INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

FEATURED Q&A

Will Bolivia's First Bond Sale in Decades Attract Investors?

Q For the first time since 1920, Bolivia's government plans to sell international bonds this year, with an offering of as much as $500 million in New York. The South American country would use the proceeds to increase industrial production, primarily production of lithium, the *Financial Times* reported March 18. Will factors such as Bolivia's economic growth under President Evo Morales and increasing reserves attract investors? Or will Bolivia's history, which includes nationalization of its oil and gas industries, keep investors away?

A Roger Scher, professor of international relations and international political economy at Seton Hall University and former managing director of Latin American sovereign ratings at Fitch Ratings: "Investors will be interested in purchasing Bolivian government bonds when they are issued, if for nothing more than diversification purposes. The planet is awash in liquidity. Furthermore, developed market fiscal crises (read: in Europe and the United States), coupled with high commodity prices and huge concentrations in bellwether emerging markets such as Brazil and Mexico, are pushing investors into frontier markets. Bolivia is one of them. The story has its high points: huge external liquidity (foreign-exchange reserves), macro policies better than Argentina's and Venezuela's, and a captive market for natural gas in energy-famished Brazil. Nevertheless, Bolivia has sizable risks, with bond ratings of B+ at Fitch and S&P and B1 (which is the same as B+) at Moody's, though the latter has a positive outlook on its rating, suggesting that Bolivia could enter the much-vaunted BB range within two years (with the likes of Angola and Montenegro as peers). The government not long ago nationalized mining and energy assets, taking on Brazil's energy behemoth Petrobras. The state's role in the economy has doubled. The government

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Head of Buenos Aires Stock Exchange Denies Bribe Claim

The head of Buenos Aires' stock exchange, Adelmo Gabbi, denied in a statement published over the weekend that he solicited a bribe in a scandal involving a bankrupt company. See story on page 2.

File Photo: MercoPress.

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NEWS BRIEFS

Six Colombian Troops, Three Guerrillas Killed in Skirmish

Colombia's government on Saturday said six troops were killed in an attack by guerrillas aligned with the Revolutionary Armed Forces of Colombia, or FARC, the Associated Press reported. The commander for the region where the incident occurred said the soldiers were killed by explosives. Return fire by troops killed three guerrillas and wounded two, according to the report. The attack took place in a rural area about 250 miles northwest of Bogotá.

Rescue Crews Work to Reach Trapped Miners in Peru

It could take rescuers two or three more days to reach nine miners who were trapped after the collapse of an informal copper mine in Peru, according to the country's prime minister, the Associated Press reported today. The miners have been trapped in the mine 175 miles south of Lima since Thursday when they apparently set off a blast that led to a collapse in their mine shaft. Rescue crews are providing sustenance to the miners through a hose.

Brazil's Sabesp Plans $4.3 Bn in Investments in Next Three Years

São Paulo-based water and sewer utility **Sabesp** plans to invest a total of 7.9 billion reais ($4.3 billion) in its operations through 2015, Dow Jones reported today. Of the total, the company said it will invest 2.5 billion reais in water supply projects and 3.13 billion reais in sewage collection. The rest will be invested in sewage treatment projects, the company said. Nearly 20 percent of sewage in the utility's coverage area, which includes the largest city in Brazil, currently is neither collected nor treated, the company added.

Political News

Obama Hosts Rousseff for Talks on Trade, Job Growth

Brazilian President Dilma Rousseff is in Washington today for talks with U.S. President Barack Obama on topics including increasing trade and boosting job growth in the two countries, Bloomberg News reported. Obama is expected to seek opportunities for U.S. companies as Brazil works to develop its massive offshore oil deposits and also takes on $200 billion in infrastructure and hotel improvements ahead of the 2014 World Cup and 2016 Summer Olympics.

Rousseff will also meet with U.S. Secretary of State Hillary Clinton as well as U.S. and Brazilian business leaders.

"The two presidents will continue their focus on deepening energy cooperation, including on oil and gas exploration, through the Strategic Energy Dialogue that they launched last March," said U.S. Deputy National Security Advisor Ben Rhodes, Bloomberg News reported. During her one-day visit, Rousseff will meet with Secretary of State Hillary Clinton and will also participate in a working lunch at the White House and at events hosted by the U.S. Chamber of Commerce with U.S. and Brazilian business leaders. During the meeting with Obama, Rousseff may raise the issue of the trade balance between the two countries, Mauricio Mesquita Moreira, an economist at the Inter-American Development Bank, told Bloomberg News. Brazil had a $6.4 billion trade surplus with the United States in 2007, which swung to a deficit of $8.2 billion last year amid a rallying Brazilian real and surging demand for imports, Moreira added. Rousseff also may raise Brazil's concerns about defense contracting in the wake of the U.S. Air Force's cancellation in February of a $355 million contract it had awarded Brazilian aircraft manufacturer **Embraer** after a rival American company sued the U.S. military. The cancelation happened as Brazil's government is weighing whether to choose U.S.-based **Boeing**, France's **Dassault** or Sweden's **Saab** for a contract to refurbish the South American country's air force. Rousseff is expected to decide on the contract, which could be worth as much as $4 billion, by the middle of this year.

Economic News

Head of Buenos Aires Stock Exchange Denies Bribe Claim

The head of Buenos Aires' stock exchange has denied that he solicited a bribe in a scandal involving a bankrupt company and said he would take legal action against Vice President Amado Boudou for making the accusation, Bloomberg News reported Sunday. Boudou ordered officials to raid the apartment of the exchange's president, Adelmo Gabbi, on April 4 as part of a probe into whether Gabbi improperly aided printing company **Ciccone Calcografica** emerge from bankruptcy. In a televised speech the following day, Boudou accused Gabbi of soliciting a bribe on another company's behalf, though Boudou said Gabbi did not take steps to "favor" Ciccone. Gabbi denied soliciting any bribes in a statement published Saturday in newspapers including *La Nación* and *Perfil*. "I categorically deny that this happened," Gabbi said in the statement. "I will have to take the strongest legal action for this to safeguard my name and honor." Bloomberg was unable to reach Boudou or officials at the stock exchange for comment over the Easter holiday weekend. "It is the policy of our government to protect jobs and strategic companies," Boudou said in his speech on April 5.

Boudou

File Photo: Argentine Government.

Brazil May Force Fixed-Line Telephone Companies to Cut Rates

Brazil's government may force fixed-line telephone companies to reduce their rates and invest more in growing their networks in order to ensure phone service to the lower economic classes, Reuters reported Saturday, citing a newspaper report. The government wants to spur competition ahead of contract negotiations originally scheduled for 2015, reported *Folha de São Paulo*. Among the government measures under consideration is the elimination of charges for calls between different phone companies. **Telefónica Brasil**, a unit of Spain-based **Telefónica**, and **Embratel**, which Mexican billionaire Carlos Slim controls, would be among the companies affected by the new rules. Large phone companies also could be required to rent some capacity of their networks to third parties in order to increase competition, the newspaper reported, citing unnamed government officials. Revenues from fixed-line phone service have been declining in Brazil as mobile-phone companies profits have grown. Fixed-line providers are bracing for the changes in regulations and may challenge them in court, the newspaper reported.

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Company News

Reliance May Sell Stake in Theaters to Mexico's Cinepolis

India-based **Reliance MediaWorks** may sell a stake in some of its movie theaters to Mexico's **Cinepolis**, the *Business Standard* newspaper reported today. Cinepolis, which has more than 2,500 screens in several countries, is the world's fifth-largest multiplex operator and wants to "either buy several key properties or get into a tie-up," a person familiar with the talks told the newspaper. The talks, between Cinepolis and **BIG Cinemas**, a unit of Reliance, have been happening for the past two months. "BIG Cinemas is planning to focus on its film and media services business and trying to reduce dependence on the multiplex business," the unnamed source told the newspaper. Reliance, which is controlled by Indian billionaire Anil Ambani, operates 530 screens in India and other countries. Cinepolis has a small presence in India and does not have screens in India's four largest metropolitan areas. However, it has announced plans to expand in 40 Indian cities. The Mexican company, which began operations in 2009, also has a presence in six countries of North and South America, including 250 movie theaters in the United States.

Featured Q&A

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has authorized the use of the central bank's ample foreign-exchange reserves to invest in state-owned enterprises and fund social programs. Political institutions need to strengthen and social conflicts persist, in spite of some success by the Morales government in reducing inequality through its conditional cash transfer program. Finally, due to state involvement in the economy, investment levels remain low (at around 17 percent of GDP) and as a result, GDP growth remains unimpressive."

A Iván C. Rebolledo, managing partner of TerraNova Strategic Partners LLC and president of the Bolivian American Chamber of Commerce: "The Bolivian minister of finance has been working on this possibility for the past two years. The idea was first floated around the time of President Morales' disastrous decision to eliminate subsidies on diesel fuel in December 2010. The plan was then put on hold for obvious reasons. Without a doubt, the country is in need of a large infusion of capital in order to begin the ambitious industrialization processes President Morales is pursuing—especially in light of his decision to seek re-election in 2014. The fact that few foreign banks have a presence in the country, as well as Bolivia's limited access to international capital markets, makes this bond issuance a bit tougher. Needless to say, the high political risk associated with FDI in strategic sectors (such as oil/gas, electricity and mining) and Bolivia's retrenchment from standard arbitration mechanisms also contribute to a high level of skepticism. However, with great risks also come great rewards for the bold and those who can wait long for returns on their investments. The country's positive economic indicators—a potential for 4.5 percent growth this year, a rise in the country's credit rating, a fall in inflation to 4.6 percent from 5.8 percent and steadily increasing bank reserves to approximately $12.7 billion—under normal circumstances would pique the interest of foreign investors. Unfortunately, Bolivia's challenging track record in dealing with international investors over the past five years, especially in the aforementioned strategic sectors, makes attracting foreign capital difficult, at least at the levels that are sorely needed. That being said, issuance of sovereign bonds might be difficult if not impossible, but Evo Morales usually surprises all of us."

"The country is in need of a large infusion of capital in order to begin the ambitious industrialization processes President Morales is pursuing."

— Iván C. Rebolledo

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A **Jose Valera, partner at Mayer Brown LLP in Houston:** "Standard & Poor's gives Bolivia a rating of B+, four levels below investment grade, on the same level as Venezuela and the Dominican Republic. Venezuela uses PDVSA as its borrowing agent and so far has been able to raise debt internationally. With the Bolivian bonds expected to yield above 8 percent, it is likely to attract investors. At this juncture, Bolivia would not be borrowing to finance deficit spending, but continued heavy spending on subsides coupled with a downward turn in the prices for export minerals could prove very damaging to the fiscal accounts. Bolivia has already taken notice that its only two gas export markets, Brazil and Argentina, may not need Bolivian gas in the long run. A separate issue is whether Bolivia will attract increased foreign direct investment. Current FDI flows are very low, chiefly the effect of deep legal insecurity and past nationalizations across several industries. Most current projects to add value to natural resources, especially lithium and natural gas, are government enterprises. Bolivian government enterprises are chronically saddled with a lack of managerial and operational capacity and a lack of technological and financial resources. The situation could be made better by welcoming FDI under attractive terms. However, the government continues believing that 'strategic' is synonymous with state control and most anything seems to be strategic. To the extent that foreign investment is even allowed for certain capital projects, the terms are calculated to represent high risk and low reward. Not much is changing in Bolivia where it matters."

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>
> *— Jose Valera*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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