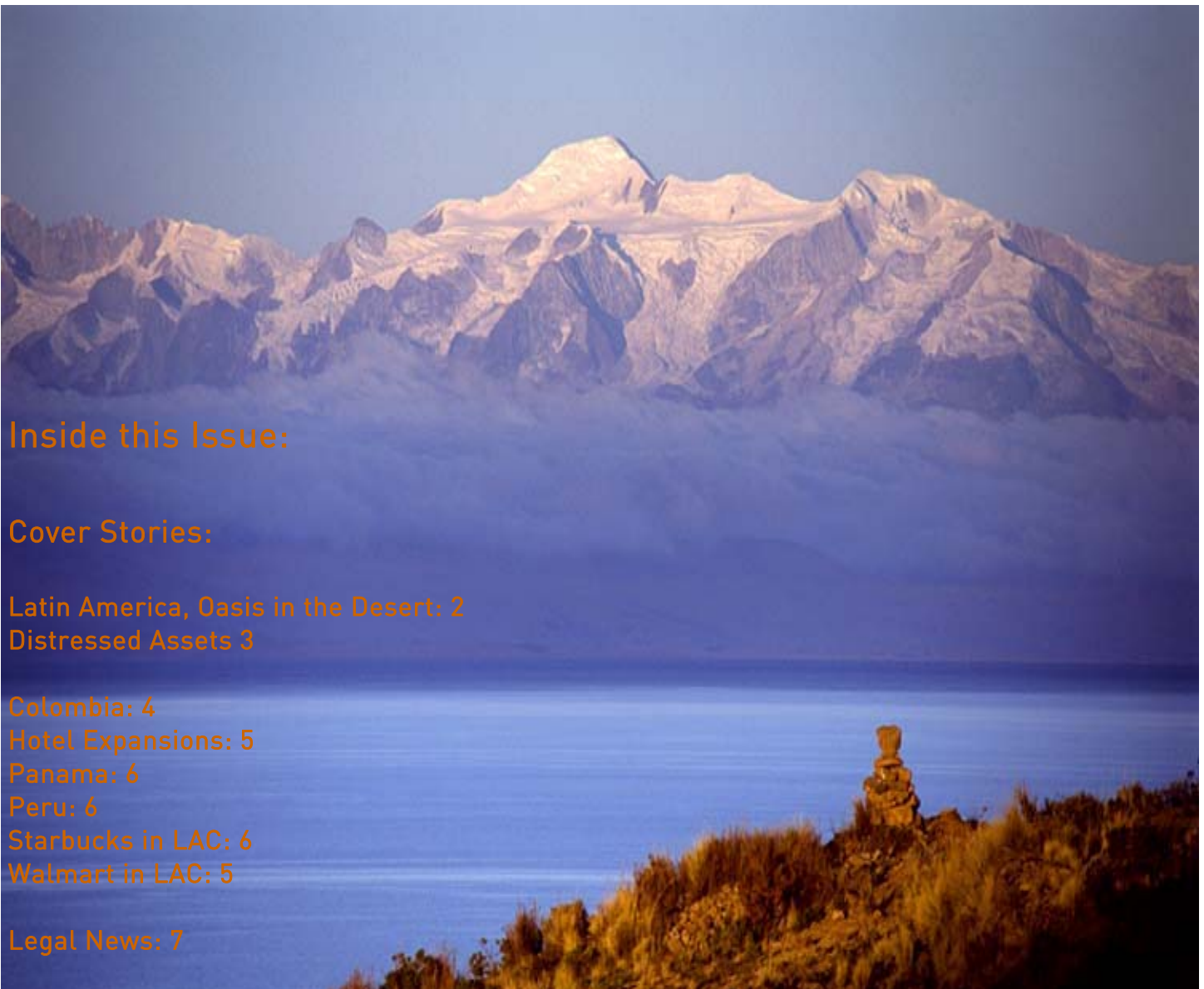
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**NEWSLETTER**

**16**

Second Quarter 2009

# Latin America and the Global Financial Crisis



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# Latin America: Oasis in the Desert



Investors flock to Latin America, the region that is suffering the least from the ongoing financial crisis.

These days, the global financial market offers little opportunity for investors. But there are oases in every desert, and in this case, manna can be found in Latin America. That's the region that, for the time being, is suffering the least from the ongoing financial crisis. That fact, along with the engine of growth that Brazil has become, is enabling investors to find opportunities in Latin America that are unimaginable in Europe and the United States.

The figures speak for themselves. One Société Générale fund, known as the SGAM Fund/Equities Latin America, which invests throughout the region, enjoyed spectacular profitability of 40.98 percent during the first three months of 2009. The entire group of Deutsche Bank instruments focused on Brazil, known as DWS Invest Brazilian Equities, enjoyed profitability of more than 26 percent during the same period. Meanwhile, France's Credit Agricole is also managing to offer clients gains of more than 20 percent in its institutional and classic funds focused on the Brazilian market.

**CONTRAST WITH U.S., EUROPE:** Overall, 13 investment funds have closed the first quarter of the year with gains of more than 20 percent, and more than one hundred have profits of greater than 10 percent. In fact, only two funds focused on Latin America registered red ink this year. These are the vehicles of the EMIF Mexico family, which invests in variable income instruments in the country. The positive results of the region seem even more spectacular when you compare them with the situation in Europe and the United States. Following the disastrous year of 2008, topped off by the Madoff scandal, the beginning of this year continues to be marked by negative returns in the vast majority of funds. Not even the rebound in the stock market in March has managed to change the direction of investment funds in their two principal markets. There are many reasons for these contrasts, and they can be summed up in two big points: On the one hand, the economies of Latin America are managing to ride out the storm better than Europe and the United States, from the macroeconomic point of view. On the other hand, in what might be considered a result of this, the region's stock markets are moving along in a very positive way. In fact, the MSCI Latinoamerica index, which captures movements in all of the main Latin American markets, has gained 15 percent this year.

**OBLIGATIONS MET:** The reasons why Latin America became an oasis amidst the global financial desert can be found in the past. In recent years, some countries of the region figured out how to meet their obligations and build their own protective shields that now enable them to better survive the global storm and shelter them from the disasters of more developed economies. Juan Carlos Martínez Lázaro, professor of environmental economics at the IE Business School, says, "It is surprising how Latin America is dealing with the crisis better than other economies. The normal thing would have been for it to suffer a great deal. The reason is that Latin America has improved its macroeconomic stability by introducing real fiscal controls. Many countries have generated primary surpluses; reduced indebtedness thanks to the boom in primary products; injected real monetary stability; and reduced poverty." This combination of measures has permitted the region to grow by an average of about 1.5 percent since 2004, according to Martínez Lázaro. This year, experts believe that the Latin American GDP could rise by another 1 percent. That figure is impossible to imagine in Europe and North America, which have suffered mightily from the recession. However, there are many Latin Americas, and for Martínez Lázaro, the best of them all is Brazil. His view is confirmed by the spectacular progress of investment funds in that country. There is a direct relationship between the sound macroeconomic management of Lula and the country's attractiveness for alternative investment mechanisms. Martínez Lázaro notes, "From the very start, Lula noted that his goal was to reduce social problems by increasing economic growth. And he has achieved that. Millions of Brazilians have emerged from poverty at the same time that Brazil has gone on improving its macro-economic indices. In fact, last year, its economy grew by 5.4%. This year, forecasts call for an additional 1.2%, a spectacular figure given the current global environment. And he has done it at the same time that he has reduced inflation and interest rates, and achieved primary surpluses." In fact, over the past five years, Lula's policies have resulted in a 20% reduction in the number of people who live below the poverty line.

All of these improvements are reflected in the movements of the Bovespa index, which tracks the major Brazilian companies. It rose 8.99% during the first quarter of 2009, after dropping last year by 41.22%. In contrast, the Spanish Ibex-35 suffered a plunge of 39.43%, and the Dow Jones Average dropped by 33.84%.

Early this year, Roberto Nembr, manager of the Brazilian investment firm Itaú AM, asserted that at specialized investment firms, “We have stopped being concerned about the global economic slowdown because Latin America benefits from growth in consumer demand. Now we must take advantage of the fiscal reforms that have taken place in recent years, which have been pursued to increase countercyclical measures in times of global instability. These two factors will translate into a slower deceleration compared with other countries.” Time has proven him correct.

In fact, the only Latin American economies that aren’t getting positive results are those that have not met their obligations in recent years. Bolivia and Venezuela, with their populist politics, head the group of the countries left behind. Mexico isn’t following in the positive path of the region either, although the reasons are very different from the two other countries. Mexico continues to be burdened by its excessive exposure to the U.S. economy, which purchases 80 percent of its exports. In addition, the lack of structural reforms in the country has made its Consumer Price Index continue to grow, despite the economic slowdown. Nor should we forget the fact that incomes have been reduced because of the decline in remittances that come, by & large, from Mexicans who immigrated to the U.S.

**AN OASIS OR A MIRAGE?:** Even before the global financial crisis erupted, many economies in Latin America were already beginning to promote measures directed at providing incentives to investment funds. According to David Tuesta, chief economist of the Global Trends department at BBVA, and professor of economics at the Catholic University of Peru, this trend will continue after the economic storm dissipates. “Certainly, these countries will hope that financial markets will become more peaceful before establishing relevant reforms. But they will enact them, in any case, because they were [already] moving in that direction at an accelerated pace.”

In his opinion, “All the economic data shows that Latin America is the region that is doing the best job overcoming the financial crisis. This fact contrasts with the situation that these countries faced in previous periods of global tension. What you notice now, in most of the region, is a financial system that is healthy and resistant, with low risk of facing significant banking bankruptcies, as we have experienced on other continents.” According to Tuesta, this factor, along with the macroeconomic reforms carried out in many countries, enables confidence in investment funds -- as well as alternatives like pensions -- in the region.

Chile, Brazil and Mexico have the best prospects. “Fundamentally, Chile has a very active private pension fund market, both in terms of accumulation and its contributions. It is the oldest mandatory system, with 27 years of experience and a coverage ratio of more than 80 percent of the labor force. When it comes to size, Brazil and Mexico stand out for their opportunities, and their markets are also very attractive,” he adds.

Chile and the potential of its pension funds provides a first entry point for popularizing investment in alternative funds, which are also being driven by the strength with which the region is dealing with the crisis. There is a possibility that when the economy recovers, more forceful measures will once again be taken to attract investment. In other words, the growing interest of international managers in Latin America reflects, in the view of Tuesta, “the improvement of conditions in the market, in terms of the size and the number of potential clients, [already] experienced by the region. In addition, to a great extent, this has been driven by the broad participation of the private sector in mandatory pension plans.”

As a result, fund managers are becoming more and more interested in the Latin American market. Even in historically challenging years, they have continued to increase their number of clients, and their ownership has grown at an accelerated pace. Many of these investment firms are from Spain and focus on Latin American businesses because of the similarities of the two cultures, and the influence of the biggest Spanish banks in the Latin American financial structure.

from <http://www.knowledge.wharton.upenn.edu> -- the online research and business analysis journal of the Wharton School of the University of Pennsylvania. Wednesday, April 08, 2009

## **D**istressed Assets: The importance of the right Due Diligence Part. 1



Unfortunately, the following example is all too common: A medium sized manufacturing company headquartered in Michigan decided to enter the Brazilian market by acquiring a São Paulo manufacturer of metal fasteners. The usual cadre of lawyers, accountants, and in-house staff spend months reviewing the target company, and issue a favorable report at the conclusion of their due diligence survey. The papers are signed and company management is pleased with the outcome.

However, since finalizing the deal, positive forecasts and indications of compatibility have been dashed by surprises about the acquired firm. A closer look reveals that plant assets were overvalued in the financial statements. Six months after the acquisition, operations were halted due to a government crackdown on permit compliance. Costs are steady, but revenues have fallen precipitously. While many in management will be asking how did it all go so wrong, so soon, for our purposes, the question should be, could the results have been predicted? Many times, the answer is simply “yes.” *Continues on page 8*

## C olombia

Colombia is in better shape than during previous crises, government and business leaders argue.

BOGOTA — They may disagree on Colombia's economic growth rate this year, but government leaders and the private sector agree on one thing: That the South American country is well-prepared to face the growing international crisis.

"We reached this crisis under better conditions [than in the past], but we face risks," President Alvaro Uribe told *Latin Business Chronicle* and a group of foreign journalists visiting the presidential palace here. International reserves have barely been touched and are significantly higher than in the past, exports have grown significantly, public debt in foreign currency has been reduced, as has the country's fiscal deficit, he points out. Jorge Londoño, president of Colombia's largest bank Bancolombia, agrees. "We are in a good condition to face this crisis," he said during a meeting at the bank's new headquarters in Medellín.

The banking system is solid, and the country has always had a good reputation for its solid macro economic management, he says. "We have been able to face the crisis with a soft landing thanks to the [central bank's interest] rate cuts," Londoño says.

Another benefit is that Colombia is not as globalized as many other countries, he points out. In fact, Colombia is the second-least globalized country in Latin America, according to the 2008

*Latin Globalization Index from Latin Business Chronicle.*

Ivanka Trump does. So does Bill Clinton. No, we're not talking about living in New York, but visiting Cartagena, the popular resort city on Colombia's Caribbean coast.

"I just spent some time in Cartagena," Ivanka Trump, executive vice president of development and acquisitions at U.S.-based Trump Organization, tells *Latin Business Chronicle*. "Increasingly my friends are going down to Cartagena for New Year's. I think it's stunning [and] beautiful. It's a great city." The Trump Organization has looked at developing property there many times, but has no concrete plans to do so for now, she adds. Last month, President Bill Clinton toured the city as if he was an ordinary tourist -It was his fourth visit to the city.

## C artagena Tourism Grows...



Last year, Cartagena received 141,337 foreign visitors, an increase of 6.1 percent from 2007, according to official data. That also made Cartagena the second-most popular destination in Colombia after capital Bogota. However, the numbers for Bogota are likely dominated by business travelers rather than typical tourists.

All in all, Colombia received 1.5 million visitors last year, according to Colombia's Commerce, Industry and Tourism Minister Luis Guillermo Plata. By comparison in 2007, the country registered 1.2 million tourists. Plata did not provide figures for tourism receipts last year, but in 2007 they reached \$1.7 billion, 7.4 percent increase from 2006.

The trend is continuing this year. In the first quarter, Colombia registered 7.1 percent more international visitors compared to the same period last year, the Commerce Ministry announced. Cruise arrivals in Cartagena during Easter were 75 percent higher than last year.

U.S. tourists are by far the key visitor group to Colombia, accounting for 22 percent of arrivals last year. However, again most of these are likely business travelers. Venezuela comes in second, accounting for 20 percent. This is also likely a group that is heavy with business travelers.

A new trend is that cruise tourism is returning to Colombia and Cartagena. Last year, the number of cruises to Colombia grew by a whopping 63 percent to 161. Royal Caribbean returned in April 2007 after a five-year hiatus, while other cruise companies have also included the Colombian city among its destinations. "We lost the cruise ships in 2002 and [now] they [have] returned," Plata says. "Royal Caribbean made Cartagena their port of entry."

Cartagena has long attracted convention tourism and major events. The Cartagena convention center, for example, has a capacity for 1,500 people and is also home to major exhibits. Meanwhile, hotels like the Cartagena Hilton, the Sofitel Santa Clara and Hotel Las Americas also boast well-developed conference facilities.

Soon they'll be getting some competition. The InterContinental Hotels Group plans to open a 32-story hotel next year that will be part of a mixed-use complex located in the center of the modern downtown. The Holiday Inn Express Cartagena, with 118 guestrooms and 32 suites, will offer six boardroom size meeting rooms with occupancy for 20 people each, a swimming pool, a fitness center and ample parking. *From Latin Business Chronicle*

# Sonesta Sets Latin



Sonesta announced its aggressive expansion in Latin America, with seven new hotel projects in Colombia, Chile and Peru to open over the next year. This expansion is the result of master franchise agreements in place with GHL Grupo Hoteles S.C.A., which currently operates Sonesta's properties throughout Peru. This plan aligns with Sonesta's strategy to expand its brand internationally and capture business in some of Latin America's most desirable emerging markets.

Sonesta Hotel Valledupar will open at the end of April with 120 rooms and will feature first-class amenities, a full-service business center, fine dining restaurant, Wi-Fi throughout the hotel, a swimming pool and fitness center. The hotel is adjacent to a new shopping mall and will be the first full-service hotel in the area. Sonesta Hotel Barranquilla, opening February 2010, will feature 126 guest rooms, business center, health club and swimming pool and restaurant and lounge, 2,600 square feet of meeting space. This hotel offers the convenience of an attached shopping mall featuring 50 restaurants and shops, a large casino and Barranquilla's largest nightclub. Sonesta Hotel Cartagena has a planned opening date of April 2010, with 100 guest rooms overlooking a private beach. The hotel will feature an international restaurant and a cafe, tennis, health club, swimming pool, business center and conference rooms. Sonesta Hotel Osorno will open at the end of May 2009, providing 123 business class guest rooms with first class service. The hotel will offer a business center, full-service restaurant, 3,000 square feet of meeting space and a casino with shopping arcade. Sonesta Hotel Concepcion has a June 2009 opening plan, and will offer 120 rooms attached to an 80,000-square-foot destination casino and shopping arcade. The hotel will feature a business center, theater, restaurant and meeting space.

Sonesta Hotel Calama is due to open in August 2009 with 148 rooms and suites. This first-class hotel will offer a casino, restaurant, health club, swimming pool and business center. Sonesta Hotel Cusco is scheduled to open in August with 120 rooms located on the Avenue del Sol, overlooking the park and mountains, just six blocks from the main square and two blocks from the Temple of the Sun, "Coricancha." The hotel will offer extensive meeting space, restaurant, spa and shopping arcade in the lobby. This hotel will join its sister property, the Sonesta Posadas del Inca Cusco, located just outside the Plaza del Armas.

GHL Hoteles, Sonesta's partner in Peru since 2005, owns and operates hotels throughout South America. With more than 40 years of experience in the hotel industry, GHL operates hotels under the Sheraton, Four Point by Sheraton, Howard Johnson and Sonesta flags. Currently, GHL operates 32 hotels in Colombia, Peru, Ecuador and Panama.



Hilton Hotels Corporation announced expansion plans to quadruple its presence in the Caribbean and Latin America by adding 150 new hotels to the portfolio over the next five years.

Travel should take you places®

Simon Suarez, chief development representative, Central America, will be responsible for expansion in Central America and adding 23 properties to the current collection of seven hotels. The company's growth is expected in all of the region's capitals, as well as secondary markets such as Liberia, Costa Rica; David, Panama; and Leon, Nicaragua.

Source: centralamerica link

## Wal-Mart's Next Conquest: Latin America

The current recession represents an opportunity for Wal-Mart in Latin America, experts say.

Last May, Michael Bergdahl, former director of human resources at Wal-Mart, told the First Global Forum on Customer Service in Santiago, Chile, "Our strategy of low prices has become a competitive advantage for us. So long as our competition focuses on how much they can get for their products, we focus on how little we can get for ours." According to Bergdahl, this strategy generated revenues of about \$13 billion in 2007, and in 2008, "we open a new store each day, and each week, 176 million customers buy from our stores." This year, disruptions from the global financial crisis have forced retailers to discard their earnings forecasts and alter their plans for investment and expansion. Nevertheless, Wal-Mart has emerged unscathed, and has even continued to grow. In February, the company announced its results for 2008, during which it registered \$13.4 billion in income -- an increase of 5.2 percent from 2007. That's quite an achievement in times like these.

### CONQUERING LATIN AMERICA

Taking advantage of its strong performance in Brazil and Mexico, Wal-Mart has now undertaken the massive task of conquering the rest of Latin America. The company announced that this year, it will open stores in Argentina, Brazil, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Chile and Puerto Rico.

from <http://www.knowledge.wharton.upenn.edu> -- the online research and business analysis journal of the Wharton School of the University of Pennsylvania.



Wal-Mart acquired Chilean retailer D&S in January. D&S operates various brands, including Lider.

# C

olombia and Brazil are going after Starbucks



# P

anama

The 5.2 Billion expansion of the Panama Channel will position Panama among the fastest-growing economies in Latin America.

Despite the global crisis Panama's economy is sustained and growing by the Channel expansion as well as the large international banking sector and its dollarized economy.

The expansion of the channel is coming along with many other big investments in the areas of infrastructure, energy and legal reform . Most of these investments are planned and executed by the government, but there are also many that are being developed by the private sector. Both type of projects brings multiple opportunities for local and foreign investors.

The Inter American Development Bank is currently financing many projects design to promote growth and stability in the long term. One of the main objectives is consolidating Panama's energy sector reforms and thus ensure the sector sustainability needed to underpin the country's growth and help reduce poverty; promote renewable energy, bioenergy, and energy efficiency; social and environmental safeguards in energy projects; regulatory issues and promotion of private investment.

Particularly in the capital market sector, the IADB is injecting \$500 million to help restore the flow of credit to Panama's real economy, offsetting in part, and on a temporary basis, shortfalls in normal credit flows in United States dollars to the productive sector resulting from the global financial crisis. Its purpose is to channel credit to the productive sector through eligible intermediary financial institutions to provide working capital and foreign trade financing.



Colombian Coffee Growers looking to buy shares in the U.S. chain. The operation involving Brazilian business and investment reached U.S. \$300 million. The Colombian Federation of Coffee Growers (Federacafé) reported that advances the association agreement with the U.S. chain Starbucks, which also include Brazilian producers.

Although not yet given a detailed figures of the investment and the number of shares to buy, it is expected that investment in the trade coffee, reach between \$ 200 million and \$ 300 million, Vanguardia reported. The manager of the entity, Gabriel Silva, said that Brazilian producers would have interest in participating in the partnership and said that next week will have some meetings.

Arguing a "confidentiality agreement", the leader gave no details about what the federation would have on society, but claimed to be "enough to be relevant." Silva said that "we are structuring our involvement in the issue, what happens is that markets are very volatile and a transaction of this nature can only be done with price action in the appropriate levels. But I would say that we're ready. " In late 2008 Silva proposed to take advantage of the grain producers of the international financial crisis to buy a stake in Starbucks, in order to have a distribution channel itself. At the time, had mentioned that the idea was to buy a little over 6.5% of the shares of the company.



# P

eru

Despite an economic slowdown, Peru remains the star of Latin America's economies in 2009

Peru's economy, Latin America's seventh-largest, may be slowing this year, but local and foreign investors remain upbeat on the country's outlook. Not only has the Lima stock exchange been the world's best performer this year, economists widely agree that Peru will see Latin America's strongest growth this year. Last week, the government successfully sold \$1 billion in 10-year, dollar-denominated bonds. And last month, it formally implemented the free trade agreement with the United States.

Theresa Paiz-Fredel, Senior Director for Latin American Sovereign Rating at Fitch Ratings, agrees. "There are a lot of positive things going on in Peru," she says. "They just implemented the FTA with United States [and] that will really help the investment environment [providing the] stable legal framework needed for investment.... At this point, looking relative to the rest of the region, Peru is in a better place to withstand the shock."

From Latin Business Chronicle / JOACHIM BAMRUD

## NEWS ABOUT BG CONSULTING LEGAL

### BG Consulting is assisting Portuguese firms to do business in Venezuela.

Recent agreements signed by the two governments are stimulating trade and investments between Portugal and Venezuela.

Portuguese firms see Venezuela as a very lucrative but difficult market that requires expert legal advice to navigate through the maze of regulatory processes.



BG Consulting provides services as [legal counsel for Latin America](#) from our Washington, D.C. office. We help clients plan and manage their businesses in Latin America considering the legal aspects involved. With our strength in the region we help international business navigate through the legal systems of Latin America.

Our professionals are international business lawyers qualified to practice law in the United States and in the Latin American countries. Our deep knowledge of Latin America and of its legal framework provides us a competitive advantage to assist our clients planning their businesses in the region. At BG Consulting we act either as inside/outside [General Counsel](#) managing and executing the entire legal docket of client, or as a [Transactional Advisor](#) on particular assignments.

## Distressed Assets: The importance of the right Due Diligence Part. 1 *Cont.*

In this example, and in many real life cases (the example was a composite of several real life cases), the problem lies largely with the due diligence process. Many mergers and acquisitions with companies in Latin America and the Caribbean (LAC) have fallen short of expectations for reasons that have much to do with the failure of the due diligence process to take note of relevant information and to relay this information to management. The failure in part lies with the types of people who are often chosen to perform due diligence and in part with structural limitations that frequently characterize due diligence in Latin America. This article attempts to both point out the areas where due diligence has failed, and to note how the procedure can be remedied to deliver accurate information about target companies in Latin America or the Caribbean.

### Look at Yourself First—and Differently

Typically an acquiring firm directs most of its due diligence energies on an examination of the target company. However, a deal's success is equally dependent on an accurate assessment of the acquiring firm's internal position and how this position will change when analyzed outside its home environment and confronted with different competitors. The buyer must identify its own strengths and define its plan for growth for any new acquisitions.

Special consideration must be paid to the target's market. What can be considered a powerful strength in the U.S. may not necessarily be one in LAC. Knowledge of the region is required. For example, the acquiring company might assume its innovative worker-training and compensation program, which has allowed it to retain skilled employees and beat competitors on turnover costs, would provide the same advantage in international markets. However, labor laws in LAC might transform those benefits into burdens that seriously impair the company's competitiveness.

There are countless instances by which a firm can incorrectly evaluate its competitive position by failing to account for differences in international markets. On the positive side, the greater the extent to which the new environment is accounted for, the more accurate a due diligence will be. By evaluating itself in an international context, a company will be able to better define the desired characteristics of an acquisition target. Furthermore, a firm's accurate understanding of its competitive position abroad will allow for greater ability to identify red flags (signs of caution) and deal breakers during the deal structuring process. Armed with a well thought out and clearly defined set of answers to "what if" issues that may come up in the due diligence process, a firm improves its negotiating position. It knows that it's OK to walk away if the deal-breaker condition cannot be resolved.

*This article continues in our next edition.*