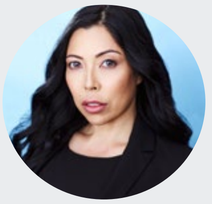
Finding opportunities in Latin America's corporate sector



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Over the past seven months, the grim specter of COVID-19 has thrown a wrench even into the best-laid – and most thoroughly considered – plans for growth and expansion. Companies of all sizes struggle to expand, and the global economy has taken a huge hit, pushing it into a recession.

While the adverse impact can be felt throughout the global economic sphere, the developing economies of Latin America and the Caribbean are feeling it more keenly than many. Slow economic growth, socio-political unrest and mounting national debt contributed to preventing an overall growth surge throughout the 14 national economies that make up the region. With coronavirus cases still rising at this point in time, the gross domestic products (GDPs) of Peru and Brazil – both of which have been hit hard by the pandemic – have experienced a sharp drop, with the former forecasted to be down 12% compared to being up 2.2% in 2019, and the latter down 8% compared to 1.1% in 2019.

Who's Feeling the Crunch?

Tourism, one of the region's biggest revenue earners, took a nosedive after shelter-in-place restrictions took effect in the spring to help prevent the spread of the virus. According to Monica Busch, Export Development Canada's Senior Regional Manager in Brazil, this has had a domino effect on related industries, particularly airlines, the hospitality sector and entertainment. Small and medium-scale enterprises (SMEs) and other highly leveraged companies have been impacted as well.

But Busch also notes that certain industries are still up and running, and the pandemic has not really affected their operations. IT companies and those producing essential goods are seeing the least impact or none at all – so far. This also goes for companies that transport critical goods or offer critical services.

The United Nations – Economic Commission for Latin American and the Caribbean (UN-ECLAC) has made note of this point in its regional economic survey for 2020 (download required). It calls attention to the fact that previous economic crises led to the goods sector suffering more than the services sector as global trade fell. In this COVID-19 crisis, it is the services sector suffering from the economy's downturn, and it may end up with a larger fall in trade than the goods sector. This plays out in the form of freight services for international trade losing demand because demand for goods has fallen.

According to Busch and Christian Daroch, EDC's senior regional manager in Chile, foreign companies that have investments or operations in Latin America are currently facing the following challenges:

- Foreign exchange is highly volatile at present, but this primarily impacts exporters and companies that import parts for their operations.

AIMA JOURNAL EDITION 124

- More companies have been applying for commercial/industrial insurance due to the increased risk of nonpayment by buyers.

- Shelter-in-place/community quarantines have constrained operations because most companies have had to close down, go on with a skeleton workforce on a staggered schedule, or consider arrangements enabling employees to work from home.

- Chile, in particular, has experienced constraints regarding the availability of working capital, which can affect the payment of office rents and employee salaries, as well as loan refinancing and liquidity in general.

What Needs to Be Done?

Surprisingly, some experts believe that the shot in the arm that the region needs in the recovery period is environmental, social and governance (ESG) compliance. Unfortunately, there is not as much focus on ESG within Latin American companies compared to other parts of the world. According to David Feliba of Standard & Poor Global Market Intelligence, taking advantage of the ESG momentum that has been moving through the corporate world can help temper the negative impact that COVID-19 has had on both the regional and individual national economies. It can also help strengthen their recovery.

This is particularly sobering when you realize that only 0.5% of equity assets under management in Latin America have at least some focus on ESG, and that domestic ESG investments haven't exactly been robust. A good example here would be how ESG-focused equity funds in Brazil only manage 0.12% of the country's market – a country where for years conservationists and eco-centric investors have been negotiating with the government to curb the impact of deforestation in the Amazon.

Green finance specialists from the Inter-American Development Bank (IADB), however, insist that this is the way to go. IADB specialist Maria Netto points out that ESG is a trend Latin America can use to attract global investors.

The opportunity, she observes, is that the market share is currently small, with plenty of potential to grow. It is possible that this shift toward heightened ESG compliance will lead to increased investments in sectors like sustainable agribusiness, sewerage management, garbage disposal and green infrastructure.

Likewise, we need to have a keen eye out for opportunities within the region that will have a positive impact regardless of circumstances and start creating crisis-proof development plans that can change the economic sector for the better. This may involve any of the following:

- Rethinking your target markets because the pandemic may have shifted their focus – and yours.

- Keeping an eye out for possibilities that your company may not have considered prior to the pandemic.

- Revamping your business plan with relevant contingency measures that will ensure business continuity – and longevity – regardless of any further quarantines or lockdowns.

- Ensuring that your corporate infrastructure within the region is sturdy with regard to finances, staffing and physical resources.

As we all remain uncertain as to exactly when this crisis will end, vigilance and foresight are two qualities that we as business development leaders need to either cultivate or boost within ourselves. This would entail staying abreast of economic and financial developments within Latin America through reliable sources such as corporate research hubs, meeting up on a regular basis with colleagues or contacts located within or assigned to the region, and staying in touch with other industry leaders. Together, leaders can exchange insights on recovery and post-pandemic growth. There are opportunities to be found after COVID-19 and leaders would be wise to stay informed as they arise.