



ALTERNATIVE
LatinInvestor

Issue 9

Special Report

Brazilian Biofuel

Eco-Construction

The New Revolution

Building
with Bamboo

LatAm
Agri-Investment

GREEN ISSUE

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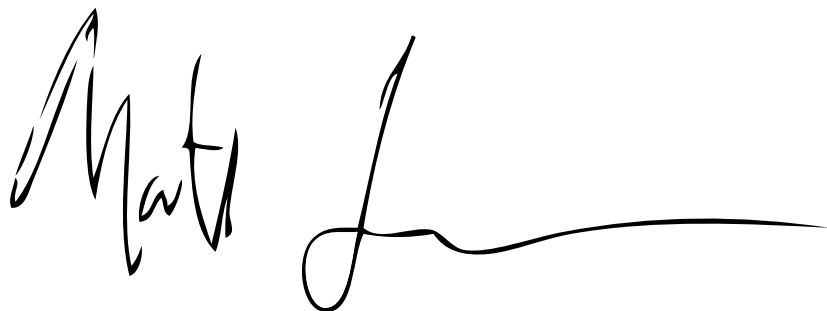


Letter from the Editor

It is impossible to negate the power of change during any segment of history, though now we look to the Middle East and can only be amazed by the rapidity of what has transpired. It could be postulated that Gandhi himself would have been pleased that while these radical shifts have ended in violence, they did not spawn from it. How does the uprising of a disillusioned public to overthrow a firmly entrenched government with superpower backing affect our corner of the world?

While the pan-Latin American spread of neo-liberal policies has made this region one of the fastest growing emerging markets, the threat of political risk is still a very real concern. Having just attended the Wharton Latin American Summit in Philadelphia, at which former Colombian President Uribe spoke, I am filled with continued faith and hope for the this region. The University of Pennsylvania's auditorium overflowed, filled past capacity with the worlds' best and brightest business students, many on the verge of graduation, and looking not for positions in New York or London, but in Bogota, Lima, São Paulo, and Mexico DF. As of 2010 the average starting salary for a Wharton Graduate was \$113,888 USD, a sizable amount anywhere in the world. For those with the ability to receive that kind of compensation to have the desire to put their skills to work within Latin America can, in my mind, only improve political and economic policies which will both effect change in the necessary regions, and also protect other regions from ever needing any radical changes.

Looking back at those oppressed by tyranny it is clear that the masses lacked not the will, but the education to fight back. In these cases change has occurred slowly, not at all, or only when things have come to a boiling point. As Latin American university attendance continues to grow both domestically and internationally, and with those who have studied abroad choosing to return to their native countries, we can be assured that while political threats will always exist, Latin American nations will be better prepared to fight them. With the accelerated growth in the region – from renewable energy to infrastructure sectors, this knowledge of the international market will be imperative to allow for this emerging market to maintain a solid foothold on the global scale.

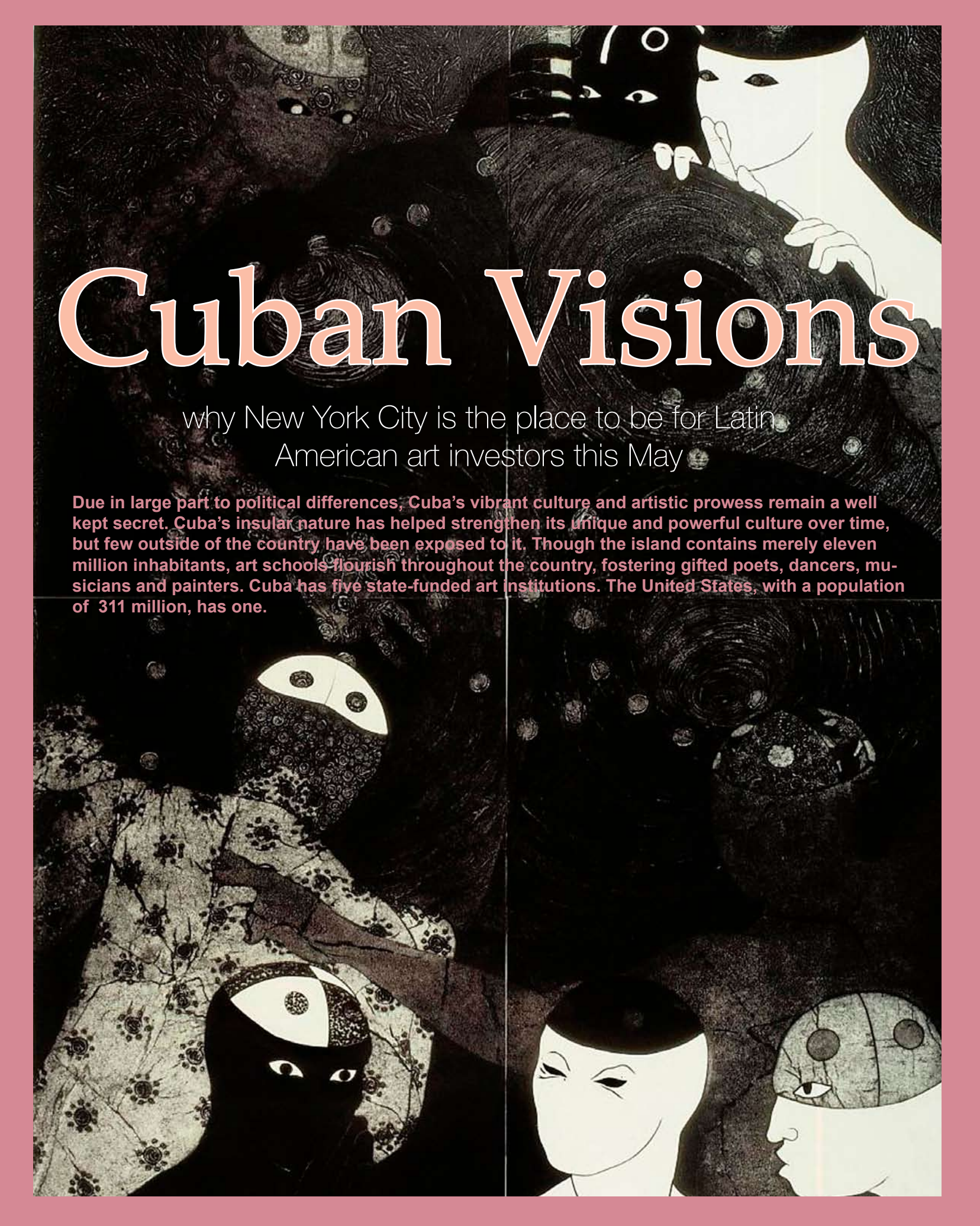


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Cuban Visions

why New York City is the place to be for Latin
American art investors this May

Due in large part to political differences, Cuba's vibrant culture and artistic prowess remain a well kept secret. Cuba's insular nature has helped strengthen its unique and powerful culture over time, but few outside of the country have been exposed to it. Though the island contains merely eleven million inhabitants, art schools flourish throughout the country, fostering gifted poets, dancers, musicians and painters. Cuba has five state-funded art institutions. The United States, with a population of 311 million, has one.

When Fidel Castro came into power in 1959, he sought a cultural and artistic revolution to match his recently successful political upheaval. He envisioned state-supported art academies that could provide a culturally elite education free of cost to Cuban citizens. In 1961, he commissioned Ricardo Porro, Roberto Gottardi, and Vittorio Garatti to build five national art institutions equally lavish in size and artistic value. The buildings were to be works of art themselves, symbols of the masterpieces created within their walls. Classes began with the buildings' construction in 1961, and those students completed their education before the construction was complete. Due to lack of funding and a changing sentiment in the Cuban population, building stopped in 1965, but learning continued. Even today, though the buildings are in dire need of renovation and two were never near completion, passionate art students still study within the deteriorating walls. Cuban zeal for the arts persists even as the monuments to that zeal now stand in ruins.

Cultural institutions in New York City like BAM noticed the lack of awareness and appreciation of Cuban arts and began planning the largest Cuban cultural infusion to ever enter the United States. From March 31 to June 16, ¡Si Cuba! will introduce North Americans to Cuban dance, music and art in New York's metropolis. Of particular interest to investors will be Cuban Visions, an art exhibition and sale featuring some of the most important figures in Cuban art.

The first of a hopefully annual event, Cuban Visions kicks off on May 26th from 6:00 PM until 9:00 PM in the Metropolitan Suite at the Metropolitan Pavilion. Twenty-six Cuban artists will display their artwork throughout the 8,500 square foot venue, allowing investors and admirers alike to appreciate their variety and talent. With big names like Tonel and Sandra Ramos on display, Cuban Visions is a must-see for art aficionados. Many of the featured artists will attend the opening on May 26th in person to stand alongside their artwork and answer questions from inter-

ested viewers. All but three of these artists reside permanently in Cuba, bringing a significant representation of Cuban Art to the U.S. and in turn creating a deeper cultural exchange between the two countries. Cuban Visions also coincides with Christie's and Sotheby's Latin American Art Auctions, making New York City the place to be in May for Latin American art investors.

Since the 1980's, Cuban art has been growing in popularity. Already well known in Europe, Contemporary Cuban Art is gaining recognition all over the world as a prominent artistic group. According to Yandro Miralles, one of Cuban Visions' curators, the lack of awareness surrounding Cuban Art is caused primarily because of government censorship. "For example, in Havana we have very big and important schools of art. Of course, these schools develop very strong cultural artistic movements, but the Cuban government is complicated. They have created schools, but they also censor the artists that they create."

Though many Latin American artists prefer to build a reputation based on their style rather than their country of origin, Cuban artists are often grouped together and wear their identity proudly. Director and Host of Cuban Visions, Alan Boss was first attracted to Cuban culture through Jazz Music. He later grew to know and love the vivacity of Cuban culture and its manifestation in artwork. "For eleven million people on an island, they're disproportionately inclined to an extremely strong cultural base. Take music, art, whatever - they're disproportionately talented," he said.

This will be one of the largest and most complete exhibitions of contemporary Cuban art that has ever been shown in New York City. The limited access to and knowledge of Cuban Art has deprived many of valuable investment and cultural exchange opportunities. Hopefully with the help of Cuban Visions, that is all about to change.

For more information please see <http://www.cubanvisions.com>



The Business of Running a *Hedge Fund*

MERLIN

Executive Summary

2010 was a transformative year for the hedge fund industry and reminded us that managing money is not the same as running a business. The significant number of small, mid-size and large fund closures in 2011 is a direct result of the multifaceted challenges facing hedge fund business operators. Managers who understand the distinction between managing money and running a business and who execute both effectively are best positioned to achieve not only investment alpha but also enterprise alpha.

This paper examines the hedge fund business model and is based on our observations and numerous conversations with hedge fund managers, investors and industry experts. Our goal is to share the best practices of hedge funds that are well positioned for sustainability across a variety of economic and market conditions.

Best Practices for Getting to the “Green Zone”

Most hedge fund managers would agree: given the broader market environment and the specific challenges facing the industry, 2010 was a difficult year. In fact, the past few years have tested the industry in unprecedented ways. The industry, by and large, has passed that test, and there are a wealth of successful funds poised for growth. Managers are more focused than ever on designing business models to thrive under a wide range of market scenarios. While performance and AUM growth are still important levers, they are no longer foregone conclusions and are not wholly controlled by the hedge fund manager. Expenses are the only lever the manager can reliably control.

There is no one-size-fits-all business model for hedge funds; however, there

are several consistent elements and best practices among well-managed funds with staying power.

As a starting point, the diagram on page 7 highlights the basic revenue and expense scenarios that describe three types of hedge fund operating models: red zone, yellow zone and green zone. A fund operating in the red zone is dependent on outsized performance to cover its expenses; a fund in the yellow zone requires minimal performance; and a green zone fund can sustain itself when its performance is lower than expected, nonexistent or even negative. Funds that structure their business model to operate in the green zone are better positioned to navigate through downturns and therefore, have higher survival rates over the long term.

The remainder of this paper examines hedge fund revenue inputs, expenses and business model considerations. It

discusses the importance of identifying a fund's break-even point (i.e., the point at which revenues cover expenses) and seeks to isolate several practices that have helped funds operate in, or closer to, the green zone.

THE HEDGE FUND REVENUE MIX
Hedge funds have two revenue inputs: the management fee, which is a fixed percentage of assets under management (AUM), and the performance fee, which is a percentage of positive performance. Incentive fees are what lure the most talented financial professionals to join the hedge fund industry, and they offer tremendous benefits. It is the management fee, however, keeping people alive in this industry. Though tempting, building a business around the hope of large incentive fees rather than the guarantee of management fees is risky.

To better understand the relationship of these revenue inputs, consider some

basic scenarios. Based on a 1.5% management fee and 20% incentive fee, a fund with no returns is 100% dependent on its management fee. A fund with gross returns of 5% gets 60% of its revenue from management fees. In order to derive more than 50% of its revenues from performance fees, a fund needs to generate returns of at least 7.5%. Refer to the chart on page 8 for a map of hedge fund revenues based on a variety of asset and performance levels.

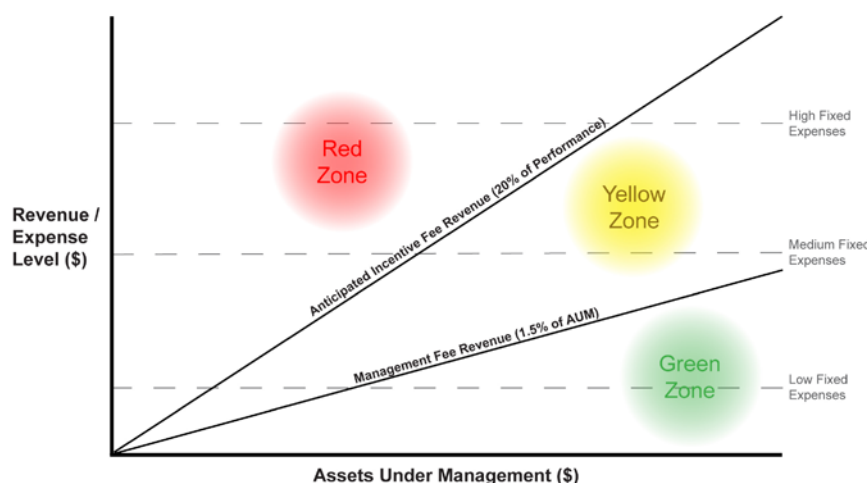
Using real numbers provides more color. A fund with 200 million USD in AUM and zero or negative performance would generate a revenue of 3 million USD. A return of 5% bumps the total revenue up to 5 million USD. With a 7.5% return, the fund's revenues are 6 million USD: 3 million USD from the management fee and 3 million USD from the performance fee. Beyond the 7.5% performance mark, the incentive fee becomes the primary revenue contributor.

The performance fee effect is what makes the hedge fund model so appealing and unique. Whereas traditional asset management models derive revenues almost exclusively based on assets, a hedge fund's revenues include performance incentives, thereby better aligning the interests of the manager and the investor. If the 200 million USD AUM fund mentioned above delivers a 25% return, the manager's revenue is 13 million USD – more than double what the manager would receive for a very healthy 7.5% return. By comparison, a similarly sized mutual fund would earn roughly 3 million

“A conservative place to start with the hedge fund business model is to base revenue expectations on management fees alone.”

IN THE ZONE: THREE TYPES OF HEDGE FUND OPERATING MODELS

The two most important levers for a hedge fund's basic business model are its fees and its fixed expenses. The green zone below represents funds that keep their fixed expenses lower than their management fee revenue. Such funds have a margin of safety built into their model and can withstand difficult market environments. Yellow zone funds, which spend more than their management fee but less than their realistic performance fee expectations, require some degree of positive performance revenue to stay profitable. Funds in the red zone may be forced to take drastic, unplanned actions during soft-performing years.



USD in management fees. This distinction drives our industry. (The chart on page 8 provides an additional visual of how performance fees contribute to the revenue mix.)

Looking more closely at the revenue inputs, two clear concepts emerge regarding the hedge fund business model. First, because hedge funds can be opportunistic with how they invest, both the manager and investor stand to benefit when the manager performs well. Second, there is only one consistently reliable revenue input for funds: the management fee. Not surprisingly, the managers who are most sustainability-minded think of their revenues in terms of their management fee alone.

“A conservative place to start with the hedge fund business model is to base revenue expectations on management fees alone.”

In fact, we recommend that a conservative place to start with the hedge fund business model is to base revenue expectations on management fees alone. This provides both the fund and its investors with a margin of safety. Even during periods of low or no returns, a conservatively modeled fund can sustain, adapt and emerge.

Determining the Break-even Point

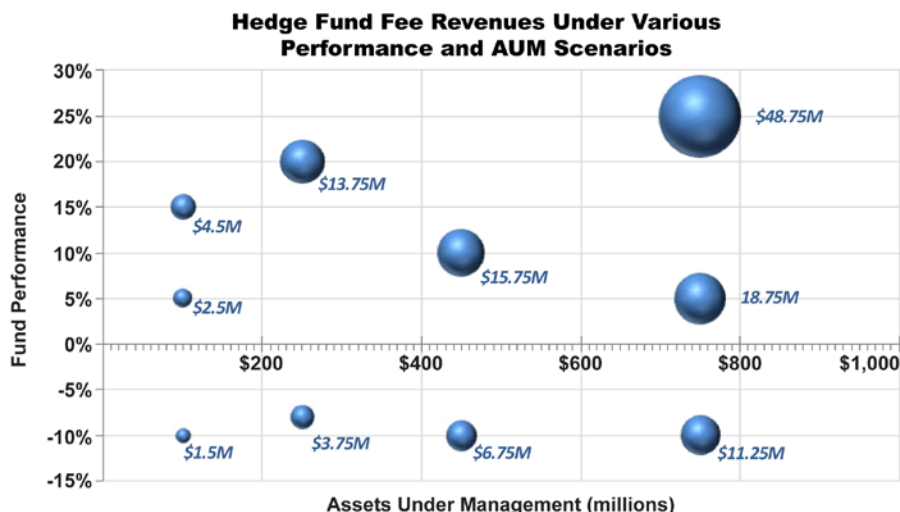
When companies calculate their break-even points, they often approach the issue by considering how much revenue they need to cover their expenses. E.g., “If we don’t sell 2 million USD worth of widgets this year, we’ll face a shortfall and we’ll need to downsize.” Similarly, a hedge fund manager may ask: “What level of assets and performance do I need to cover my expenses?”

However, the hedge fund business model allows for a different approach. Since hedge funds have a fixed revenue stream – their management fee – and since they know their current level of AUM, they can work out their break-even point from the other direction. I.e., “What level of expenses can I support with my fixed revenue?” Referring to the business model graphic on page 8, a fund can determine its break-even point by pegging its expenses to the point on the graph where its management fee intersects with its AUM level.

The 200 million USD AUM fund described earlier could therefore base its annual revenue projections around its 3 million USD management fee (i.e., 1.5% of

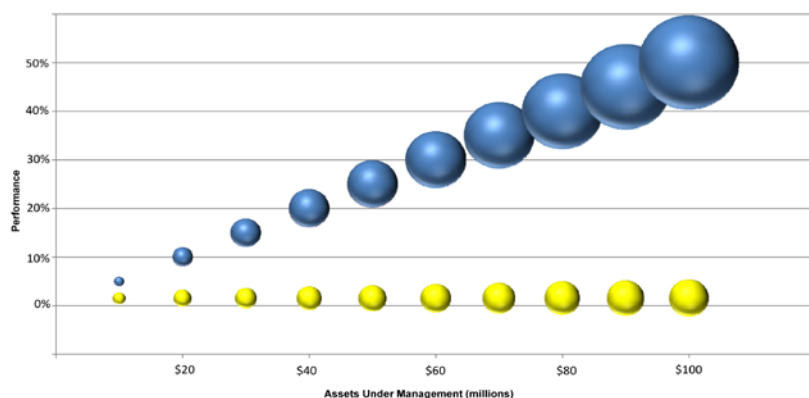
THE AUM / PERFORMANCE MAP

What level of assets does a fund require to support its expenses? Where does performance need to be? The chart below depicts both sides of the revenue map: AUM and performance, including negative performance.



THE HEDGE FUND MODEL AT WORK: PERFORMANCE FEE VS. MANAGEMENT FEE GROWTH

As a fund increases its assets, its management fee income (yellow) steadily ramps up. When performance fees (blue) are included, the revenue growth can be remarkable. The performance fee growth line is a simple representation of the inherent power of the hedge fund model and helps explain why talented investment managers gravitate toward hedge funds.



AUM) and set its expense caps accordingly. During a strong-performing year, the fund will run with a surplus which, like other businesses, it can use for capital expenditures, incentive bonuses, cash reserves, etc.

A start-up fund can apply the same principal based on realistic AUM assumptions. (For most funds, “realistic” start-up capital consists of investments by partners, friends and family.) A fund with 20 million USD in start-up capital and a 1.5 and 20 arrangement could base its expense considerations on 300,000 USD of annual fixed revenue – a considerably lower amount than in the previous example.

Managers of start-up funds must understand the numerous expenses associated with operating a hedge fund. As an example, many funds – like the 20 million USD fund described above – cannot afford a non-bundled third-party vendor’s order management system (OMS), risk management product, aggregation service, trade allocation module and attribution tools. Once a fund manager understands the expenses, he or she can determine exactly the asset level and performance combination necessary to cover those expenses and have an adequate profit.

For a prospective start-up fund, this analysis will determine whether the business plan is realistic or needs refinement before it launches (i.e., whether the fund will need to raise more launch capital or lower its fixed expenses). For an established fund, this analysis determines whether it is operating in the red, yellow or green zone.

Getting to the Green Zone

It is important to understand why some funds target operating in the green zone and why other funds may intentionally operate in the yellow or red zones. The green zone calculus is simple: when a fund maintains fixed expenses that are lower than its fixed revenues, it operates with a margin of safety. In a green zone fund, both the fund and its investors have a reasonable cushion to ride out difficult periods of low or no performance, and the fund operates with less business risk.

In other cases, a manager may wish to operate in the yellow or even red zone, relying on performance to cover any expenses that are above and beyond its fixed revenue. This is particularly true among start-up hedge funds, which – like other start-up companies – require initial investments and operate with a higher burn rate. Additionally, any fund that is significantly building out its infrastructure may operate with higher relative fixed expenses, even if just for a short period of time.

Both new and established funds constantly work toward the green zone. This aim is key to managing a sustainable fund. Distinct from raising AUM, delivering strong performance or changing the management fee structure, the only lever that managers have complete control over is fixed expenses. Using this lever and reducing expenses will enable funds to reach the green zone.

In some cases, reducing fixed expenses may mean cutting excess and non-core spending across the board – including measures such as reducing headcount, taking smaller space and cutting budgets by a prescribed percentage in each area. Sometimes such draconian measures are necessary – e.g., for a prospective start-up fund which is budgeting 25,000 USD in expenses per million dollars of AUM or for a fund whose AUM has decreased significantly. Very often, however, funds can get closer to the green zone by shifting some of their expenses from fixed to variable and by moving the burden of expenses to the shoulders of a third-party service provider.

Like many businesses, hedge funds have to make difficult decisions about which tasks they should perform in-house and which they should outsource. Third-party service providers are available to do nearly all of a fund's activities outside of making investment decisions. Funds typically prefer to do as much of their work in-house as is possible. As a result, they build up significant fixed costs.

Some hedge funds are concerned that reliance on a third-party will increase risk or lead to an operational or compli-

“If we don’t sell 2 million USD worth of widgets this year, we’ll face a shortfall and we’ll need to downsize.” Similarly, a hedge fund manager may ask: “What level of assets and performance do I need to cover my expenses?”

ance failure. Many emerging managers come from larger funds and have never developed relationships or negotiated contracts with third-party vendors. These managers prefer controlling each task to ensure that they are completed correctly, which may have been effective in the past with functions like fund administration, but this is no longer the case today.

Frequently, hedge funds rely on the economies of scale available through third-party providers. They do not borrow stock directly; they leverage the scale of their prime broker. They do not directly issue commercial paper to finance long positions; they leverage the banks. Similar opportunities exist across a wide range of fund activities from trading and technology, to human resource support, risk management and reporting.

By moving the burden of high-expense activities from their own P&L to a service provider, hedge funds can reduce their fixed expenses. The resulting model is leaner and more effective, and it can

be scaled up or down with greater ease depending on the fund's performance, assets and business needs. As a fund grows, for instance, it may require more back office support, but if the fund's growth levels, some of that support will no longer be necessary.

By leveraging third-party providers, the fund stays nimble and is able to ramp up its productivity without adding significant new recurring expenses in the form of compensation, space, technology. In this way, outsourcing not only affects expenses, it also gives funds added adaptability. One of the hallmarks of funds that have successfully navigated difficult periods is that they were positioned for the negative environment before it happened, and they were able to adapt quickly to their new reality.

Conclusion

The hedge fund industry has literally reshaped the investment landscape for talented managers and for qualified investors – not only because hedge funds provide greater flexibility in investment decisions but also because of the business model itself, which aligns managers with investors and provides excellent incentives for strong performance. In the post-crisis environment, managers are increasingly focused not only on their investment performance but also on their business models. Whereas pre-crisis the top hedge funds were dedicated to performance alpha, post-crisis the top funds also seek enterprise alpha.

About Merlin Securities

Merlin is a leading prime brokerage services and technology provider, offering integrated solutions to the alternative investment industry. The firm serves more than 500 single- and multi-primed managers, providing them with a broad suite of solutions including dynamic performance attribution analytics and reporting, seamless multi-custody services, capital development, 24-hour international trading, securities lending experts and institutional brokerage. With more than 100 employees, the firm has offices in New York, San Francisco, Boston, Chicago, San Diego and Toronto. Merlin utilizes the custodial and clearing operations of J.P. Morgan, Goldman Sachs, Northern Trust and National Bank of Canada. Merlin is a member of FINRA and SIPC. For more information, please visit www.merlinsecurities.com, or contact Ron Suber Senior Partner and Head of Global Sales, Ron Suber at rsuber@merlinsecurities.com or (212) 822-4812

The background of the entire page is a close-up, soft-focus photograph of golden wheat stalks. The stalks are in various stages of focus, with some in sharp detail and others blurred, creating a sense of depth and texture. The color palette is warm, dominated by shades of gold, tan, and light brown.

Three strategies

for

Investing

in the

Latin

American

Agricultural

Sector

Several clear forces are driving the current upward trend in soft commodities: the increased protein content in diets in developing world countries; the use of grain to feed animals due to transformation of grasslands into agricultural land; and the use of grains for biofuel production.

The US, former Soviet countries and Latin America are the largest oilseeds and grain producing regions in the world, but Latin America, with its large stock of arable land and access to renewable sources of water, is the one region best positioned to sustain significant further growth. Latin America has already significantly expanded its production capacity, mainly through the use of more advanced technology (seeds, fertilizers, machinery) and an increase in the number of hectares (10,000 square meters) under production. This trend of expansion of agricultural capacity in the region is clear to continue into the future - significant areas of Brazil, Uruguay, Paraguay, Argentina, and even Colombia and Bolivia are being transformed for production.

However, investing in the high growth market in this attractive region is not always easy or straightforward, given the lack of publicly traded instruments. There are few publicly traded agriculture companies in the region, and they do not always provide adequate exposure. Most investments, therefore, have been private equity or direct ownership in industry-related or agricultural production companies, including large acquisitions of land.

Given this context, the best three ways to invest in the Latin American agricultural sector are: providing financing for the agricultural value chain, producing agricultural commodities on leased land, and purchasing marginal land for transformation. Each one has its clear investment characteristics, liquidity profiles and risk-reward relationships.

Lack of adequate financing has long been one of the key issues hindering the development of Latin America. Financial markets have suffered significant swings in past decades, and the financial markets and banking sectors still cannot equal those in more developed countries. The agricultural sector has traditionally been affected by this lack of adequate financing mechanisms, which has created the opportunity for niche players to enter the market. Financing the export side of the agricultural value chain, with its foreign currency denominated goods (grains), is a way to obtain high single digit returns with

low volatility and low currency exposure. Liquidity in these types of investments is usually monthly or quarterly.

Investing in farming production itself is traditionally a mixture of two different businesses in one. Access to agricultural production is usually achieved through land ownership and management of the farm. This type of investment requires high capital commitments, and the return is a mixture of that from the annual production cycle of the farm and from the underlying real estate investment.

The tendency in recent years has been to separate these two parts of the business and reward each one at the right risk-return level. Investment funds have been created that lease land and invest in the production cycle, providing returns in the high teens with somewhat higher (weather related) risks. Others have focused on land purchase, providing low single digit real estate returns with lower risks levels.

The investment strategy focused on production is aimed at obtaining high returns by minimizing capital expenditures and participating in the annual business cycle through land leasing and sub-contracting all the services required for production. A key aspect of this strategy is risk mitigation. In this sense, geographical diversification, weather insurance and price hedging limit the downside of the business. Liquidity for this strategy is directly linked to the crop production cycle and is therefore usually annual.

The agricultural real estate business has been quite "in fashion" in Latin America during the last decade, driving prices in key productive areas in Argentina, Brazil and Uruguay to levels that, although still lower in absolute terms, are comparable in yield adjusted terms to those observed in countries like the US.

Investing in mainstream productive agricultural land will not provide the same returns in the future that it has yielded in the past. The only reasonable agricultural real estate play left in Latin America is one that focuses on adding value through land transformation. This

means enhancing marginally productive or cattle grazing land by transforming it into mainstream agricultural production or by adding irrigation. The typical cycle for this type of investment is five to seven years long and can only provide liquidity at the end of the period.

In summary, financing, production and real estate are three clear strategies to invest in the Latin American agricultural industry. These three can provide the right types of exposure and result in adequate risk-return yields in an industry and a geography that is not always easily accessible.



By Gonzalo Fernandez-Castro and Christian Sieling of Lumix Capital

Lumix Capital is a Swiss-based fund management and structured finance advisory firm active in the real assets and real economy sectors, with a particular focus on South America and agriculture. It was founded in 2008 by Gonzalo Fernandez-Castro (ex-Jacobs family advisor), Christian Sieling and Guillermo Worlicek with the support of key Swiss asset management executives.

Lumix currently offers three investment vehicles to participate in the agriculture opportunity: Navigator Fund focused on financing soft commodity exports, Lumix AgroDirect Fund focused on producing grains in leased farmland, Lumix AgroLand AG a straightforward vehicle focused on transformation of a reduced number of already identified opportunities.



Bamboo *for* Construction

■ by Stephen Kaczor

Nature has provided a perfect plant for building - bamboo. As wood becomes increasingly scarce and expensive, the ancient tradition of building with bamboo is becoming more popular than ever. The bamboo goods industry is expected to reach 25 billion USD next year, according to Jonathan Bardelline, Greenbiz.com. The tensile strength of bamboo canes is high enough to use for the structural framework of a home. This beautiful and long-lasting material can be used inside and outside of the home for window casings and trim, flooring, cabinets, and doors.

Bamboo can be grown at a construction site in months, avoiding the expense of delivery. One of the fastest growing plants on earth, it has been measured to grow more than three feet in one day - up to a latitude of 47°S in Argentina and Chile. However, older bamboo that has been dried after harvest is more durable and long-lasting for building. A grove becomes established after about three years. After this, new shoots will be bigger and more plentiful each year.

Bamboo is a group of perennial evergreens in the true grass family, Poaceae, and there are 1,450 species of bamboo. Construction grade bamboo is harvested from stands of the larger bamboos. The genus *Phyllostachys* is called timber bamboo and grows to 40 feet tall. A grove of *Phyllostachys vivax* sends up new shoots so fast that “one can practically hear them pushing towards the sky” (Bamboo Garden) and will grow one foot each day. Rhizomes, which spread underground, seek out areas where the sunlight heats the ground, indicating an abundance of available light to nourish a shoot.

To most efficiently harvest and use bamboo, proper maintenance is key. A properly maintained and harvested grove is self-sustaining and three times as productive as wild bamboo groves. A few important techniques will help you reap the most benefits from your grove:

Bamboo groves must be thinned. Thick groves are weaker, invite insects and produce an output that is smaller in diameter. **No more than one-third of a grove should be harvested annually.** If harvested correctly, the rhizomes send up replacement shoots, making a grove a valuable renewable resource. **Bamboo loves water but requires good draining soil.**

Recycle. The branch trimmings and smaller canes are chipped into mulch and recycled back into the grove with manure, according to Dain of Bamboo Valley, to encourage strong rhizome growth and plentiful new shoots the following season. During construction, bamboo must be joined differently than wood. Nails will split the cane; thus, the canes are better joined by bolting them together. First tape the joint then drill the holes to prevent the peeling of the protective skin. The tape can be removed afterwards.

Bamboo is versatile and aside from the skeletal structure of a building, bamboo can be used for flooring, doors and cabinets. Bamboo flooring became very popular in the United States in the 1990's because, as the Chinese and Japanese have long known, it is one of the hardest scratch-resistant materials and can be produced for under 1 USD per square foot. Today, the Americas have the greatest number of bamboo varieties, surpassing China and Japan.



Author Biography

Stephen is a Seattle-based writer, entrepreneur, and consultant. He is a partner at International Market Resources, a Latin American trade consultancy, and the founder of Changes In Latitude, a travel company. The focus of Stephen's consulting is strategic market development, research & management. In addition to consulting and writing, he is passionate about Latin American culture, travel, and sustainable agriculture.



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A look at

Infrastructure Development in Argentina

According to The Private Participation in Infrastructure Project Database, out of the sixty-nine infrastructure projects that achieved financial or contractual closing during 2009 in the Latin America and Caribbean region, only one occurred in Argentina. This marks a decade of private sector aversion towards investing in infrastructure assets in Argentina (see graph A). But, as the graph shows, things have not always been this way.

So what has happened? Why is it that no expert, paper, conference, or publication related to infrastructure ever refers to Argentina as a suitable destination for private sector resources? In this article, we offer our insights into this apparently irreversible trend and present an exclusive interview with Nicolás Grosman, an economist researching infrastructure policy in Argentina.

From our point of view, this downturn in private participation in infrastructure finds

its origin in three main factors that, not coincidentally, have a lot in common:

1) Argentine authorities overseeing the development of infrastructure are not motivated by long-term interests. On the contrary, infrastructure is governed by short-term populist actions and poor allocation of public resources through bidding, awarding, and monitoring schemes that permit high levels of corruption.

In the quest for funds and popular support, short-term projects (e.g. road

maintenance) are prioritized over long-term ones (e.g. critical energy projects), as state financing for the former is easier to secure. Once financing is secured, feasibility studies and bidding processes are rapidly and not-so-thoroughly completed, allowing governmental authorities to overprice contracts in pursuit of post-adjudication “commissions” that in turn facilitate large down-payments at the beginning of the contract and regular advanced payments during the life of the contract. Such a lucrative scheme has encouraged certain companies, often partially-owned



by the state, to form “bidding cartels” to seize and distribute the main infrastructure contracts among themselves. We should note that, we do not know for a fact that this process occurs also in those projects financed with multilateral development banks’ resources.

Similar processes are said to occur also in the mining, oil and gas, and tourism sectors.

2) The foundation on which to build a solid project financing structure simply isn’t there. Banks in Argentina, for various reasons, do not play the role they play in other countries in the region, and it is well-known what happened with the domestic pension funds in 2008. Furthermore, project cash flow, a critical element when considering the financing of a major project through securitization or other methods, has been, in most cases (the company exploiting the nation’s airports and that exploiting the Paraná river are the exceptions – please refer to question four of our interview with Mr. Grosman) adversely affected by “frozen” tariffs (i.e.

tariffs that can’t be adjusted using, for example, foreign price indexes) and arbitrarily- and irregularly-granted subsidies (please refer to question five of our interview with Mr. Grosman). The widely used fiduciary funds (*fondos fiduciarios*), which were meant to guarantee obligations of the state, have become, under the current legal framework, entities with uncertain and unaudited budgets and regulation.

This leaves the state as the main source of project financing. This is the main disincentive to develop a portfolio of “bankable” projects (we discussed this concept in our previous article) because projects are financed not based on their merits but on their governmental sponsor’s connections and lobbying ability.

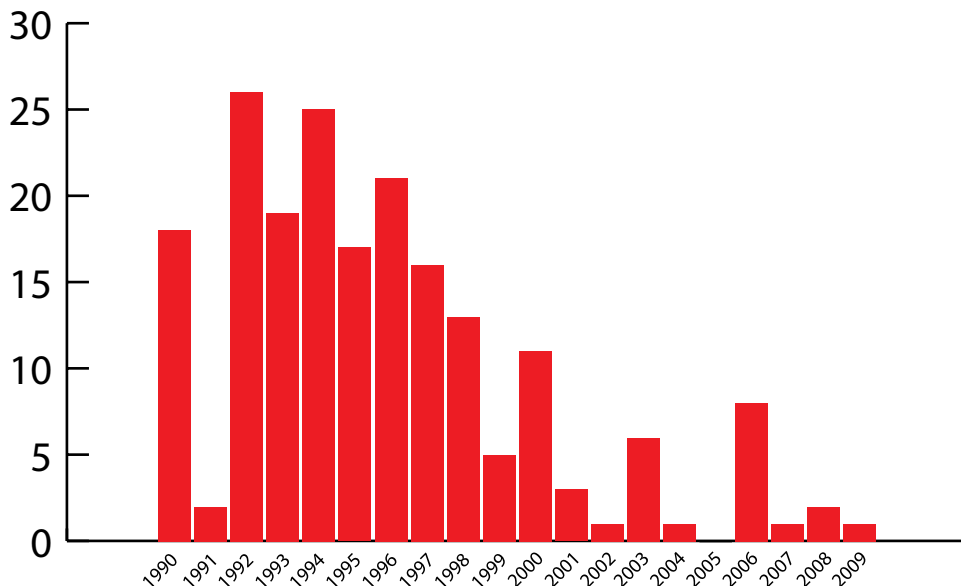
3) There is a lack of autonomy in the relevant private sector companies and in key public sector offices. While infrastructure development is supposed to be a field in which the public and private sectors interact continuously and to mutual benefit, the construction and operation of public works and the provision of public

services in Argentina have been utilized primarily to extend the influence of the state over the private sector.

The public sector can currently be divided into two separate and seemingly isolated groups: the decision-makers and the technical teams. Over the past years, decision-makers seem to have ignored the importance of technical teams with what Norman Anderson, President and CEO of CG/LA Infrastructure, has called “technical and strategic capacity”. This has likely contributed to the high percentage of cancelled or distressed projects (see graph B).

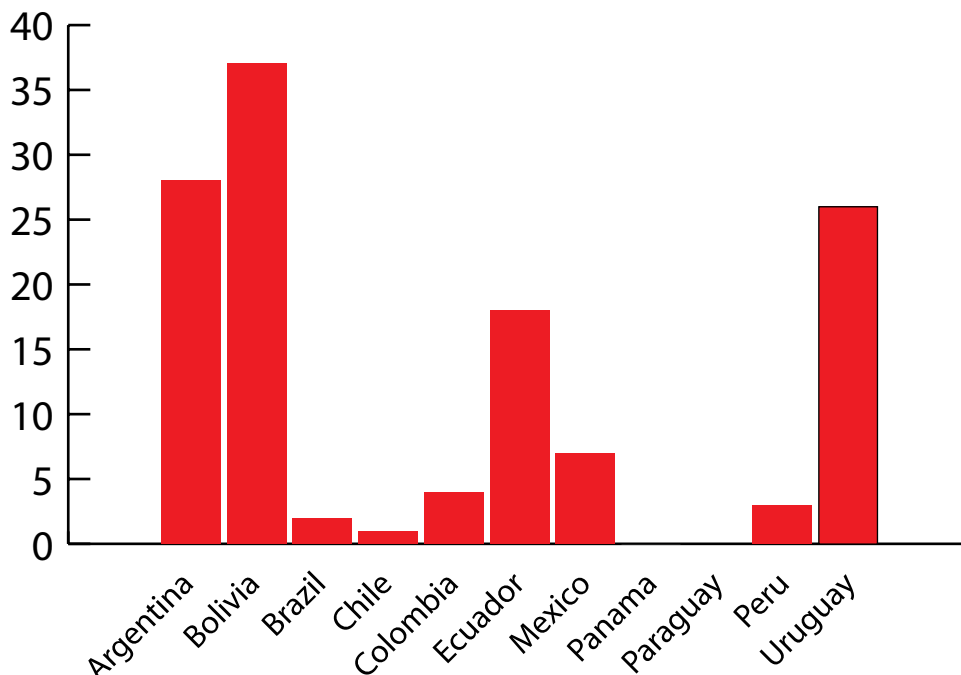
Regarding the private sector companies linked to the main infrastructure projects, it shouldn’t be a surprise, after reading how contracts are adjudicated and implemented, that the management of these companies can be controlled by the state’s authorities. It is a common occurrence in Argentina that engineering and construction companies withdraw from bidding processes, looking to preserve the independence of their management.

GRAPH A: Infrastructure projects with private participation that achieved financial or contractual closing in Argentina from 1990 – 2009



Source: Private Participation in Infrastructure Database – The World Bank Group

GRAPH B: Projects cancelled or distressed as a percentage of the total investment in infrastructure projects with private participation from 1990 – 2009



Source: Private Participation in Infrastructure Database – The World Bank Group

Interview with Nicolás Grosman

pensar
FUNDACIÓN



We are well aware that, in the process of developing infrastructure, there will be a certain degree of corruption and resource misallocation and expect a certain percentage of failed/delayed/distressed projects in every country of the region, but Argentina presents a particularly alarming scenario.

The good news is that there are people who have a comprehensive understanding of the problem and who, if given the chance, will hopefully work towards a different approach to the development of infrastructure.

Former Senior Economist at the Argentine Central Bank and a member of the NGO “Fundación Pensar”, Nicolás Grosman is currently working on a 10-year infrastructure plan for one of the main contenders for the presidency in Argentina. This plan will come out of an extensive and thorough analysis of the current situation of public infrastructure. Special attention is being given to logistics, which is critical for every economy and particularly to Argentina, with its dependence on exports.

We asked Mr. Grosman a few questions, to which he provided the following insights.

Numerous articles, interviews and conferences on infrastructure in our region refer to the Infrascope Benchmarking Index. In the 2010 Infrascope, Argentina ranks 12th out of 19 countries listed in the general index. What are, in your opinion, the five most important factors that explain the unfriendly environment for Public-Private Partnerships?

Regulatory discretionality. This is particularly important when it comes to tariffs. The disregard for institutions when making decisions; this goes against any measure looking to improve the investment climate. Lack of guarantees to support investments, aggravated by an overall context of low credibility and uncertainty.

The lack of a definitive solution to the debt defaulted in 2002. This administration's lack of emphasis in productive infrastructure such as railroads and ports.

What is the overall current "policy" at a national and provincial level towards private sector involvement in infrastructure development?

The current administration has favored an adverse scenario due to a lack of transparency and stable rules and regulations. It is not that this government has nationalized everything, it is more about, again, the lack of rules and regulations and of transparency.

Which are the sectors of the economy that have attracted the most private sector investment over the last few years? Has there been interest from foreign economic groups in those sectors?

The main sectors have been the agro-industrial, real estate, mining and tourism sectors. Foreign groups have been key players in all of those sectors.

Do companies operating public infrastructure works and services finance their operations in the domestic capital markets? How are these companies usually rated?

Not really, they usually finance their operations using other sources. When they have gone to the markets, they were usually rated poorly because of how exposed they were to the risk of "Argentine regulation". There are exceptions; for example, Corporación América has restructured its debt with a guarantee over the boarding fees paid by passengers at the airports.

Could you describe the effects that "frozen" tariffs and an extensive network of subsidies have on the profit margins for operators and on the quality of the services rendered to the users?

Tariffs have been "frozen" to such an extent that, in some cases, they don't even cover the operating costs of companies. Subsidies cover the balance but are not even close to compensating capital expansion. The result of this is that there are no incentives to invest and existing infrastructure assets deteriorate. In the case of energy infrastructure, the consequence is an insufficient supply that leads to discretionary supply cuts evidenced during the periods of peak demand during summer (electricity) and winter (gas). Another typical example is the railroad. The existing track network, as well as traction engines and rolling stock, is severely deteriorated. The distortion in this case has led to ridiculous extremes. The tariffs don't even cover the cost of issuing tickets to passengers, and operating companies depend exclusively on subsidies. As a direct result, there is no incentive to sell tickets and people are often allowed to travel for free.

What is the role of private banks in the financing of infrastructure development?

Very limited. The sources of financing are suppliers, the government, multilateral development banks, and the Brazilian Development Bank (BNDES) in the case of Brazilian suppliers.

How attractive is the renewable energy sector for private sector investment?

Argentina has not really been able to seize the opportunity offered by the

worldwide growth of this sector. Investment in solar energy infrastructure is very low, almost non-existent. Existing wind farms' production is low (30MW) but the GENREN I program should generate more investment. As a result of the program, the government adjudicated 895MW to be produced from renewable sources. And it is estimated that GENREN II, of which 90% of the energy production adjudicated will be from renewable sources, will lead to investments in the amount of 9 billion Argentine Pesos*. In some countries in the region, such as Chile and Peru, we find that the people employed in the agencies that perform the feasibility studies and carry out the bidding processes for infrastructure processes are highly qualified.

What is the level of expertise you find in public servants at a national and provincial level in Argentina?

It depends on the agency, but overall the level is good. The problem is that big decisions are made at the highest level and answer to interests that don't necessarily conform to the recommendations issued by the technical teams. In many cases, the technical teams end up doing wonders to try to validate at a technical level a discretionary decision made at the highest levels.

Author Biography

Patricio Abal is an infrastructure law and finance professional and the Infrastructure Editor of Alternative Latin Investor. He holds a J.D. from the Universidad Católica Argentina and is a Master in Project Evaluation Candidate at UCEMA & ITBA in Buenos Aires, Argentina. He can be reached at patricio@alternativelatininvestor.com or at 1-202-905-0369.

*That amount of Argentine Pesos equals approximately 2.25 billion USD

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Political Analysis

BOLIVIA: Morales under strong fire from his own supporters



President Morales
Source: Simon Wedege

Bolivia's leftwing President Evo Morales has seen his popularity drop to an unprecedented 30%, the lowest since first taking office in 2006. This slump stems from his move - via presidential decree - to scrap fuel subsidies in late December 2010, which sent petrol and diesel costs soaring to 73% and 83%, in a bid to stem contraband and improve competition in the local energy sector. The so-called gasolinazo added to the public concern over soaring food prices, which rose an estimated 9%-11% last year, above the rate of inflation (7.2% in 2010). Following unrest across the country, including in El Alto, where energy-related protests toppled two presidents on previous occasions, Morales rescinded the decree. The protests were led

by indigenous and trade unionist groups, which form the core planks of Morales' support base. Given the continued weakness of the right-wing opposition (which has a third of the seats in the 130-seat legislature), the president's own support base is fast proving the biggest challenge to the Morales government.

After rescinding the decree, the president also replaced his energy and productive development ministers and pledged to overhaul both areas, recognizing them as the two main weak points of government policymaking. This has yet to convince protesters, however, as prices continue to rise (monthly inflation was a high 1.29% in January 2011).

COLOMBIA: Risk of divisions in the ruling coalition



President Santos

On 17 February, Andrés Felipe Arias, former minister of agriculture and rural development (2005-2009) in the Alvaro Uribe administration (2002-2010) stated that maintaining Uribe's Democratic Security Policy (DSP) and re-establishing diplomatic relations with Venezuela's Hugo Chávez were incompatible policies. Arias is an influential figure in the Partido Conservador (PC), leading the more conservative party factions. He was speaking at the party's ideological forum. The PC is the main coalition partner in the government led by President Juan Manuel Santos.

Arias, whose closeness to former president Uribe led the local press to nickname him 'Uribito', could cause difficulties for Santos in the upcoming regional

elections, scheduled for 30 October. Arias is unlikely to back alliances which, in addition to the ruling Partido de la U and the PC, could include the left-leaning Partido Liberal (PL) and Partido Cambio Radical (PCR), the other two partners in the governing Alliance of National Unity. President Santos would be in favour of extending his national alliance to the local level. Although Arias has denied that the PC might leave the ruling coalition, his attacks on Chávez, calling him "a tyrant, a deranged dictator", could cause rifts with the more pragmatic Santos. Arias also said the PC rejects debating the decriminalisation or legalisation of drugs, a discussion that President Santos says he is willing to have if the international community decided to debate it.



Minister of External Relations, Antonio Patriota
Source: Agência Brasil

BRAZIL: Foreign policy shifts under Dilma

President Dilma Rousseff is charting a new foreign policy course for Brazil, shifting away from the sometimes controversial (and critics say inconsistent) stance adopted by her predecessor and mentor, Lula da Silva (2002-2010). Rousseff appears determined to restore better relations with the US after a spat with the Barack Obama administration in 2010 over Lula's 'adventures' in the Middle East. A former political prisoner, Rousseff has distanced herself from Iran (which Lula had controversially courted) and appears more willing to tacitly criticise the likes of Cuba. Her new foreign minister, Antônio Patriota, a former ambassador to the US, is leading the rapprochement (President Barack Obama visited Brazil on 19-20 March) and is seeking to recast

Brazil's global leadership ambitions. On 24 February, the US Secretary of State Hillary Clinton cited her admiration for Brazil's "growing leadership in the world" and said she was ready for a "constructive dialogue" about Brazil's future in the United Nations (UN), where it is seeking a permanent seat on a reformed UN Security Council. Brazil holds the rotating stewardship of the council for the month of February and is coordinating the UN response to the situation in Libya. The White House Deputy National Security Adviser for International Economic Affairs, Michael Froman, also said the US was interested in Brazilian oil in a bid to wean itself off its dependency on unstable suppliers, citing the Middle East and Venezuela.



President Calderon
Source: <http://comunicacion.senado.gob.mx>

MEXICO: US doubts about Mexico mount

US is becoming increasingly critical, though still supportive, of Calderón's war against organised crime, launched when Calderón took office on 1 December 2006. As Calderón's term expires, alternative strategies are emerging to replace his failed effort to recover areas of the country which had, effectively, been handed over to gangsters.

Socrates Rizzo García, a former governor of the border state of Nuevo León (1991-1996) justified the previous policy. Nuevo León is now one of the main battlegrounds between drug gangs. Rizzo said that when (his party) the Partido Revolucionario Institucional (PRI) ran Mexico (until 2000, when Calderón's Partido Acción Nacional (PAN) first took presidential power), "a strong presidency and a strong [federal] government" assigned the routes each drug gang could use so that there was no fighting between the gangs and ordinary people could live in peace.

Rizzo's comments suggest that if the PRI were to recover the presidency in 2012, it might revert to this former policy, which at least kept the death toll down in Mexico. Since President Calderón took office in December 2006, 35,000 people have been

killed by drug gangs. Rizzo's comments, made at a conference held at Coahuila state university's law faculty, were also aimed at Calderón who had accused Mexico's state governors of failing to help the federal government. Rizzo's argument was that in his day the federal government handled the whole issue of the drug trade and kept state governments out of the loop.

The Mexican Left is less clear what it will do. Its frontrunner for 2012, Marcelo Ebrard, the mayor of Mexico City, is promising only to withdraw troops from the streets.

Calderón, on the other hand, is relying ever more on the military. On 19 February, Army Day, President Felipe Calderón announced the creation of four new army battalions, which will be deployed in Mexico's unstable north-east. Calderón's decision is an acknowledgement that his use of the military, particularly the army, as a stopgap law enforcement agency while police forces are overhauled and improved, has not worked. It also shows that despite the president's repeated insistence that the army deployment is temporary (made again on 19 February), the army and marines will remain on the streets for the foreseeable future.

On 3 March 2011, President Felipe Calderón Fournier met President Barack Obama in Washington. What's not clear is whether President Obama invited President Calderón or whether Calderón effectively invited himself as the highlight of his two-day trip to Washington. The lack of clarity on this issue reflects the increasingly difficult state of bilateral relations.

Although the meeting was Calderón's fifth bilateral meeting with Obama, the

BRAZIL'S REAL ESTATE BOOM



and the Environment

After almost three decades of low activity, Brazil's construction boom has recently become the talk of the global industry. Yet, running parallel with this almost unprecedented growth rate is the often irreversible damage being done to the environment as constructors seek to maximize profits without due attention to the associated consequences.

Paradoxically in 2010, Brazil led Latin America in environmental building, according to the Green Building Council's count of the amount of buildings being constructed according to their standards and was placed 5th on the planet (behind the USA, the United Arab Emirates, Canada and China). This indicator is, however, questionable as an effective measurement due to such low overall global construction activity levels and the fact that only a handful of developers in Brazil adhere to the organization's standards.

A closer look at the facts points to South America's largest country being particularly guilty of practices which would be deemed unsavoury with regards to the environment. It is worth, therefore, focusing on the key factors which are causing the most concern – namely waste, water conservation and energy management – and what preventative measures, if any, are being taken:

Waste from Brazilian building sites According to statistics indicated by the Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística, IBGE) in 2010, with today's practices the waste created from the construction of three Brazilian buildings would be enough to create an entirely new building. While a number of measures have been put in place in order to outlaw the disposal of building site residue – including the recent Law no. 12.305/10 (which stipulates that materials either need to be effectively recycled or placed within proper storage facilities) – the low level of monitoring of procedures means much of the activity goes overlooked. As a consequence of inaccurate planning and the extra disposal costs for which constructors do not want to take responsibility, many potentially recyclable materials are unfortunately dumped.

Nevertheless, some interesting programmes are underway which are attempting to resolve what is one of the

most serious issues facing the sector. The Sanitation Company of São Paulo State (Companhia de Saneamento Básico do Estado de São Paulo, SABESP), for example, has been experimenting in using building site waste, which would normally be sent to landfills with positive initial results (both in terms of cost savings and from a technical feasibility perspective). Gafisa – one of the largest house builders in the country – has also been seen employing the country's best logistical specialists to take a more detailed approach to individual processes, which pay close attention to the control of stock levels and thereby reduce the level of leftover material on projects. The initiative has been widely complemented due to the importance of reducing the consumption of increasingly finite resources like wood. Additionally, the practices will also serve as a reference point for the industry as a whole.

Brazil possesses one of the largest estimated reserves of water on the planet, according to the National Water Agency (Agência Nacional de Águas, ANA), at 14 percent of which just 1 percent is actually accessible for consumption.

It is also worth noting the roles of organizations such as the Institute for the Development of Ecological Housing (Instituto para o Desenvolvimento da Habitação Ecológica, IDHEA) and the Institute of Technological Research (Instituto de Pesquisas Tecnológicas, IPT) which are striving to control building site waste via the development of effective recyclable materials and other sustainable construction systems. Examples include the use of bagasse (waste from the production of sugarcane) in the manufacturing of con-



crete and the utilization of gypsum plaster (a lighter, more durable and stronger building material which emits no carbon emissions into the atmosphere).

Water conservational strategies when constructing in Brazil

Brazil possesses one of the largest estimated reserves of water on the planet, according to the National Water Agency (Agência Nacional de Águas, ANA), at 14 percent of which just 1 percent is actually accessible for consumption. Of this, the largest majority (68 percent) is located in the north east of the country which, while growing, still means that the most populated regions – such as São Paulo and Rio de Janeiro – often face issues of limited supply. Creating infrastructure to extract more of the reserves is a costly process and is unexpected to happen soon. Thus, the onus of responsibility has been passed onto constructors to ensure that their developments have built-in conservational mechanisms. Indeed, new rules stipulated by the country's predominant housing lender – Caixa Econômica Federal (under the 'Casa Azul' sustainable housing initiative) – have meant that a building project could be disapproved should certain regulations not be met related to water storage, efficiency and disposal. Constructors are



required to remain vigilant when choosing the location of their projects - particularly in the city's peripheral regions where populations are growing and reliable water sources are strained - as well as to carefully consider this fundamental requirement in order to remain compliant.

■ Energy management in the construction process

Brazil's buildings themselves constitute 44 percent of national energy consumption which, according to the Council for Sustainable Construction (Conselho Brasileiro de Construção Sustentável, CBCS), could be reduced to between 5 and 10 if more environmentally friendly

regulations and practices were instilled. The need to have buildings which are more sustainable forms a fundamental part of achieving this goal. As well as compulsory measures already in place that enable energy efficient appliances to be used (such as light fittings and sockets), the industry is being encouraged to incorporate light saving devices in common areas, gas heating systems, modern elevators, and the use of solar energy (a source that the country, with above average levels of sunshine, is in a unique position to take advantage of).

■ The challenge moving forward...

With ever rising demand levels fuelled by a number of micro and macro economic

factors, it is highly likely that Brazil's constructional activity is likely to continue to grow, albeit at a slower pace than what has been witnessed in recent years. Protecting the environment is by no means viewed as unimportant by the industry, but the major bottleneck moving forward is the conflict of interest in producing financial results while sufficiently meeting the appropriate standards. Indeed recycling waste, water conservation and other energy saving installations usually come with extra price tags. With an already inflated material supplies market and the rising cost of land, these prices are often difficult for constructors to include in their plans.

On the other hand, it has become clearer that environmentally friendly practices are becoming more mainstream and scalable, prompted not only by legislation and industry regulation but also by increased consumer desire to live in homes which are adherent. The good news is that Brazilian constructors may not have a choice but to build ecologically sustainable housing.

Author Biography

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Brazil Real Estate & Land Investment Guide



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My Own Private Island

Alternative Latin Investor Speaks with Chris Krowlow, CEO of Private Island Inc.

Headquartered in Toronto, Canada, Private Islands Inc. is the premier international firm for private island marketing and sales. Their corporation employs a full staff of experts in international real estate, marketing, graphics design, Internet technology and media relations. As Private Islands online has an extensive database of interested parties, they have been able to streamline the process of helping interested clients find their own fantasy island.

When someone comes to Private Islands Inc., they are interested in purchasing a lifestyle and are prepared to think outside the box. Island investors are seeking something unique and many

times are emotionally driven to purchase an island purely based on its location or even the name of the island. CEO Chris Krowlow tells the story of a wealthy Toronto doctor who bought “Jenny Island” sight unseen as a birthday present for his wife - Jenny. Potential buyers become fascinated with the storybook idea of island living, and they want to become the protagonist in their own novel.

Private Islands Inc. started the island market business about 11 years ago. When the recent recession hit, they had never experienced anything similar in their history as a company. When the inquiries stopped, they were quite concerned. To generate revenue, they began a print publication, which has been enor-



Diamond Cay (Honduras) is 1.43 acres of paradise. The island is surrounded by reef. This stunning tropical setting is as good as it gets. Water and power are available nearby. The island sits 20 minutes from East Harbour. A perfect island for a resort or estate. Price: \$650,000USD

mously successful. Now, Private Island Inc. finds itself ahead of the game as the market returns.

The only similarity between selling regular real estate and a private island is the actual transaction. In terms of marketing, your product is a lifestyle. Islands in the Caribbean, for example, are targeted towards potential buyers in Canada, the US and different parts of Europe and Asia. Chris Krolow also mentions that the “business of buying and selling island is a very North American activity due to the US’s orderly business practices and familiarity with leases”.

Generally speaking there are two types of islands: freehold islands and leasehold islands. The government owns leasehold islands, and they provide leases to clients such as resort developers or anyone who is interested in a long-term lease situation. In effect, leasehold islands depreciate; whereas, free hold islands are like every other common real estate, making them the more sought out property. Furthermore, free hold islands are commonly located in areas of political stability where permits for development are much easier to obtain. In regions such as the US, Canada, most of the Bahamas and also some parts of the South

Pacific like Figi and Australia, there are a handful of freehold islands, but that’s generally the exception.

As technology increases, it is becoming easier to make many once uninhabitable islands “livable.” For example, just a few years ago, reverse osmosis technology for filtering water was incredibly expensive. In recent years, it has become more consumer friendly in terms of pricing, and many island owners are realizing that there may indeed be a market for their property. Even remote islands are now viable.

Islands are owned like any other real estate. Many islands are privately owned and have been passed down through generations. Local agents manage many of the islands; however, these agents enlist the help of Private Island Inc. because of their database and international marketing savvy. Although only 15-20 islands change hands each year through Private Islands Inc., they receive over four million visitors per year. With their impressive track record, Private Islands Inc. has first-hand knowledge of market prices, trends and history of island sales. The trend right now is for governments to purchase back islands, which is happening in East Coast Canada and parts

of Maine in the States where governments are purchasing environmentally fragile islands. This is a disappointment to the island market, as these islands will never come back; however, as a result the neighboring islands have a tendency to increase in value, knowing that their neighbors will stay undeveloped.

Globally, Private Islands receives the most inquiries for Islands in the South Pacific, but the most transactions occur in the Caribbean, specifically the Bahamas. When people first start looking to buy an island, they are unaware of the foreign ownership laws and the different status of the property. About 80% of island buyers are North American and are seeking freehold properties. According to Chris, “American buyers are looking for something to stick their flag on and say ‘this is mine I own it’”. A leasehold island is not going to cut it for them. They have a tendency to look in the Caribbean, which is one of the more popular international destinations.

In general terms, most of the sales take place in locally driven markets. In the states you have Maine and the Florida Keys, while in Canada you have the thousand islands and the Georgian Bay. All these little island regions are close to larger cities and the wealthier people in these cities that drive up the prices in the region and are the most likely to buy.

How do the LatAm islands fare?

Brazil is very popular – mostly for locals in that area. You do not see too many Americans purchasing there. However, the inquiries over the last few years have increased, and many more islands have come on the market in the region. It is unknown if the increase in availability has caused the increase in interest. Private Island Inc. recently received three new listings for the Brazil region, and every single one of them is already developed, meaning they are backed by more money and are going to be catering toward high-net worth investors. These islands will range between 1-4 million USD each.

■ Top 5 Things to ponder when considering buying an island:

1. Is the land in a politically stable area?

Make sure the locals are Okay with you being there, and that the government has no plans to swoop in and claim the island for their own. Do your research – or work with someone who has.

2. How much time are you going to be staying on the island?

If you only have 4 weeks off, there are some great choices to enjoy the summer months – pick a non-Caribbean ocean island such as Nova Scotia, Canada, or Maine.

3. Is the island going to sink anytime soon?

Elevation should be a consideration – The Maldives are all leasehold islands and many of the leases are 50 years, which is probably a good thing, as they have been predicted to sink entirely in the not so distant future. (The new Private Island Inc. website will include an elevation chart.)

4. How deep is the water?

Sailing is difficult if you only have 3ft. of water and no sheltered access. As most island owners are boat owners, this should be taken into consideration.

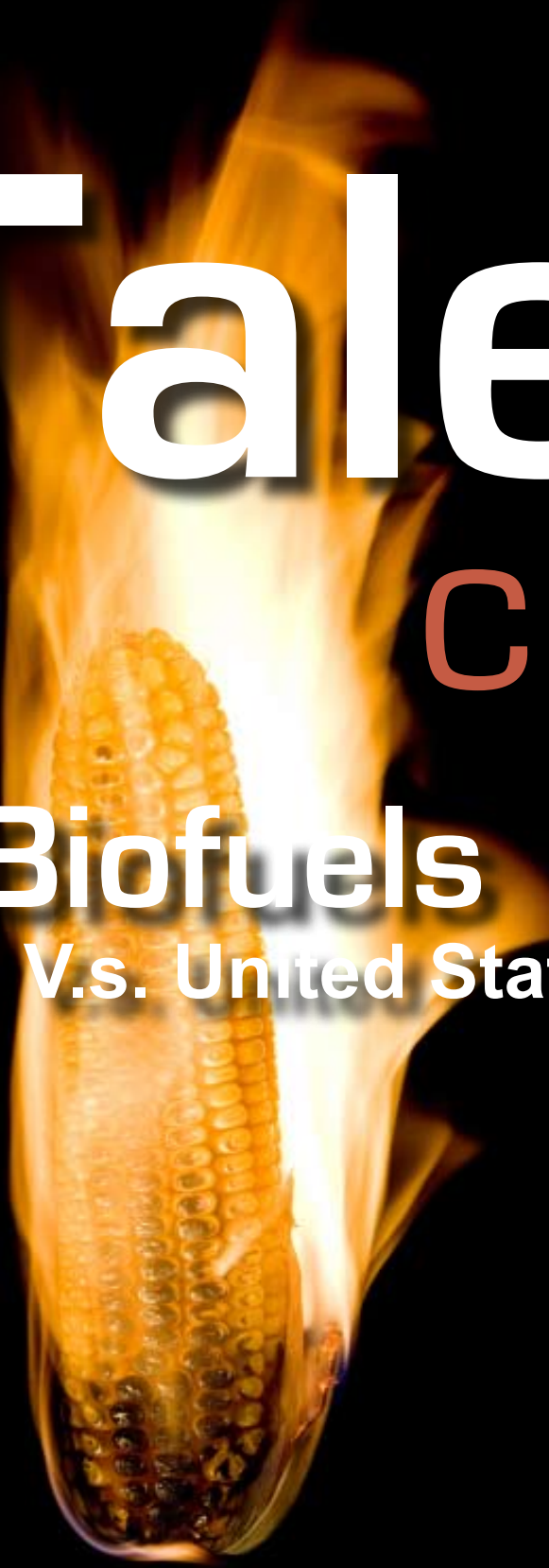
5. Am I prepared to own an island?

Try before you buy. Rent first - ideally the island you are considering purchasing. Understand that it is a lifestyle. Getting to and from the island, being isolated from the outside world – all of this should be considered before investing.

Chris Krolow

CEO, Private Islands Inc.

As the CEO and founder, Chris Krolow's strong and visionary leadership has taken Private Islands Inc. to the apex of luxury real estate marketing. Traveling the world to develop strategic partnerships, Krolow has established the first and only organized network of all the top island brokers, effectively uniting a geographically diverse yet highly specialized industry. In this complex business, his knowledge and connections have transformed his company into the central network of the island world. Inspired by his prior success as a high-tech entrepreneur, Krolow draws on the latest technology and innovative marketing to ensure that Private Islands Inc. will continue to shape the future of the private island industry.



A Tale of two cities

Biofuels

Brazil V.s. United States

Brazil and the U.S. are the two leading biofuel producers in the world. Together, they accounted for 76 percent of global production in 2010, yet there is a marked contrast between the two governments' policies. The Brazilian government has demonstrated consistent support in the development of their biofuels industry over many years based upon sound technological choices; whereas, U.S. inconsistencies have led to economic distortions and created major uncertainties. The future of both domestic industries is becoming intertwined as biofuels must evolve from being defined by national boundaries to being defined by global commodities.

Biofuels—Part of the Solution

Peak Oil is fast becoming a reality — growth in the production of easily accessible oil and gas will meet future transportation fuel requirements and respond to the ever pressing need to reduce carbon emissions. Meanwhile, alternative energy sources like biofuels will continue to become a much more important part of the energy mix. Unlike electric cars or hydrogen fueled vehicles, bio-fuels are already industrial scale and can be distributed largely within the existing infrastructure, making an immediate contribution to reductions in greenhouse gases.

Biofuel today represents about a 1% share of equivalent global total oil consumption and is projected to rise to over 5% by 2030. Currently, the U.S. leads the world in bio-ethanol production, which accounts for 86% of total biofuel, with 204 bio-refineries producing from corn. Correspondingly, Brazil's well-established sugar-cane ethanol output comes from 430 sugar mills. Due to a much higher adoption of diesel cars in Europe, land availability and climatic differences, Europe produces comparatively little domestic bioethanol. Although development of the bioethanol industry is dominated to

date by the two main producing countries, production in Asia Pacific is expected to become increasingly significant.

In biodiesel production, Germany leads the way with rape seed as the main feedstock; although, a recent loss of tax incentives is creating many of the same problems faced by most in the global biofuels industry. Changes in legislation from one year to the next and rising commodity prices continue to hamper development. For example, the U.S. biodiesel market was subject to a major downturn in 2010 when government subsidies were temporarily withdrawn. Whereas, in a consistently supported market, growth of biodiesel demand in Brazil has exceeded expectations since its inception in 2005. The fundamental reason for this success in Brazil is that the biofuels market development remains policy driven. Until biofuels' share in the energy mix is solely determined by economic signals - such as oil and feedstock prices and the cost of converting feedstock into fuels - this stop-start development is likely to continue.

The Brazilian Formula

The largest experiment in producing liquid fuels from biomass began in Brazil in 1975 with the PróAlcool program. Originally

nally the program was aimed at import substitution, providing a response to the oil shocks of the time, and was stimulated by government investment incentives and price controls on fuels. Brazil manufactured a "green fleet" of ethanol fueled light vehicles - sales of which peaked at 96% in 1985 but lost momentum with the falling oil price and the removal of import controls on vehicles.

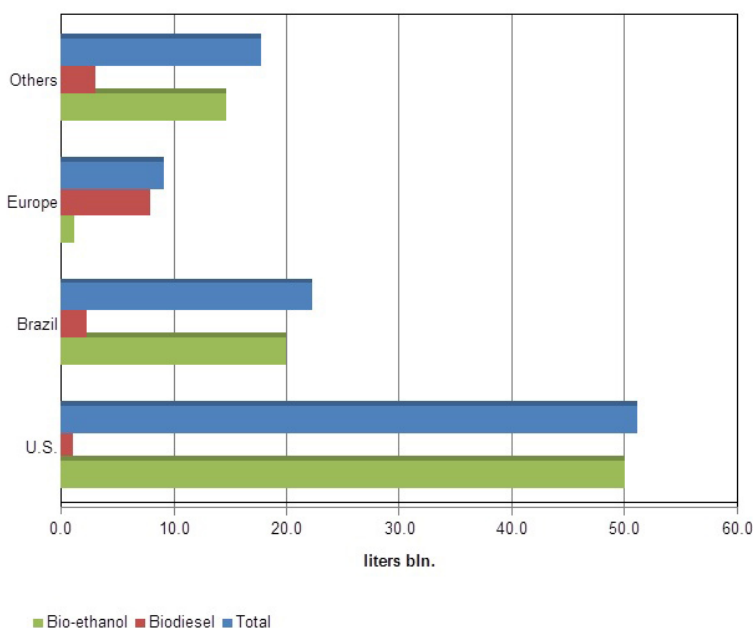
Deregulation of sugar and ethanol prices occurred in 1991 and price 'deregulation' in the Brazilian fuels market was introduced in 2002. Today, bio-ethanol no longer receives government direct price subsidies. Alcohol competes at the pump with gasoline sales. Consumer choice is driven largely by the retail price differential.

Meanwhile, the government continues to provide indirect support through investment from the national development bank, tax benefits for plant and equipment, and funding for R&D activities. Power generation from bagasse (sugar cane waste) also benefits from a preferential feed in tariff for biomass renewable energy.

The advent of flex-fuel vehicle technology in 2003 quickly breathed new life into the ethanol business. Flex-fuel vehicles now represent over 85% of new light vehicles sales and have grown to 40% of the total park. In addition to sales of 100% ethanol (E100) at the pump, all gasoline sold in Brazil is a mandated 25% (E25) mixture with alcohol. Total volumes reached a key milestone in 2008 when alcohol sold at the pump overtook gasoline.

By contrast, biodiesel is a relative newcomer in Brazil. The Brazilian government maintains a strategic view for promoting biodiesel. There are many factors which have propelled it forward since its launch in 2005. Among these are: the ambition of the government to lead the world in the bio-fuels sector; the structural deficit in middle-distillates production from Brazilian refineries and the consequent need for substitution of substantial diesel imports; as well as a desire by the government to foster regional development, generating employment and income in rural areas. Currently, a 5% (B5)

Global Biofuels Production 2010



blend of biodiesel is mandated in Brazil, with ongoing discussion about increasing this to B6 or B7.

■ The Corn Patch

The United States produces and consumes more ethanol fuel than any other country in the world. Most cars on the road today in the U.S. run on blends of up to 10% ethanol (E10). Ford, Chrysler, and GM sell flexible-fuel vehicles that can use gasoline and ethanol blends ranging from pure gasoline all the way up to 85% ethanol (E85), but there is minimal use of this capability — not only because of the lack of ethanol refueling infrastructure but also because many owners are not even aware their vehicle is flex-fuel capable.

Although small quantities of ethanol have been added to gasoline in the U.S. since the 1970s, the big boost to ethanol fuel usage came in 2006 with the large scale replacement of MTBE as the anti-knock agent in gasoline. Strong growth has continued, with ethanol production increasing by 23% in 2010 to 13.2 billion gallons. U.S. Congress passed the Energy Independence & Security Act in 2007, which mandates domestic consumption of 36 billion gallons of renewable fuels by 2022. Of the total target amount, biodiesel must account for at least one billion gallons of renewable fuel consumed. However, in setting these targets, the Bush Administration did not take full account of the effectiveness of biofuel production, essentially safeguarding the already established corn-ethanol industry.

For a number of reasons, corn-ethanol fuel production in the U.S. remains

highly contentious — principally related to its inefficiency as a lower carbon alternative to fossil fuels. Corn-ethanol creates 1.3 to 1.6 times the energy expended in its production - vastly different from sugar-cane ethanol at 8.3 to 10.2 times. The corresponding reduction in greenhouse gases when compared to fossil fuels is only 10 to 30%; whereas, sugar-cane based ethanol is 86 to 90%. When a land use penalty is taken into account, such as with the new California Air Resources Board rules, corn-ethanol is perceived to have little or no benefit in reducing carbon emissions.

Moreover, the competition between biofuels, food production and in particular corn has become an important issue for the environmentalists. They cite this as a major cause of rising food prices impacting the world's poor. Although the true impact of corn-ethanol production on food prices is probably over-stated, just as the arguments that Brazilian sugar-cane growers are the primary cause of deforestation in the Amazon cannot stand up to scrutiny.

In the final analysis, there can be no question that the Brazilian sugar-cane is far preferable from an environmental impact and economic perspective to the more subsidy dependent, less effective U.S. corn bio-ethanol route. Policy makers today in the U.S. are faced with some important dilemmas, not least of which is confronting the powerful farm-lobby seeking to protect mid-western corn-farmers. There is also an important energy security aspect that is a primary driver for governments keen on replacing imported oil with domestic production of biofuels. Moreover, the fact of the matter is that the U.S. corn-ethanol industry exists and will continue to produce until a better alternative can be found or policy shifts dramatically. The development of second generation biofuels based upon cellulosic ethanol production with diverse biomass as feedstock is one of the hopes for the future. The Obama administration recently entered into the debate and amended annual targets for different types of fuel: 16 billion gallons of cellulosic biofuels, 15 billion gallons of

conventional biofuels, four billion gallons of advanced biofuels, and one billion gallons of biomass-based diesel by 2022. However, realistically second generation bioethanol is an industry at least ten years away from maturity, and although the first second generation biofuels plants are now ready for commercial production, it is questionable whether they can achieve the ambitious targets.

Generally, biodiesel prices have been higher than their fossil fuel equivalent. Continuing growth in the U.S. has been entirely dependent upon oil companies and refiners being obligated to meet target levels in the government mandate. Even so, if oil stays above 100 USD per barrel then an increasing economic driver will result.

■ Subsidies and Trade

There is a compelling case for developing international biofuels trade that reaps the benefits of sugar-cane ethanol - the most efficient first generation biofuel with the lowest carbon footprint. Nonetheless, a number of obstacles continue to impede progress in this area. Powerful vested interests, such as the US farm-lobby, seek to maintain protectionist barriers. On the other hand, there is insufficient production capacity for sugar-cane ethanol in the global supply system to make extensive trading a short-term reality. Supply of ethanol in the Brazilian market remains tight with little availability for exports. If an open market were to develop through the economic principle of comparative advantage, Brazil would become the logical major supplier to the U.S. However, this will not be achieved without substantial new investment in additional milling capacity at home. This has not stopped the Brazilian government and industry from engaging for a number of years in a broad campaign to consolidate ethanol as a global commodity. Finally, they appear to be edging toward their goal, and if successful, they should stimulate the necessary additional investment.

Today, the U.S. imposes a 54 cent per gallon tariff on Brazilian ethanol in order to protect their domestic corn-based

Despite the fears of the U.S. farm lobby, Brazilian sugarcane-ethanol does not present a major threat to the U.S. corn-ethanol industry in the immediate future.

industry. In 2008 with low sugar and ethanol prices, Brazil's exports to the U.S. reached a record 3 billion liters despite the tariff. Paradoxically, this trend has now reversed, as the U.S. became a net exporter of ethanol in 2010, with ethanol exports totaling almost 400 million gallons (1.5 billion liters). This was incentivized by the domestic 45 cent per gallon blender's tax credit for ethanol. With subsidized exports booming, there is a lot of debate on Capitol Hill. The Tea Party movement and the Republicans are in direct opposition to continuing subsidies, and they will most likely be dropped, at least in part, at the end of the year according to industry sources. Ironically, Brazil's North East region in recent months during the inter-harvest period began importing U.S. ethanol to replenish lost supplies as soaring sugar prices reached a 30-year high and stimulated Brazilian mills to switch to sugar production rather than biofuels. In January 2011, for instance, Brazilian hydrous ethanol sold at the equivalent of 18 cents versus 32 cents per pound for sugar.

If the U.S. import tariff and the blender's tax credit do expire at year-end, as anticipated, Brazil's ethanol exports are expected to remain low in 2011/12. Currently, the main cane companies in Brazil are putting cash into buying smaller rivals rather than into building additional capacity. Despite the fears of the U.S. farm lobby, Brazilian sugarcane-ethanol does not present a major threat to the U.S. corn-ethanol industry in the immediate future. Based upon Congressional mandates, U.S. corn-ethanol production is projected to increase to some 14.5 billion gallons by 2014 even without tariffs or tax credits.

"Adding just one gallon of conventional diesel to 1,000 gallons of biodiesel was enough to qualify for the tax credit,"

In the meantime, there is an even more poignant example of how U.S. policy

is distorting trade and destabilizing the industry. Biodiesel production in the U.S. in 2010 was 285 million gallons, which was less than half production in 2008. Over half a billion gallons of biodiesel produced in 2008 was based upon tax incentives stimulating exports. The "splash and dash" loophole allowed operators to add a small amount of petroleum diesel to imports of pure biodiesel and then export the new blend to take advantage of the one dollar per gallon blender's tax credit. "Adding just one gallon of conventional diesel to 1,000 gallons of biodiesel was enough to qualify for the tax credit," an EIA report said. While the loophole was in place, biodiesel imports grew from 4 million gallons in 2004 to 315 million gallons in 2008. In-bound shipments from Asia and Latin America became increasingly large. The United States exported some 677 million gallons of biodiesel in 2008 mostly to countries in the E.U. Volumes collapsed as tax loopholes were closed as part of the Emergency Economic Stabilization Act of October 2008, and the E.U. imposed new anti-dumping tariff tariffs on U.S. imports of biofuels.

■ Biodiesel in Brazil

Your browser may not support display of this image. In Brazil, biodiesel has been a comparative success story. Between 2005 and 2007, a mixture of 2% (B2) in diesel fuel was introduced as a voluntary measure. In January 2008, the B2 mixture became mandatory with a plan to increase in steps to 5% (B5) by 2013. Based upon the initial achievements, the B5 blend was brought forward to January 2010. Biodiesel is sold by producers through a system of three monthly auctions overseen by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP), with the principal buyer Petrobras. Currently under discussion is a move to a market-based mechanism, similar to bioethanol, with direct negotiation between producers, refiners and distributors. Nonetheless, the continuing desire to support small farmers is holding back the government.

Auction prices in Brazil are closely tied to the price of the main feedstock,

which is 80% soy. As commodity prices continue to increase together with the associated subsidies, it creates a dilemma for the biodiesel industry - whether or not to diversify into higher yield and more economical alternatives which require agricultural development. The stated objective of Petrobras is to move to palm oil, which creates a lot of resistance amongst environmentalists who highlight its role in deforestation, biodiversity loss, climate change and social conflicts. Other alternatives such as castor oil and jatropha, although promising, have not been widely used at industrial scale. Ultimately, the holy grail of the biodiesel industry is economically viable second generation biodiesel production from non-food sources. One of the notable alternatives is production from algae. Large research budgets are targeting a breakthrough in this area, yet there remain a number of technological hurdles to overcome. Recently, Shell withdrew funding from their major research program into biodiesel from algae, based upon concerns about the technical feasibility.

■ Two steps back and one step forward

Following the "splash and dash" affair in December 2009, the blender's tax credit for biodiesel was withdrawn by the U.S. Congress. While the large, established biodiesel producers survived, many smaller and newer biodiesel firms went out of business during 2010. Companies like ADM (Archer Daniels Midland Co.) or Cargill are highly competitive with integrated plants, oil crushing, and markets for the byproducts —soybean meal and glycerin. They are also well connected to the big oil companies using biodiesel as a blend component.

Meanwhile, under pressure from the industry, in December 2010 the blender's tax credit was revived. The US biodiesel industry, which struggled just to stay alive in 2010, is now predicting a boom ahead for those that survived the downturn.

Industry Consolidation

In Brazil major moves are being made in the bio-ethanol industry that are still too fragmented, with approximately 200 companies active. There remain many smaller and inefficient family run businesses from the PróAlcool era. Scale and vertical integration are now necessary to take advantage of agricultural yields, and technology that includes co-generation from bagasse is becoming an essential component in a competitive industry. Foreign capital is now entering, with the stated objective to consolidate the domestic industry and then start to develop the global potential.

In particular, the newly launched Shell-Cosan joint venture (Raizen) announced expansion plans to increase ethanol production from 2.2 billion to 5.2 billion liters. The company is vertically integrated and sells 10 billion liters of alcohol through its retail service station network. ETH Bioenergy last year acquired its debt-laden rival Brenco and has a production capacity of 3 billion liters. Completing the series of transactions that occurred in early 2010 was the acquisition of Grupo Moema by the U.S. based agribusiness and food giant Bunge and followed by the arrival of India's largest sugar refiner, Shree Renuka Sugars, which acquired a controlling stake in Equipav S.A. Açúcar e Alcool. UNICA, the Brazilian sugar producers association, calculates that the percentage of Brazil's cane crush now under foreign control stands at 22%.

The Outlook

The process to create a global market in biofuels will take time to evolve but appears to be edging forward, avoiding the scenario where protectionist barriers become the limiting factor for global growth. The major players in Brazil will now take the next 12 months to integrate their new acquisitions before embarking on capacity expansion over the next couple of years, eventually focusing on international growth. Corn-ethanol production in the U.S. remains something of

an anomaly that will continue to co-exist and grow alongside the more efficient Brazilian sugar-cane ethanol, unless or until a bio-ethanol becomes a fully traded commodity or until second generation alternatives are developed at industrial scales. If and when U.S. subsidies are withdrawn, it is likely to stimulate increased investment and flows of foreign capital into the Brazilian sugar-ethanol industry and accelerate the shift. Nonetheless, it will take at least five years to have a significant impact on the U.S. domestic corn-ethanol industry.

Biodiesel will continue to require government intervention in order to grow in the

foreseeable future. High oil prices will help offset any economic penalty and should stimulate greater growth. Consistent policy towards the industry, as in Brazil, will be essential to nurture the biodiesel market. Once consolidation has occurred in the bio-ethanol business, the large players will turn their attention to consolidating the equally fragmented biodiesel business. Scale and vertical integration will become critical success factors for this activity too. International trade in biodiesel is expected to evolve alongside bioethanol as subsidies and tariffs are adjusted.

Author Biography

Mark McHugh is an independent professional focused on the renewable energy industry in Brazil. He is currently advising clients on business strategy, structuring, M&A, and raising finance for new investments in the sector. Mark was until recently, Vice President of Marketing Americas for Shell based in the US. His extensive know-how of the energy business was developed during a thirty year international career in marketing, sales, strategy consulting, and general management. He is skilled in investment strategy, leading new business development initiatives, M&A, and managing new business start-ups. He has developed a close "on the ground" understanding of the biofuel and the alternative energy markets in Brazil.



In the last quarter of 2011, legal agenda has been set forth. This is an election year in Argentina and many projects that could be considered somewhat populist (which would otherwise not be considered) are likely to be treated by the Argentine Congress.

The majority of the projects that will be treated by the Congress in 2011 will affect potential and current investors in Argentina. In addition, following an adverse report from the Financial Action Task Force¹ ("FATF"), Argentina is looking to promote drastic amendments in its current Anti Money Laundering ("AML") regulations in order to pass future reports and avoid being blacklisted by the FATF.

The legislative projects to follow this year range from a bill proposing the distribution of corporation's profits among the employees and the regulation (with more stringent requirements and eventually plain restriction) of work on Saturdays and Sundays to an amendment project to re-regulate the consumer protection law. We will briefly analyze those projects with the larger impact to foreign investors.

1. Draft Bill on Oil Exploration and Exploitation Argentina's Continental Shelf:

This bill came about after last year's exploration ventures in the Atlantic Is-

lands in dispute between Argentina and the United Kingdom (Malvinas). The bill intends that companies currently exploring in the continental shelf be registered and request Argentina's prior approval.

The bill prohibits and forbids any company or individual, domestic or foreign, to develop exploration or exploitation activities, or have participation direct or indirect in local or foreign entities that develop exploration or exploitation activities in Argentina's continental shelf, without prior approval of the Argentine Secretary of Energy.

In the same venue, the bill prohibits and forbids to hire and/or develop activities, transactions, economic, financial, logistic, technical, consulting and or advising operations, for companies or individuals to develop exploration or exploitation activities in Argentina's continental shelf without prior approval of the Argentine Secretary of Energy.

The Secretary of Energy shall withdraw any corporate or civil authorization to carry out business activities (and eventually file criminal complaints) to companies and individuals acting in violation of the previous paragraphs. In addition, if such violating entities hold oil concessions such concessions shall revert to the Federal or Provincial Government according to the location of such concessions. Finally, the Federal, Provincial and Municipal Governments cannot execute agreements or hire companies or individuals whereby either its controlling entities or shareholders, directly or indirectly, develop oil exploration or exploitation activities in Argentina's continental shelf without prior approval of the Secretary of Energy.

The majority of the projects that will be treated by the Congress in 2011 will affect potential and current investors in Argentina

Argentina's Legal Update

By Javier Canosa – Canosa Abogados
www.canosa.com.ar



2. Draft Bill Amending the Public Offering Law:

The Ministry of Economy is currently considering a bill originated in the National Securities Commission ("NSC") seeking to amend the current law applicable to Public Companies No. 17,811 ("Law on Public Offering") enacted in 1968.

This amendment to the Law on Public Offering, far from being a novelty, began to be considered years ago during the administration of Eduardo Hecker, former head of the NSC. The reform of the Law of Public Offering re-emerges as part of the system of measures established by the National Government to adapt to the premises stated by FATF and

the increasing pressures on Argentina to increase the controls and measures against money laundering.

One of the main amendments introduced by this bill is the free exchange of information among regulatory agencies of the State, such as the NSC, the Financial Information Unit ("FIU"), the Tax Authorities, and the Central Bank of Argentina.

Thus, activities that are protected by the stock secret could be exercised freely if this bill is approved by the National Congress. The head of the NSC, Alejandro Vanoli, referred that this measure would lead to crime and violation prevention related to insider trading, market manipulation,

and issues related to the prevention of money laundering and financing of terrorism.

One of the main amendments introduced by this bill is the free exchange of information among regulatory agencies of the State, such as the NSC, the Financial Information Unit ("FIU"), the Tax Authorities, and the Central Bank of Argentina.

Another important change that attempts to correct the strong criticism of the FATF, who referred to the lack of controls by the National Government in the capital market in its report in late 2010, is to invest the CNV of police power in punitive action. If this is approved, it would grant the NSC the authority to sanction stockbrokers if irregularities are detected and if a violation of the provisions, statutes and regulations of these entities takes place. Thus, it would set aside the concept of the self-governing market that has ruled for over forty years, a situation highly questioned by many economists who believe that it is the market that can exert the greatest control against money laundering.

These measures are intended to summarize the international experience, particularly the cases of Chile and Brazil, and integrate the country into the group of countries that meet the international standards of the International Organization of Securities Commissions Objective ("IOSCO"), which finds its origin in the international pressure addressed to the National Government.

3. Bill on Land Ownership:

The Argentine President, Cristina Kirchner, in her speech opening the 2011 legislative period, mentioned that she will file a draft bill on land ownership to Congress. The alleged purpose of such bill is to control foreign land ownership in an intelligent manner to prevent any anti-foreign investor view. The President used Brazil as an example where there is already a bill like this. The President mentioned that the bill will aim to keep the vital resources under national property without having a xenophobic approach. Such bill has not yet been filed before Congress.

4. New AML Regulations:

Finally, and on a separate note, Argentina is currently providing for extensive changes in its AML regulation structure. From January 14, 2011 until January 24, 2011, the Financial Information Unit ("FIU") has issued a total of thirteen Resolutions.

The President mentioned that the bill will aim to keep the vital resources under national property without having a xenophobic approach.

This is an effort of Argentina to avoid sanctions from the FATF after a critical report was issued in October 2010. The set of rules deals with issues ranging from the treatment given to the information received by anti-money laundering agencies of other countries - which had already earned criticism from his US counterpart, the FINCEN - to a list of politically exposed persons (PEP), provisions for the Central Bank, National Securities Commission, Gambling Houses, Notaries, etc.

The rules' goal is to provide a system of measures to prevent money laundering and implement greater control over commercial and financial operations. Thus, there will be more controls on the purchase of property, vehicles, insurance contracts, bank transfers, and bets in bingos and casinos that exceed certain amounts.

In December 2010, Argentina submitted a plan to prevent money laundering before the FATF. In relation with this plan, the FATF considered that Argentina should change its plan of action and that the country lacks adequate anti-money laundering control standards. Consequently, the origin of these new measures is the need to comply with the strong criticisms levelled against the Government by the FATF and to avoid warnings and sanctions.

The main measures implemented by the Government are as follows:

- Notaries, accountants, Banks, insurers and money transportation com-

panies must implement procedures for the control of operations in which they intervene, which exceed the sum of two hundred thousand pesos (\$ 200,000).

- Banks must report transfers that denote unusual movement of funds of their customers. Accounting firms and transportation of funds companies must report any suspicious transaction.
- All organisms and professionals previously mentioned must have a procedure manual to avoid transactions involving money laundering, carry files of each of their customers, and report unusual transactions and those in which their customers can not justify the origin of funds.
- Argentine Central Bank ("ACB") must exercise tighter controls on financial entities, while sanctioning powers are under the responsibility of the UFI.
- Gambling is one of the most difficult areas to control, especially because of its extension. According to a survey of the UFI, there are 61 bingos, 67 casinos, 115 horse agencies and 89 locals with slot machines in the country. Since the new implementation, all bingo and casinos must employ more stringent control mechanisms.
- Additionally, the Government decided to increase the control on Politically Exposed Persons (PEP). This group is composed of presidents, ministers, public, officials, presidents of political parties, legislators, judges, military officers, prosecutors, union leaders and heads of chambers of commerce.



Javier Canosa is the managing partner of Canosa Abogados (www.canosa.com.ar) who help foreign entities and funds setting up and developing their business in Latin America.

He has vast experience in mergers and acquisition and the negotiation of commercial agreements. Javier has represented and advised several companies, including financial institutions, in corporate M&A, business development and real estate undertakings.

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Big River Foundation

Healthy Rivers, Healthy Communities

"In the end we will conserve only what we love; we will love only what we understand; and we will understand only what we have been taught." - Baba Dioum

www.BigRiverFoundation.org

To start off, tell me a little about your background and how or why you started Vision Brazil Investments.

Prior Vision, I worked for JP Morgan and Bank of America and then founded with other partners an asset management company in 2003 called Capitania and its affiliate Vision. Starting in 2006, I have been solely dedicated to Vision, an asset management firm focusing on foreign institutional investors interested to invest in Brazilian asset classes, including Real Assets. We manage investments in four segments: agriculture renewable energy, real estate and distressed assets aside our practice in local financial markets.

Is there a lot of foreign institutional money coming into Brasil?

Since the beginning of Vision, we have focused on foreign institutional money. Flows into Brasil were relevant between 2005 and 2007, reduced in 2008/2009 and have rebounded strongly since 2010.

What does that look like? Is it mostly U.S., European, or other Latin American countries?

Nowadays, it's very well diversified among US, Europe, Middle East and Asia. For instance, our base is about 50% US, 35% Europe and 15% from other areas like the Middle East and Asia.

Starting in 2006, I have been solely dedicated to Vision, an asset management firm focusing on foreign institutional investors interested to invest in Brazilian asset classes, including Real Assets.



Amaury Junior

CIO and Founder of Vision Brazil Investments

Vision Brazil Investments

Vision Brazil Investments, based in São Paulo, is a US\$ 2.1 billion asset management firm focused on Private Equity and Alternative Investments in Brazil. The investment team was formed in 2003 by seasoned professionals with extensive experience in Brazilian and international financial markets. Vision Brazil has developed unique expertise in real asset classes in Brazil, such as: Distressed Assets, Real Estate Development, Renewable Energy, Agricultural Credit, Food Security and Agricultural Land Ownership/Production.

The Hedge Fund Brazil Forum

Organized by Latin Markets Brazil, is a South America focused international meeting of hedge fund managers and investors. The Forum brings together 300+ investors, funds, and advisors for a two day conference discussing investment strategy, due diligence, asset allocation and hedge fund investment opportunities in Brazil and throughout the world. The meeting also provides a due diligence forum for global and South American investors interested in direct research on liquid alternative investment opportunities

I think that the sustainability for this positive outlook is not as related to external factors as it is driven by better wealth distribution within the country.

How do you feel Brasil is doing in terms of exposure and growth? Do you think Brasil was overexposed in the past two years? Do you think it's going to plateau?

When we started the business, it was difficult to offer Brasil as a separate investment theme because investors bucketed us under Latin America. Clearly that has changed over time. Brasil, in the past few years, took on a role of its own, being an investment opportunity on a separate basis. Brasil is growing primarily due to its internal market expansion despite the fact that it is an important commodity exporter. We are one of the most insular Emerging Markets economies, i. e., in Brasil the ratio of Exports plus Imports to GDP is around 20% where India and China approximately ranges from 40% to 60%.

What is your outlook for Brasil in the next two years?

I believe that the government will continue to do the work. I don't think there will be a big change in the government's role in terms of maintaining stability, maintaining reasonably well-constrained fiscal and monetary policies. Clearly demonstrated by the recent budget cuts, Brasil should maintain macroeconomic conditions similar to what we have been experiencing in recent years. I think that the sustainability for this positive outlook is not as related to external factors as it is driven by better wealth distribution within the country.

Brasil, in contrast to other emerging markets, is keen on using alternative investments as opposed to traditional investments. Why is that?

Brasil passed through a long period of hyperinflation. The necessity to cope with high daily risks created a solid financial and risk management culture which, in turn, lead to a robust alternative asset management industry.

Do you see a trickle down effect of that mentality to other parts of Latin America? For example, hedge funds are highly regulated in Brasil but not anywhere else in the world. Do you see that acceptance of alternative in-

vestments moving to Argentina, Peru, Colombia, or Chile?

Certain countries that have more sophisticated markets like Chile would not be as affected, but I think that Colombia, Peru and Uruguay can look at Brasil as a possible model to develop their local markets.

What are your thoughts on the MILA - the joining of the Colombian, Peruvian, and Chilean markets?

I feel it's a good move because it creates more structure, improves liquidity and transparency. I think eventually it may make sense for all the large exchanges in Latin America to merge. I don't know if this is going to happen soon or many years down the road, but I think that over time it may make sense to combine.

Regarding the upcoming Hedge Forum Brazil event, what do you plan to talk about there? Who do you expect to turn up? What do you expect to gain from that?

We go to present what we do on the hedge fund side, which is more related to credit, and to present our partnership with an equity asset management team that complements our platform of real assets management. I expect to have a good turn up of foreign institutional investors and, to a less extent, Brazilian investors. We should gain access to investors seeking to diversify their investments by means of Brazilian owned and managed asset management businesses.

Is this the first event of this kind from Latin Markets?

From Latin Markets, I think it is the first one. Their previous events were mostly focused on private equity. And we have been involved in private equity events that they have organized before.

How do their events differ from the larger scale events like Terrapin or Latin Finance?

They target a small number of managers presenting leading to a relatively large ratio of investors to managers.

Quickly speaking about hedge funds in Brasil. How are they doing in quarter 1 of 2011?

You have to break them down into two major classes: equity or fixed income. Fixed income is doing quite well. Equity

is sidelined. Of course, the industry has niches such as Quantitative, Credit, Real Assets, etc. that have presented less correlation to markets and in many cases perform in positive territory.

Would you say the investor profile for hedge funds is similar to your investor profile? Or where is most of the money in Brazilian hedge funds coming from?

For the ones that invest on Credit it is similar. The bulk of the money comes from local Investors and not from foreign investors

What about any foreign institutional participation in Brazilian hedge funds?

Yes, there are some associations that have taken place, and I think this will continue. But the bulk of the industry is dominated by the large Brazilian banks.

Biography - Amaury Junior – Founding Partner and CIO of Vision Brazil Investments

Amaury holds a PhD from MIT in Engineering and Applied Mathematics and an MSc and BSc from PUC Rio. Prior to Vision Brazil Investments, his professional experience included: (1) Founding Partner and CIO of Capitania Asset & Risk Management; (2) Managing Director, Head Trader, and Treasurer for Bank of America in Brazil; (3) Head of Brazilian FX and Derivatives Market Making and Head of Brazilian Fixed Income at JP Morgan in Brazil; (4) G7 Proprietary Trading, Mortgage Backed Securities Strategy, Derivatives and Advanced Technology Research at JP Morgan in New York; and (5) consultant in mathematical modeling and numerical algorithms for Thinking Machines Corporation, a US supercomputer manufacturer, and for several large US oil and gas companies. Amaury holds patents in the field of financial data visualization, and has published articles in international journals and financial magazines. He is also a member of the TCX Pricing Committee, a global partnership of international development finance institutions and commercial banks, led by the Dutch development bank FMO. Amaury currently serves as an officer of over 50 companies on behalf of investors, and holds seat in the Board of Directors of 4 companies.

The Newest Designer Labels... *in a* Glass

2010 saw real evidence that a new phenomenon had arrived in the wine market: the rise of the new 'Style Label'. This phenomena had long threatened to expose itself but until last year stayed comfortably under most of the industry's radar.

If most wines that the world produces never change in value and most fine wines deliver growth of 3% to 5% per year, how and why can a hundred special labels deliver a 40% ROI? This statistic means that at the top end, fine wine prices are changing value at an astronomical rate, and the market offers an incredible investment opportunity for those with the know-how. The good news for the investor is that the sheer growth in volume of fine wine drinkers puts aside any notion that this is a fad and therefore a fragile investment opportunity. The scale of the appetite is led by those celebrating success in China, and it is passionately shared by new entrepreneurs across many other Asian economies (Asia's demand for wine grew 392% between 2005 and 2009 according to the trade event Vinexpo). The need to be entertaining and celebrating with bottle names such as Lafite and Latour is just as important in other growth economies, specifically Russia, and many parts of Latin America.

We have just witnessed the proof of the growing demand from these markets. Earlier this year, Sotheby's New York, a 'very intimate' Fine Wine auction, achieved US\$2,294,040.

Two of the top ten wine labels, both from Bordeaux's Graves Appellation, confirmed that the demand for the prestigious labels will be as strong this year as last - a case of Haut-Brion 1982 made \$15,730 (from an estimate of

\$7,000-\$10,000) and \$15,730 was also tabled for a case of La Mission Haut-Brion 1989.



Jamie Ritchie, Senior VP at Sotheby's said: "There was fierce competition throughout the sale, particularly from Asian, Brazilian, Mexican and US bidders." No surprise there.

Charlie Martin, Managing Director of First Growth Bordeaux (FGB), tries to simplify the price push. "We have new ultra brand conscious, ultra rich people fighting for the same wine brands, and certain Chateaux have become their 'must have's' in the same way that certain fashion labels offer a status and kudos. The price on these wines are rocketing because supply is fixed. Imagine if Gucci only made 5000 luggage sets a year. What price would they be sold at?"

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Historically, there were three equally important factors that someone buying one of the world's most expensive wines would consider before making their purchasing decision: the vintage, the Chateau and the price. The latter, however, has become far less important because of two points: one - the fast money being earned in developing markets is on such a scale that many of the world's new millionaires (850,000 in the case of China) are marching quickly to becoming billionaires, and two - they are buying more for the image that wine affords than for the pure enjoyment of its attributes. It is the embellished social and corporate image that a fine bottle of Chateau Margaux can offer which means that the price, at whatever level it may be, is worth paying for this consumer.

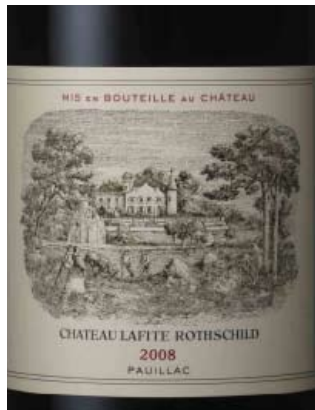
The idea that some of the wines could have been predicted to achieve such performance last year is interesting. There are some labels that have the traditional status of being the best, the five First Growth Chateaux, plus Petrus, La Mission Haut-Brion, Le Pin, Cheval Blanc to name the old school. Looking at China, there are new popular labels that have recently been backed by investors and are on the price rise because they

symbolically appeal to the local market. Chateau Angelus is known as 'kin chung,' after the golden bell on the wine's label, an association that boosts its sales according to co-owner Jean-Bernard Grenie. Chateau Calon Segur sports a heart on its label and is often given as a token of affection; whereas, Chateau Beychevelle is referred to as 'Longchuan' or 'Dragon Boat' because its label features a boat with a griffon. The demand for these wines is booming. Moreover, the winemakers are happy to tweak their packaging to reinforce a wine's relevance to the Chinese market. Though 2008 was not a stellar vintage, Chateau Lafite Rothschild, in a brilliant marketing move, actually placed the Chinese character for the number "8", which is a very auspicious number in China, front and centre on their bottle.

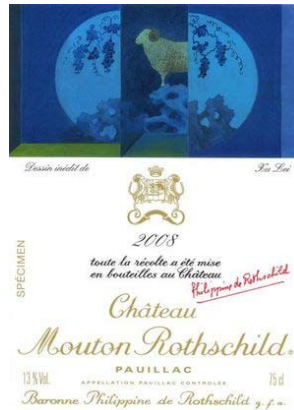
The result was a doubling in value and the selling out of all of the bottles of Lafite from a vintage that promised to be difficult to sell. (The Chinese are fiercely attached to symbolism and superstition, and regard the number 8 as an auspicious number because it sounds like the word "wealth" in Chinese. The Chinese government chose the most auspicious date of all to schedule the opening cer-



The ultimate in wine packaging: a case of Mouton's 2000 vintage sells for \$17,000 US.



For the 2008 vintage Lafite gets closer to the Chinese market with a red 'Lucky 8' symbol



Mouton Rothschild commissioned a Chinese artist for its 2008 label



Luckily for Beychevelle its Dragon Boat label has boosted its price

emony of the 2008 Olympic Games in Beijing - August 8, 2008 (8-8-08) at 8:08 p.m. This was also an extremely popular date for weddings).

What then is the next opportunity? Lafite is probably the most popular brand (such is its prestige that even buying the second wine made at the Chateau - "Carruades" - is a wise investment), and the question is which Chateau could emulate its success. No one in the wine trade knows, but it is believed that visuals could continue to be the driving force. FGB's Martin suggests, "Of course China needs to be watched but Brazil or India may hold the keys, if we could predict their future wine of preference we should be buying it today!" He seems to have a point. India is currently fifth in consump-

tion in the Asian region but is by far the fastest growing country - consumption increased 327% between 2004 and 2008 and is expected to increase a further 97% by 2013, faster than China.

Wherever there is a new trend, there is normally an investment opportunity as long as it doesn't carry the hallmarks of a fad, and global figures for wine consumption erase any such thought. The wine investor should definitely see the current market as a time to buy but should spend a moment to research the up-and-coming labels and vintages to invest in. In the first week of April, the wine industry will descend to Bordeaux to examine the quality of the 2010 vintage. If reports are positive, then it will be one to buy. Perhaps more crucially, the week may reveal

the hot new labels: those Chateaux that have the Chinese and Latin American buying teams swarming around their barrels are likely to find their order books full within the month.

Here is FGB's own 'Lucky 8' of Style Label tips to watch, all well under \$3000 per case and rising:

Duhart Milon
Lynch Bages
Clerc Milon
Pavillon Rouge
Pontet Canet
Beychevelle
Petit Mouton
Pauillac de Latour



Author Biography

Charlie Martin graduated with an International Business Degree from Brunel University, England, that included a specialised dissertation in Wine Marketing. He has been advising private clients on buying fine wines as part of an investment portfolio for over a decade.

He is now Managing Director of a successful wine consultancy business (First Growth Bordeaux Limited / www.firstgrowthbordeaux.co.uk) based in London, which offers advice to private clients who wish to invest in wine by the case. T

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Microfinance *in* Latin America

Celebrating
50
years

ACCIÓN

“Investing in Microfinance is a worthy philanthropic investment because of the sustainability factor. You’re not just dropping money down a bucket. It’s building something, and you’re getting a huge social return on investment.”

“Nicole Soucy Cassidy | Principal Specialist, Communications ACCION International”

Acción is a nonprofit organization founded in 1951, currently celebrating their 50th anniversary. It started as a community organization working at a grassroots level in urban centers and throughout the northern part of South America. In 1973 through one of their projects in Recife, Brazil, the team started to explore the idea of loaning money to some of the people who were entrepreneurial yet had very little resources. They realized that in such remote areas, the populations from these communities are simply “off the grid”. Acción conjectured that by having access to capital, the people in these communities could increase their output and revenue.

They experimented with this in 1973 in Recife and found that every person to whom they loaned money paid back their debt on time, even enthusiastically - that was the start of microfinance in the Western hemisphere. Since then, Acción has pioneered different ways to offer microfinance loans to different populations in different locations, eventually growing into the organization we see today. Currently Acción spans 4 continents and works with 30 partners in 22 countries. Acción has deep relationships in Latin America and is well regarded in the region in the microfinance world. They currently work with the following Latin American countries: Bolivia, Brazil, Colombia, Dominican Republic, Ecuador,

El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Venezuela. Although Acción began in Latin America in the early 90’s, they first began to work in the US and later moved to Africa then to India and now China.

Acción’s main activities are to assist other microfinance institutions – i.e. the actual banks providing the savings, loans and insurance, etc. They support those institutions via management services or by acting as CEO for a few years while the organization is incubating. They also provide equity investment to promising Microfinance Institutions (MFIs), and as a non-profit well-versed in microfinance, they can be patient when other investors can’t. Along with that comes a governance role – Acción sits on boards all over the world, advising microfinance

institutions on best practices and encouraging the best client protection principles. Another area of their work is simply leadership. As a result of years of experience, Acción has spent time exploring ways to make microfinance more accessible and cheaper for providers. That way, the clients have a more affordable loan product and more access to savings accounts, etc. They do this primarily through their center for financial inclusion, a collaborative effort to advance the commercial model of microfinance while upholding the interests and needs of poor clients worldwide. The Center works with a wide variety of actors – microfinance experts, banks, investors, regulators, technology firms, universities and others – to address challenges related to financial inclusion. Center staff collaborates with experts across different industries – many of whom have not yet applied their



Pura Parada Hurtado, dairy farmer, LaReforma, Bolivia, client of ACCION partner BancoSol

(See map below for countries involved with Acción)



strengths to microfinance – to develop solutions that enhance the lives of the world’s poor. Acción is pursuing this and a number of other initiatives with the aim of bringing microfinance institutions from around the world together. Hopefully, this will help ensure that client protection principles are being carried out in day-to-day operations around the world, building microfinance into an example of financial services with a double bottom line.

Currently, Acción has just launched a microfinance institution in Minaus, Brazil. The city’s remote location in the Northwest Amazonas has made it difficult to receive microfinance services. Acción already had a presence in Brazil, mostly on the northeast coast in Fortaleza, when they decided to begin an MFI in Manaus to aid the under banked population there. This new MFI is only the second majority owned enterprise in the history of Acción. They have 500 clients lined up already and just began lending in late February. In addition to their work in Manaus, Acción is also working with the Interamerican Development Bank (IDB) and five partners on a rural microfinance project that will span 5 countries. Urban microfinance in Latin America has been around since the 70s, and it is easy to reach people in urban areas. It is much more difficult, however, to reach people in rural areas, and it is even more difficult to come up with appropriate products for them, such as loan terms in which the length of the loan

corresponds with harvest seasons. With this project, Acción will help solve a challenge plaguing Latin America for the past 30 years and help create a model that can be replicated in other countries.

■ Council of Microfinance Equity Funds (CMEF)

Another branch of Acción is the Council of Microfinance Equity Funds (CMEF). CMEF is a valued forum for leading microfinance equity investors who are pursuing double-bottom line goals and one of the first councils for these types of investors. They have joined to assure that best practices are getting out to this new class of investor. By helping Council members deepen their relationships with their investee, MFIs enhance the performance of their investments and develop best practices and standards. The CMEF aims to ultimately strengthen the microfinance industry and advance the expansion of commercial microfinance.

Many of Acción’s donors give straight donations and the Acción team works diligently to make sure that donors are aware of how their donation is making a difference. This progress is shown through personal stories, the number of clients served, new innovative initiatives and the “smart campaign” which is trying to rally the world around these client protection principles. Acción has another

“...Microfinance is different from other types of philanthropy. It’s giving people the tools that they can use to build their own future. We’re working with institutions that show promise to make sure they become sustainable, to make sure that they are going to be there 20, 30, 50 years down the road and are going to be reaching out to new clients who are at really low incomes as well as helping their ongoing clients to keep progressing with whatever it is they are involved in – their businesses or their savings for their kids education, whatever it may be. A lot of the institutions that Accion helped found in the 70’s and 80’s are thriving now. BancoSol in Bolivia and Mi Banco in Peru are starting to go out and lend technical assistance and management services to smaller MFI’s. They have grown up, and although we are still involved, they are out there in the community...”

opportunity called “the global bridge fund” through which people can actually invest into a loan guarantee fund for MFIs, and they can get a return on their investment after a certain term (details charted out on Acción’s website). They are modest returns at this point, but it is a great opportunity to invest money and see it working on a variety of levels. The smallest amount that you can invest in the global bridge fund is 2,000 USD. It is an opportunity for a lot of people.

Despite the economic upturn in the last few years in Latin America, there is a large disparity between regions and economic classes. Furthermore, there are still millions of people working off the grid and in urban centers who have no access to any type of formal financial services. Despite more money being driven into the country, programs like Acción are still essential and in full force to make sure that money and aid are reaching the populations that need it most desperately.

For More information on Acción's work please visit:

<http://www.accion.org/>

<http://www.centerforfinancialinclusion.org/>

<http://www.cmef.com/>



María Cañar, lunch stand owner/operator, Quito, Ecuador, client of ACCION partner Credife