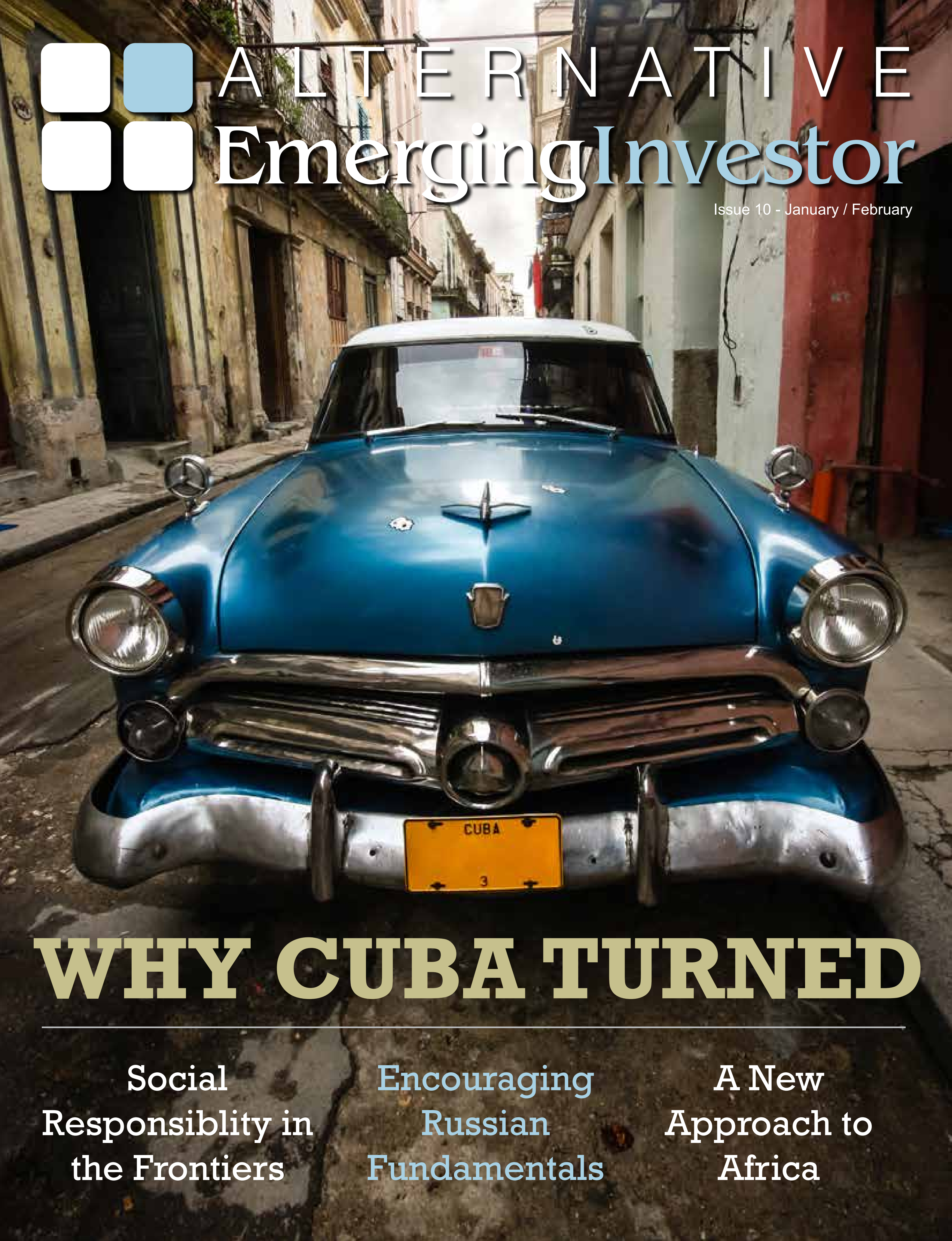

ALTERNATIVE
Emerging Investor

Issue 10 - January / February

WHY CUBA TURNED

Social Responsiblity in the Frontiers

Encouraging Russian Fundamentals

A New Approach to Africa

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I have been writing my letter from the editor for this publication or its previous iteration for the past six years, and every January I find myself shocked at how much has transpired within emerging and frontier markets in the past year. This shock eventually gives way into an intense curiosity as to what the new year has in store for the world's fastest growing economies.

Through the extremely well received launch of the Emerging Market Investors Association, one thing has been clear: Developing markets are rapidly becoming more and more mainstream, with larger allocations reaching a wider array of investors with an ever increasing array of products and assets. We've talked at great length and conducted hundreds of interviews regarding what I believed was the key, the middle-class growth story. While I stand behind this concept, I believe it's necessary to consider a more macro view. It's not just about capitalizing on local consumer needs; on a more basic level, investors are aligning their strategies with local needs. We're seeing a decline of "economic colonialism" as these markets rapidly improve in terms of sophistication, transparency, and rule of law, so now investment can and will result in local benefit.

It is this dynamic shift, this realignment of goals, that I believe will continue to prove beneficial for both investors and developing nations, as we now pursue returns that also improve the quality of life for the majority of the world.

I wish you an excellent and prosperous 2015, and we can't wait to see what it holds.

Best Regards,

Nate Suppaiah
Managing Editor

ALTERNATIVE EmergingInvestor

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Social Responsibility versus Returns:

A Partnership, Not a Battle

Investors who hope to capitalize on developing market growth in countries where equity markets are nascent or nonexistent may find it difficult to know where to turn for reliable information. Public media tends to present a skewed perception of emerging and frontier markets, which are seen as far riskier than developed economies.

According to Ms. Vivina Berla, Senior Partner & European MD of Sarona Asset Management, this gap between perceived and actual risks can create significant opportunities for investors in underpriced assets. Companies like hers serve as a bridge between private asset owners and local SME companies. “When I speak to prospective investors, I tell them that our role is to arbitrage the gap between perceived and real risk,” says Ms. Berla. “Those who understand and are willing to operate where other people fear to tread can generate significant returns.”

According to Sarona, “Private equity investors legally obtain ‘inside information’ about their portfolio companies and can therefore realize more value from investments than their peers in listed markets. The more ‘inefficient’ a financial market, the greater the value that can be added by good GPs.”

Sarona traces its roots to 1953, when a private investment company was formed to invest in Sarona Dairy in South America. The company aimed to generate financial returns, but also sought to stimulate the development of the struggling local economy. According to the website, "this combination of sound investment principles and social values paid off. The community flourished and the investment itself ultimately spawned an industry serving 70% of Paraguay's dairy market." Today Sarona's outlook is global.

Taking the leap

Ms. Berla's own experience speaks to her commitment to the "bridge" approach. She worked for 20 years in the institutional investment world, including 11 years in private equity as a general and limited partner and 10 years at Merrill Lynch. She then graduated from the London School of Economics and obtained an MBA from the Tuck School of Business. But ultimately she decided to "abandon the traditional financial world" to become a partner at Sarona.

"It was a big leap leaving a very comfortable low-risk, high-return existence as an employee of large financial institutions to become an entrepreneur in a small, dynamic, high-growth company," says Ms. Berla. "I am Italian, and my parents moved to Kenya in the early 70s; I have grown up, worked, lived, and traveled in emerging markets for over 40 years. I worked for a decade in the corporate world focusing on seamless steel pipes for oil and gas, and doing manufacturing and trading; I lived and worked in Latin America, the Middle East, South Asia, and North Africa, all emerging markets. That's what created my interest and affinity – my ability, if you like – to understand and interact with those economies."

One level up

Sarona works by providing capital to SME companies through local private equity funds. "We're a small company and need to use local intermediaries to add real value," says Ms. Berla. "This is necessary to drive institutionally-sized, quality private capital to growth stage companies, so that capital can start to generate returns."

"We're a small company and need to use local intermediaries to add real value," says Ms. Berla. "This is necessary to drive institutionally-sized, quality private capital to growth stage companies, so that capital can start to generate returns."

The focus is on sectors in F&E markets due to expand with the rapidly growing middle class, such as information and communication technology, education, healthcare, financial services, transportation and logistics, light manufacturing, and consumer goods. In particular, Sarona has chosen to focus on SME companies in countries with GDP per capita between US$500 and US$12,000, which according to a 2012 HSBC Global Economics report are expected to grow almost three times faster than developed markets between 2009 and 2030.

"We felt that countries with over US$12,000 in GDP are sufficiently rich, and those under US$500 are too risky, poor, and broken to invest in," she says.

"We at Sarona have very explicitly said that we will avoid early, start-up stage enterprises and are going to focus one level up in terms of the size and maturity stage of the company. Development financial institutions like the International Financial Corporation, part of the World Bank, and the European Bank for Reconstruction and Development have 20 plus years' experience seeding private equity-based GPs that provide growth capital to local companies They have combined positive developmental impact with significant profit for their government backers. But private capital hasn't woken up to that yet."

"Sarona wants to act as a bridge for private capital that doesn't have the time to identify opportunities in Africa, Asia, and Latin America. We're usually one of only two or three institutional-quality investors looking into these funds alongside developmental financial institutions."

Socially responsible investing

One of Sarona's key tenets is its focus on "ethical, social, and environmental values" in its investments. Ms. Berla explains the ways companies are chosen. "We can either select sectors that are inherently 'good' – green energy, education, health care, and so on – or work with more traditional sectors to encourage respon-

sible operational activity, fair wages, and improvement in interactions with suppliers, employees, and clients."

"We have very consciously and explicitly defined what we mean by having a positive impact, and the segment of the ecosystem in which we want to play a part," she says. "Generally speaking, with the Bill Gates and George Soroses of this world, the assumption is that to have social impact you have to invest in small, early-stage enterprises. That may be true, and people should continue to deploy capital to that segment of the economy. But it has huge costs and high risks, and the returns are usually low."

A recent press release from the World Economic Forum refers to private equity investors like Sarona as "blended finance" models; Blended Finance refers to blending market-rate capital (usually private sector) with concessionary capital (usually NFP or public sector). This is done to attract private capital to otherwise unattractive investment opportunities that will generate a social return.

Because the model is relatively new, Ms. Berla says that "one of the big challenges is that there hasn't been solid quantifiable evidence showing this kind of investment is better than the other. It's anecdotal, but it makes sense. We and many others believe that if you

take a company and clean it up, after four or five years you can sell it more easily and for more money, ultimately creating high multiples."

She is acutely aware, however, that the "socially responsible" element is not necessarily a top concern for investors, who are uninterested even in using the "social" element of their work as a PR push. The assumption is often that a positive impact will cost shareholders profit or returns. "If I put my cynical hat on, I know that investors, especially large institutional investors, don't care how we make our profit," says Ms. Berla. "Sarona works according to certain ethics because we believe in them; we decide who and what to invest in. But the reason investors give us money is their prerogative."

Ms. Berla doesn't consider it useful to think of "impact investing" as a separate asset class. "It's helpful to call it something so that people recognize it, and so it will grow because it's been given a name," she says. "But ultimately I hope it will simply become a way of doing business that applies to everybody."

"When I started at Merrill Lynch Asset Management in the mid 90s, there was very little or no focus on risk management; people were focusing on a single dimension and still only talking about returns. It took another five years for people to start talking about two dimensional risk-adjusted returns. Now that we're comfortable talking about those, we can begin a conversation admitting there are additional, non-financial dimensions that should be factored in when making investment decisions," she continues. "We are moving towards a three dimensional approach: Risk-Return-Impact." According to Ms. Berla, at the moment the transition is primarily being made by family offices and high net worth individuals. These were also the first investors to see the opportunities in private equity and hedge funds during the early days of alternative investments.

Good managers and due diligence

Sarona's approach in terms of investment strategy and portfolio construction begins with drawing top-down geographical divisions across Africa, Asia and Latin America. Broad diversification criteria are then employed to ensure portfolios avoid concentration risk. "We diversify across continents, regions, managers, and sectors, ensuring a minimum of 12 to 18 funds. And we look into primary, secondary fund investments and direct co-investments to provide vintage risk management," says Ms. Berla. "But the most important thing is finding quality fund managers and funds to invest in. We look at between 100 and 150 funds every year, and invest in about five. What is really exciting is that the number of possibilities is increasing exponentially, especially in Africa."

For her, a good fund manager is "based locally, close to the companies, with a cohesive, high-quality team that has either education or work experience abroad, as they need to be able to translate between emerging market realities and investors in developed countries. They need to be experienced and have a credible strategy, they need to convince us they're going to generate returns, and they need to share our moral compass. Depending on what our own fund is looking for, they also have to meet our sweet spots. Right now, for instance, we're looking for managers with funds smaller than US$300 million and enterprise value deals below US$150 million. These are low numbers for a developed market, but large by emerging market standards."

Once a suitable fund manager is identified, research begins. "We don't go on site until we've done a significant amount of desk preparation work and have a good sense that we'll be investing in a manager," says Ms. Berla. "Then we travel to their offices and meet with every person on the team and with the companies they previously invested in; we talk to peers and ask lots of questions about past, current, and future activity. It's not rocket science. But I suppose this is where we're different from other investors. GPs tell us that our due diligence is significantly heavier, deeper and more detailed than that of other Limited Partners."

The future of 'bridge companies'

"When our first Sarona Frontier Markets Fund was launched in 2010, it seemed only natural to go where Sarona had always been, which meant Africa, Asia, Latin America. It meant finding solutions to entrenched developmental problems through investment. That was how our first fund of funds was born; it was a more scaleable solution than directly investing small amounts of money in small companies," says Ms. Berla.

She believes this is the model for the future in F&E markets. "Maybe these markets have slowed from the highs of the last ten years, but there's no doubt in my mind that over the next 20 to 30 years, emerging markets and an emerging middle class will provide growth opportunities. What remains to be seen in terms of socially responsible investing is how local SMEs will gear themselves up to meet demand, and do so sustainably."

"We're a safe pair of hands in a world very few people know, understand, or have the resources to access. Usually large investors have to write large checks, and our universe is far too small for them. For them we offer an attractive aggregation strategy. Small investors often like to do their own direct deals, but they rarely stop to consider that the risk of doing so is significantly higher than having a turnkey portfolio approach. SMEs in frontier and emerging markets can offer significant return opportunity, decorrelation, and growth but investors need to tread carefully. Of course growth doesn't translate into returns automatically; you need to have the right people. We want Sarona to be known as the firm able to implement this transformation from growth to returns."

EMIA PROFILE

Darkest Before the Dawn

Discussing Positive Russian Fundamentals with Prosperity Capital Management

For the potential investor, the past year of political turmoil between Russia and Ukraine raises questions regarding risk entering 2015. Few people are better positioned to provide perspective on the regional outlook than Martin Charmoy, director of Prosperity Capital Management, a Russia-focused asset management group based in the Cayman Islands, with an affiliate UCITS manager in London. Prosperity was founded in 1996, and today manages about US$2.4 billion in assets. In a conversation with Alternative Emerging Investor, Mr. Charmoy emphasizes the information gap between how Russia is presented in the media and the investment reality, and claims that opportunities there remain strong if one knows where to look.

"A lot of clients from Prosperity went to Moscow this year, and most of them were amazed by the difference between how things actually are in Russia and the perception of it here," Mr. Charmoy says. "On our side of course we only get Russia bashing, news about the conflict with Ukraine. But there is also another story, which is that Russian citizens have increased purchasing power, and some sectors are still growing fast."

Mr. Charmoy says that the European Union sanctions have had little long-term effect on Russia. "In our view the sanctions were an emotional response, hurting the countries that imposed them more than their target," he says. "People in western European countries have not been happy about losses in terms of exports. We talk to businessmen and entrepreneurs who are increasingly frustrated by this situation, because Russia is one of the bigger importers, and exporting things like cars is getting more difficult. The sanctions have cost billions to Italy, for example. Even in Germany there is now a real impact on the economy. And in the meantime Russia has been able to find new providers, in Latin America and the Middle East for example."

In contrast, he says, the Russian domestic economy is in fact positioned to improve. "Russia is one of the few markets in the world where you have an expanding middle class and a dynamic positive trend; this is different from western European trends," he says. "In Russia young people have jobs and can make money; there is almost no unemployment. We have not seen this change in the wake of recent events."

Active investment approach

That the region is volatile remains a reality, and some degree of risk and the potential for loss over the short term is inevitable. This underlies Prosperity's "active and constructive" investment philosophy, which insists on a long-term, three to five year outlook. Taking this long view with a focus on the businesses in which it invests decreases the importance of day-to-day political events, replacing them with a confidence in the longer-term success and stability of the region, and the time required to internally restructure companies. "We do not want investors who are in and out; we are not interested in that kind of money," says Mr. Charmoy. "We want people who are really interested in what we do. Three years is the time it takes to transform a not-so-good business into a good one, and that is why we state that as a minimum time frame."

According to its website, Prosperity chooses the companies it invests in carefully, picking those with "ongoing" modernization, restructuring, and consolidation processes in place. Rather than stand back, it takes an active role to "improve corporate governance and mitigate corporate governance risks."

In fact, effective leadership of companies rather than political turmoil is often the key factor in companies' success or failure, according to the website: "While Russia is often associated with economic and political concerns, Prosperity's experience is that the most serious risks to our investments, often not given significant attention by investors considering Russia, relate to corporate governance. We engage with corporate management and core shareholders of a business to discuss issues of corporate governance and corporate finance. This is generally seen as a positive contribution and welcomed by the other stakeholders. Where good corporate governance practices have been or are at risk of being breached, we take action to resolve a potential conflict or to minimize the damage where a conflict has already arisen. This activity can take many forms, from negotiations to appeals to the regulatory authorities, or in some cases legal action."

Those with experience in Russia know how to read the larger picture, says Mr. Charmoy. There is still a great deal of potential in the conversion of Soviet-run companies into market-focused corporations. According to the website, "Prosperity firmly believes that the successful transformation of companies from Soviet-era 'production units' to more modern 'Western-style' corporations generates tremendous productivity growth – which in turn is a key driver of economic growth and shareholder returns over the long term."

Prosperity invests particularly heavily in the retail market, as the average middle-class Russian remains a strong potential spender. "90% of Russians own the place they live in," says Mr. Charmoy. "They pay 13% in income taxes, the same rate for everyone in Russia, and on average save about 17% of what they earn each month out of roughly US$1000 dollars. US$700 to spend each month is quite a lot of money, which is why so many companies have rushed to Russia in the last few years. They want access not only to Russia but also to the ex-Soviet Union countries. Pepsi Cola and Danone have invested; Russia is the largest white goods market in Europe. There are acute middle class targets, with a lot more spending power in the past few years."

Crisis and opportunity

The conflict with Ukraine has had a downward effect on the economy, Mr. Charmoy admits. Still, he remains positive on Russia's prospects, pointing to the way it bounced back from the crisis a few years ago. "The 2008 crisis was clearly an acute structural crisis, due to a very poor and undeveloped financial market. Russia took a huge hit then, with the market dropping 75%. But Russian companies did not drop 75% in earnings. They still retained decent money and were comfortable. A similar thing is happening now. In addition, the last few years have seen huge improvements in things like the local equities trade, which are Euro clearable. Russia is working on the reform of its pension funds. And it remains fairly open; it is very easy for a foreign investor to repatriate dividends."

According to Mr. Charmoy, Russia's most obvious growing business relationship is with China. Numerous contracts have been signed over the last past month, including a US$400 billion gas deal. Russia and China are also discussing a 7000 km high speed railway that would connect Moscow to Beijing in two days. These countries have never been friends, but they are getting closer in very pragmatic ways. The US has played a very specific role because it doesn't have a huge trade relationship with Russia, as opposed to Europe where the sanctions have had a much bigger impact. We think that little by little the West is pushing Russia into the arms of China. I remember six years ago when Obama came into power, he decided to go to China first because he wanted to position the US as the largest partner in the region. Now it is Russia that is getting closer and closer to China, which is very irritated by the attitude of the US. I am not sure that six years ago Putin wanted to be so close to China."

With trade links to non-European countries strengthening, new opportunities are created despite the crisis. But Mr. Charmoy emphasizes that for the foreign investor who wants to invest in Russia, it is important to look carefully at specific companies.

"Of course there are bad companies, with bad corporate governance," he says. "But on the other hand there are companies like Magnit, which has become the number one food retailer in Russia and produced 35% in returns last year. And there are other retailers getting returns of 20 to 30% despite the crisis and sanctions, like Dixy. If you are careful in how you select your investments in emerging markets you can find opportunities with very good odds, with stocks that are very cheap when you consider their fundamentals. People want to see Russia as a whole, but do not spend time actually looking at the market. We do in Russia what others do in developed markets. When people invest in the US they want numbers, background on companies; they do their homework. We're just doing the same thing here."

EMIA PROFILE

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Giving Small-Mid Sized Institutions a Level Playing Field

Alternative Emerging Investor spoke with Matthew Wright, founder of Disciplina Group, LLC and former Chief Investment Officer at Vanderbilt University (2007-2012). Disciplina Group, LLC is a Nashville-based investment advisory firm specializing in providing global investment capabilities to small and mid-sized, resource-constrained institutional investors through manager of manager solutions. Disciplina's mission is to provide services commensurate to that of top university endowments and foundations with those resource-contrained investors.

"We provide global investment capabilities to small and mid-sized institutions that are usually reserved for very large institutions," says Mr. Wright.

Seeing opportunity

Disciplina was born from its members' prior experiences managing money at Vanderbilt and Emory Universities' investment offices. Mr. Wright saw shared objectives among large and small to mid-sized institutional investors, yet different strategies were being applied to their portfolios based on portfolio size and scale differences.

"I grew-up in the Northeast where you're either big or small, Yankees or Phillies," says Mr. Wright. "We found in smaller cities there's a long tail of small to mid-sized institutional investors and the degrees of separation between large institutional investors is narrower. We often witnessed these institutions looking to larger institutions, asking if there was any way their larger counterparts could assist them. Hearing this over and over again, we grew empathetic and finally took a look at some of the data indicating returns at smaller institutions were lagging behind those of larger institutions. We asked ourselves if there was some way, from an organizational perspective, we could take our expertise and apply it to the smaller institutions."

Although Disciplina was founded in 2013, the firm's origin was established eight years ago. "Over the past several years we've been thinking of ways to refine and scale our investment approach for a larger audience, while affording a certain degree of flexibility and customization for every organization," says Mr. Wright.

Mr. Wright says that Disciplina is open to the types of organizations it works with, but there are some constraints to consider before on-boarding new clients. "Ideally we're targeting institutions that are considered qualified investors, which generally means they have investment assets above a certain threshold level," Mr. Wright states. "We also consider whether we have the scale and capability to actually service each organizations' needs, such as formulating or updating their investment policies, presenting to their boards, and things of that nature."

Maintaining Flexibility

"Goals and level of sophistication vary by organization, but what is consistent is the trustees, executives, and staff members are passionate about the mission of their non-profit or charitable organization," says Mr. Wright. "They feel a great need to move the needle with all the resources they have. Funding sources differ; if it's an academic organization it comes from tuition, while many research programs get outside funding from the state or large foundations."

Finally you have the practitioner model, which tends to have firsthand experience, takes an institutional perspective and is conflict free. We consider ourselves within the practioner set

He points to a change in expectations for institutions over the past few years, with certain expectations for professionalization increasing.

"Previously there was less emphasis on institutional advancement and growth through philanthropy. As institutions have sought to bolster development, they've also been held to higher standards in terms of stewardship, which includes investment management," Mr. Wright says. "Prospective donors want to make sure returns are going to be comparable to what they themselves have and can achieve. Prospective donors tend to be high net-worth individuals or families who expect better returns than retail investors would otherwise be able to achieve, or returns comparable to those of institutions they would otherwise donate to. I think that's starting to resonate with these organizations, which, while remaining very mission based, want to work with us to help advance their mission's financial position."

This is where Disciplina fits into the market. Mr. Wright categorizes the industry segment into three groups. "There are the asset management firms, which mostly work as distribution channels for their products. Then you have consultants with more of a one-size-fits-all menu-driven model, suggesting what they want to see in a space. Finally you have the practitioner model, which tends to have firsthand experience, takes an institutional perspective and is conflict free. We consider ourselves within the practioner set."

Going global

"At this time our clients are exclusively in the US, but we have had numerous interactions with prospective clients located overseas," explains Mr. Wright. "Investment advisors we previously worked with while allocating capital at Emory and Vanderbilt have mentioned the applicability of our approach in other markets. While we have yet to secure overseas clients, there is the possibility of growth in that space, whether on a holistic or a more specialized basis."

Disciplina has recommended that the smaller organizations it works with consider adding exposure to emerging markets, a recommendation that Mr. Wright insists was purely pragmatic.

"It was a strategic decision when my team and I began on the endowment side," he says. "Starting in 2001, after conducting some peer analysis, we saw the best performers were always leaders or pioneers in a particular space. If you look at institutions like Harvard, Stanford, and Yale, they were at the forefront in terms of making investments in venture capital and alternatives such as hedge funds. Taking a step back, I asked if there was a way or business model in which we could be the first movers, establishing contacts to create capacity within markets. It was more of a philosophical question of how best to position the portfolio to create an edge. This entailed doing a lot of things internationally, and getting involved in emerging and frontier markets. Being located in Atlanta with the world's largest airport also helped."

"We advise our clients to put money in emerging markets because we believe portfolios should be broadly diversified. However, given more recent performance and some of the geopolitical issues that have amassed over the past several years, not many people are pounding the table. We're comfortable with that. Our clients have confidence in what we're doing and having some allocations abroad puts them in a good place. You want to be there early, before demand begins, not after it's already started. As things start to stabilize following the sell-offs, we expect to see more opportunities."

He mentions some of the challenges and benefits of working internationally. "Unfortunately, emerging markets have had a rather difficult run over the past three years, so in one camp there's a lot of reservation. At the same time, those who are very strategic and long term in their thinking understand the long term performance story, the demographics, and the rising consumer in those markets. To the extent something resonates with a client from a social standpoint that is consistent with their mission, they are often a bit more open to embracing global investment. It really is a mixed bag and varies by institution."

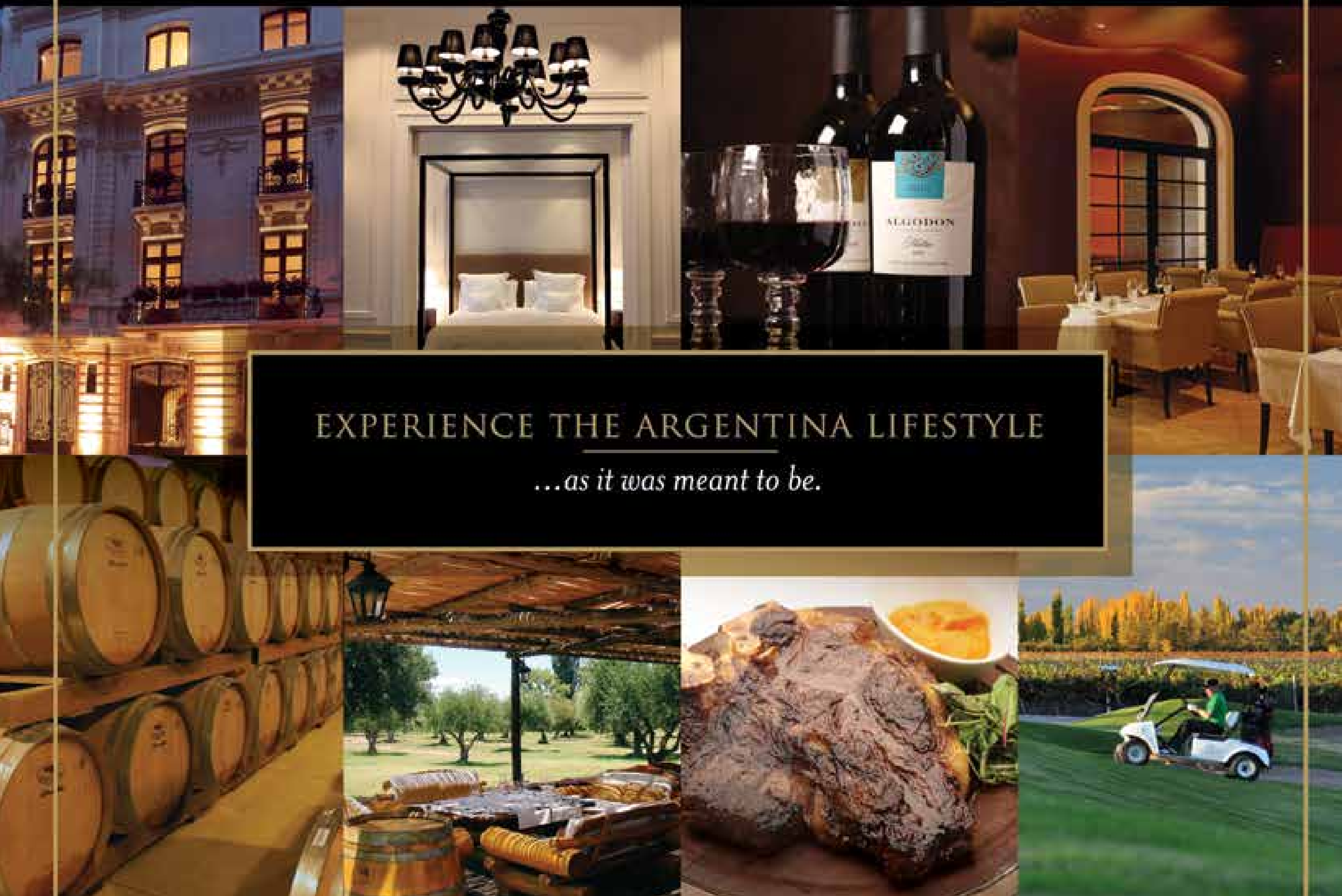
When choosing in which global markets to invest, Mr. Wright explains, "The first thing we do is look at the liquidity of the respective markets. We then perform research on managers generally located within their local markets. If we feel we are going to get a premium return from allocating to a manager, and the risks associated with such an investment are acceptable, we move forward. The teams we employ are conservative, and focus on capital preservation or option-like payoffs, versus rollercoaster ride chaos. A fundamental value-based approach has historically served us well, such that even if the market moves in a different direction, the overall portfolio still has a great degree of embedded value. Moving down the investment continuum to private investments, we look for a payoff better than what we can get in the liquid market."

"We're looking for emerging market funds to have their operations based in the market we're looking to invest in. We expect them to have the linguistic skills and cultural fluency within those markets, not just people who parachute in, but people who, if their kid is watching television and a commercial comes on, can understand why a new product or concept resonates in their market. We're also looking for cohesive investment teams where there's alignment of interests, versus a pyramid structure where there's a leader but people don't stay. Finally, we're looking for highly educated, talented teams, often with some form of Western experience, whether from an industry, investment or educational standpoint. If all these things are in place, there's a greater likelihood of building an institutional-type infrastructure with the right controls, processes, and personnel."

A diversified market

"One of the challenges is often different places are just viewed as one potential market, whether you're talking about Africa or emerging markets in general," says Mr. Wright. "In reality, they vary greatly. In 2013, for example, Nigeria was a huge performer, up roughly 30 percent following a 50% plus return in 2012. More recently, markets like China, India and Indonesia have done remarkably well, while Brazil, Mexico and Russia haven't. We're trying to educate people that diversification is important, it's important to have exposure across different markets, and within these markets there is a broad array of opportunities. From an investment standpoint, I don't think there's anything related to this audience we're really pounding the table on; but we remain open. We're still doing our work, still mindfully allocating."

With emerging markets, it is important to "highlight the differences between the dispersion and correlation of returns across markets," says Mr. Wright. "Again, there's a common belief in looking at it all as homogeneous, but, if you're allocating a broadly diversified portfolio, there's usually a different story every year. We keep track of those stories, always looking out for what's best for our clients."


ALGODON

Growing Opportunities

Agricultural Technology as an Emerging Asset Class

Sarah Day Levesque

Interest in the agricultural technology or "ag tech" sector has increased dramatically in the past decade as awareness of its potential role in addressing global food challenges has been brought to light. World population is expected to reach 9.1 billion by 2050, and as a result global food production will need to increase 70%, according to the Food and Agriculture Organization of the United Nations (FAO).

Along with population growth, the world's middle class is growing, particularly in emerging economies such as China and India. The most recent Allianz Global Wealth Report indicates that the global middle class is approaching 1 billion and The Boston Consulting Group reports that between 2010 and 2014, China's middle class and affluent households swelled from 10% of total households to 25%. As global incomes increase, demand for Western-influenced diets, characterized by higher intake of calories, protein, and dairy products, also increases. This shift in diet puts added strain on food systems. Global meat production, for example, rose to a new high of 308.5 million tons in 2013, according to the FAO; but beef production alone uses about 60% of global farmland and yields less than 5 percent of the world's protein, according to Worldwatch Institute. These trends are increasing the pressure to produce significantly more food that requires more intensive production methods, with the current resources.

Solutions to the global food challenge

These increasing resource constraints beg for sustainable solutions to help agribusiness feed more people more efficiently. Agricultural technology is up to this challenge, playing an increasing role in addressing efficiency across the agri-food value chain.

With involvement from agribusiness, public institutions such as universities, tech companies, and start-ups, ag tech is addressing global food challenges from many sides. Most notably, data-driven technology using sensor, automation, and software tools is allowing farmers to collect and use data from their farms and others' as well as the environment to make their production practices more efficient than ever – reducing the number of inputs needed and contributing to increased yield potential.

Biotechnology can enhance plants' versatility and utility by making them better

suited for harsher production environments and enabling previously marginal lands to be productive or by changing plants' nutritional profile to better address the needs of food-insecure populations.

Innovation in the use of resources for previously unknown applications creates opportunities to extend these resources and essentially increase the base from which the world can create more food and energy. Biofuels offer a good example of this, as algae and corn are now grown for energy, in addition to food, and in the US the public sector and private companies are developing new ways to use sorghum to provide feed, food, and energy.

Yet-to-be-realized innovations offer potential improvements to the production process through automation and sensors, offer potential alternative production methods that rely on fewer or different natural resources such as with vertical farming, and offer the potential to reduce the waste created throughout the agri-food value chain and much more.

Increase in sector engagement

The significant role technology is positioned to play in the global food challenge is never more apparent than when looking at the tremendous increase in sector engagement of private sector institutions in the past few years. In the US, for example, the public sector accounted for much of the R&D spending in the agri-food sector throughout most of the twentieth century. However, in the late 1970s public spending began to stagnate, while private sector funding increased and took on a greater share of overall funding to agri-food R&D, according to the Economic Research Service (ERS) of the US Department of Agriculture (USDA). In particular, the private sector tends to focus

on developments in marketable goods and many of the research advances in food and agriculture in this area lead to new technological opportunities for private companies, according to the ERS.

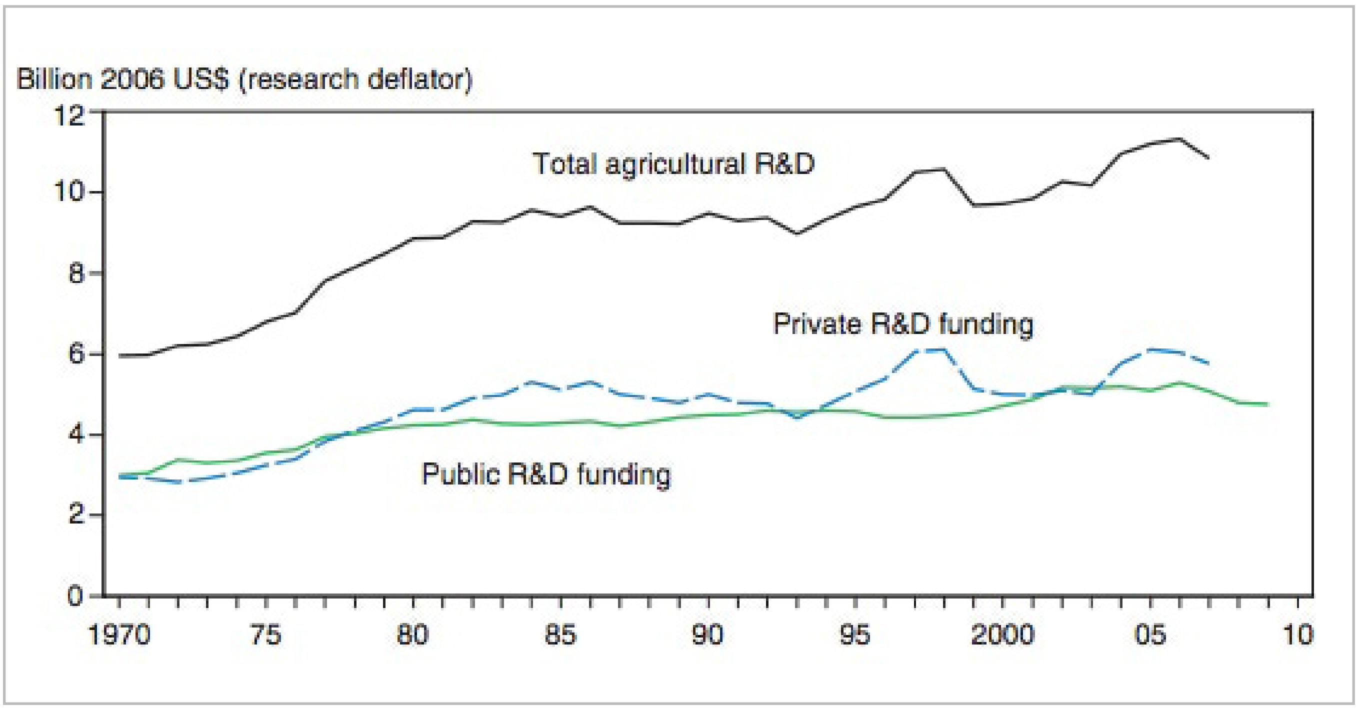
As private sector engagement in the overall agribusiness sector has grown, so too have opportunities for players in the sector to capitalize on ag tech solutions for the global and local food economies. While M&A activity among agribusinesses looking to expand into the ag tech space has previously been limited, there are signals that times are changing. Perhaps no move has brought more attention to this opportunity than Monsanto's acquisition of weather technology firm Climate Corporation for nearly a billion dollars in 2013, demonstrating the perceived value and potential for ag technology to private sector agribusiness. However, several other major agribusinesses have also made significant ag tech acquisitions, including the 2012 acquisitions of seed-tech firm Becker Underwood by Bayer AG and Agraquest by BASF, among others.

For agribusinesses searching for solutions that will provide improved efficiency and sustainability as well as increased production, ag tech offers solutions never found before. But ag tech also presents opportunities for those looking for the next emerging investment opportunity, as growing global demand drivers and the potential for significant returns create a strong business case for investment. While five years ago there may have been two or three firms investing in ag tech, today there are entire companies being formed specifically to invest in the ag tech space.

In the past two years, funds dedicated to ag and food tech have been launched around the globe, including US.-based Culitivan Sandbox, Finistere Ventures II, Arthur Ventures Growth Fund, the Agtech Innovation Fund, Netherlands-based Anterra Capital, Canadian-based Bioenterprise Capital and GreenSoil Investments, which invests in Israeli start-ups, and Mumbai-based Sarthi Angel Fund, among others.

Data from Cleantech Group indicates that in the first three quarters of 2014 more than US$715 million was invested across 121 deals along the ag technology spectrum, seeing a 30 percent increase in capital investments over all of 2013.

Figure 1: Real Agricultural Research and Development (R&D) Funding, 1970-2009

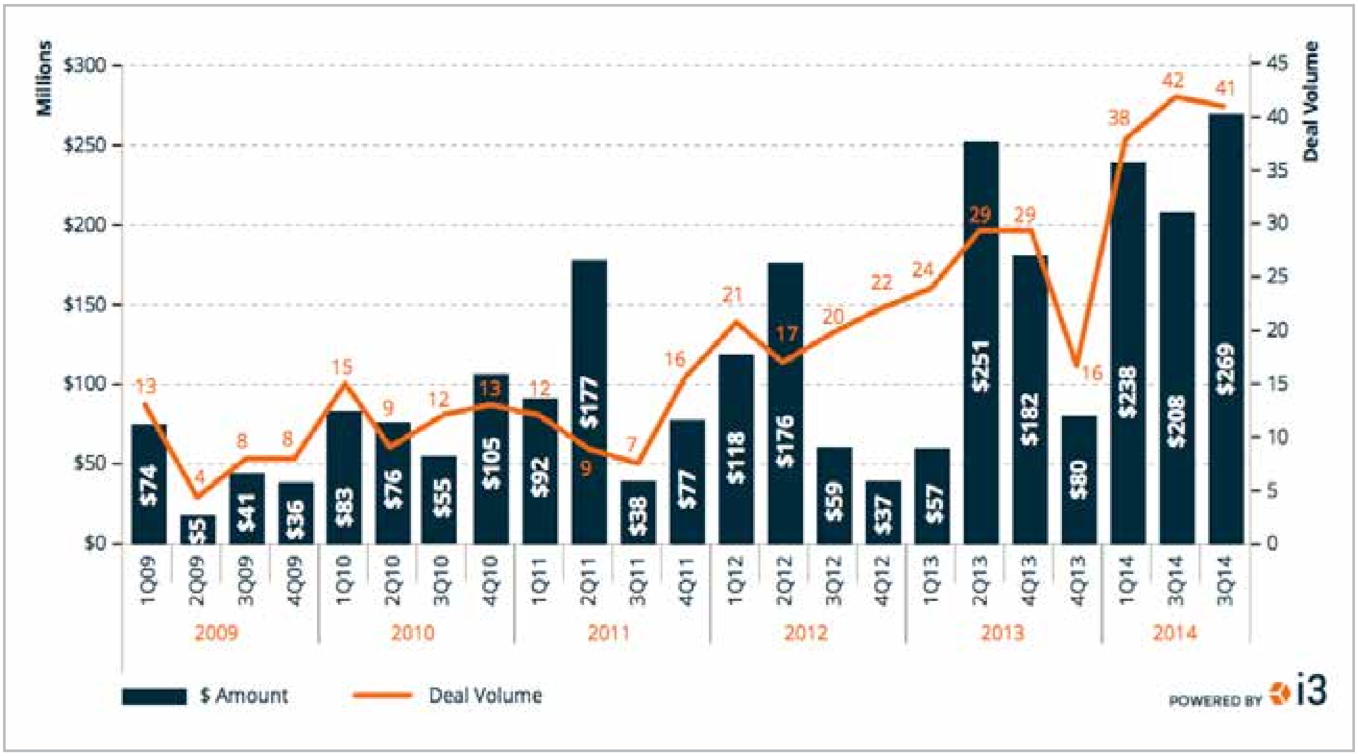


Source: US Department of Agriculture, Economic Research Service. 2012. "Agricultural Research Funding in the Public and Private Sectors," data product, http://www.ers.usda.gov/data-products/agricultural-researchfunding-in-the-public-and-private-sectors.aspx

Ag tech as an emerging asset class?

Agriculture is on its way to being an established asset class in its own right. From September to December 2014 alone, more than 60 notable deals took place in the sector, totaling approximately US$25 billion across a wide range of strategies and geographies. Ag tech appears to be quickly following suit. Compelling fundamentals signal that demand for ag tech will be sustained long into the future. The multi-trillion dollar value of the agribusiness sector, along with strong demand for innovative solutions that will enable the production of more food from the same resource base, make a strong case for returns on investment in ag tech. Increasing participation from diverse industry players, as well as dramatic growth in the venture capital allocated to ag tech suggest ag tech is an emerging asset class ripe with growing investment opportunities.

Figure 2: Quarterly Venture Investment in Food and Agriculture Technology



Source: Cleantech.com

About the Author

Sarah Day Levesque is responsible for managing and creating content for the Global AgInvesting news and research initiatives. She has spent a decade conducting research in the global agri-food and agricultural investment sectors and has been managing content for HighQuest Group for more than five years. Ms. Day Levesque received an M.S. in Agricultural and Resource Economics and an M.S. in International Agricultural Development from University of California, Davis. She holds a B.S. in International Agricultural Development from the same university.

Brazil's Agribusiness Sector: Fertile Ground for VC Investors

Thiago Barrozo

The slowdown in Brazil's economy has forced venture capital firms to become more "selective" when prospecting for investments in the country, several industry sources told Mergermarket. The sources spoke on the sidelines of an event organized by the Brazilian Association of Private Equity and Venture Capital (ABVCAP) in Sao Paulo.

While most of the investors, both domestic and international, recognize the importance of strengthening their footprint in Latin America's largest market, they are likely to focus their investment strategies in sectors where Brazilian companies have international recognition, such as agribusiness.

Francisco Jardim, business partner at SP Ventures, a venture capital firm, notes that the Brazilian agritech industry has three major features that make the sector appealing for VC investors. First, he says, potential foreign competitors face natural barriers to entry in the sector, thanks to Brazil's unique pests and microorganisms. "Even if an American or European agritech company with a vast portfolio decides to enter the Brazilian market, they will need to develop their products domestically to supply local farmers," the executive notes.

The second aspect concerns the country's large domestic agribusiness industry, where local companies can grow without ever stepping foot outside Brazil.

The third major upside, he adds, is Brazil's network of research centers, institutions, and universities, such as the state-owned company Embrapa, which is dedicated to improving Brazil's agribusiness industry.

Mr. Jardim's firm was begun in late 2013 and has BRL105 million (US$40.9 million), with plans to invest over the next four years in approximately 20 Sao Paulo-based companies generating revenues of up to BRL18 million.

Examples of successful agritech companies that have received VC funding, according to Mr. Jardim, include BUG Agentes Biologicos, a company specialized in biological control agents for agriculture, and Imeve, which develops food additives made of microorganisms that accelerate livestock growth.

Both companies received investments from Criatec, the venture capital fund of state-owned development banks BNDES and Banco do Nordeste, for which SP Ventures acted as regional consultant from 2008 to 2013.

BUG has been entertaining talks with private equity funds since late 2013 and considers an IPO by 2017 as a good potential exit strategy for Criatec, which acquired a 20% stake in the company in 2009. The company does not rule out a sale to a strategic bidder, such as the veterinary products manufacturer Ourofino (BOVESPA: OFSA3), which recently raised around US$170 million.

Robert Binder, president of the VC firm Antera Gestao de Recursos, also agrees that Brazilian early-stage companies focused on providing technological resources for the agricultural industry represent "interesting opportunities" for financial investors, as they can design exit strategies for either financial or strategic bidders down the road.

He cites the May 2014 sale of Arvus Tecnologia, a manufacturer of precision agriculture solutions for crop production, to Sweden-based provider of visualization technologies Hexagon (STOCKHOLM: HEXA B), as an example of one opportunity in the sector.

Arvus Tecnologia also received financing from Criatec, which had a 40% equity stake in the company before its sale to Hexagon, according to Arvus's website.

In addition to biotechnology, Mr. Binder says companies in the field of seed research and development, particularly those exploring seed nanotechnology, could also be perceived as appealing targets. "Companies working in the forefront of battling pests, and those holding innovative, technology-based solutions, will continue to attract capital from VC funds," he notes.

Rodrigo Menezes, partner at the law firm Derraik & Menezes Advogados, which has a strong M&A background, believes that Brazil's economic slowdown will not scare away investments from VC funds. He notes that several VC firms are either already capitalized to make investments in the country or are in the middle of their fundraising processes.

Mr. Menezes notes that his firm is currently advising 14 investment operations led by VC funds, both domestic and international. Ten of the prospective deals involve first-time investments, while four of them involve Series B or C rounds of funding.

The lawyer agrees that the Brazilian agribusiness industry is likely to receive a great part of the resources flowing from VC funds, but also highlights that early-stage companies specializing in mobile services, such as electronic payment providers, should also be perceived as appealing targets. He notes that three of every four cellphones sold in the country are smartphones.

According to International Data Corporation (IDC), an analysis and advisory firm specializing in information technology and telecommunications, Brazil ended 2013 as the fourth-largest consumer of smartphones, behind only China, the US, and India at first, second, and third, respectively.

About the Author

Mergermarket is the leading provider of forward-looking M&A intelligence and data to M&A professionals and corporates.

Christened by the United Nations as "The Tree of the Twenty-First Century," the neem tree is an evergreen native to southeast Asia that can live up to 200 years. For over two millennia, the tree has been used by indigenous peoples for its medicinal properties. New York University's Langone Medical Center refers to neem as the "the village pharmacy" for its antibacterial, antiviral, antifungal, antiseptic, and anti-parasitic properties. Of even greater significance is neem oil's potential effect on diabetes, and interest here is growing rapidly. Over the past 20 years over 2,000 research papers have been published on the possible medicinal properties of the tree.

The Neem Tree

A Diversified Agricultural Opportunity

Neem is also increasingly being cultivated in Brazil, where the firm Liquid Investments hopes to reap its benefits both as an organic pesticide and fertilizer. When two years old, the tree begins to produce fruit. Crushed and dried these can be pressed into "neem cake," which is fed to cattle to protect them from internal and external pests. The cake also improves the organic content of soil, helping improve the texture, its water retention ability, and soil aeration for better root development. When diluted with water, the oil harvested from the seeds of the fruit is a highly effective insecticide. The neem tree and its wide array of uses in the expanding world of organic agriculture has found its way to the investment world.

A diversified portfolio

Founded in 2006 by Anthony Archer and Andrew Goodman, Liquid Investments provides global investment solutions for both institutional and private investors. It consists of a team of multilingual professionals with offices in Knightsbridge in London and Fortaleza in northeast Brazil.

According to Chief Executive Officer Anthony Archer, the firm’s approach is based on Liquid Investment Theory, or LIT. “This basically takes modern portfolio theory (MPT) one step further,” he says. “Modern portfolio theory states that a balanced portfolio should have a diversification of uncorrelated assets. We add another layer, the product. Now not only do we have currency, asset class, and geopolitical diversification, but the product itself is diversified.” In other words, the neem tree can be put to a number of different uses across different industries simultaneously.

“If you have a product you can use in several different contexts, if one drops it’s not the end of the world,” explains Archer. “You still have all these different industries that want your product. There continues to be competition for the raw product, and the price increases, meaning higher returns for investors. The neem tree fits our LIT philosophy of finding niche markets that are not only socially and ethically responsible, but also deliver unparalleled returns with the safety and security of a hard asset.”

> *“I wouldn’t believe all this about the neem tree if I didn’t know it had been studied and proven. What I don’t understand is why nobody’s exploited it before.”*
>
> *Jim Rogers*

Investing in agriculture

Agriculture in particular is an increasingly popular asset class. Since it is a tangible, finite resource in a world in which the supply of arable land is shrinking rapidly, farmland values are continuing to increase. In northeast Brazil, prices have risen by 20 percent in each of the past three years. Physical commodities such as neem provide an attractive natural hedge against rising inflation, and against the volatility and low visibility across mainstream assets like equities and bonds. Inflation and commodities are natural bedfellows, and as commodities tend not to be correlated with any other asset class, they retain their attraction in times of market uncertainty.

The demand for agricultural commodities is also being driven by the rapidly growing global population, especially in emerging markets, which will show long-term economic growth in excess of economies in the West. Since 2003, the BRIC nations (Brazil, Russia, India, and China) have increased their share of global GDP from one-fifth to one-quarter of the total. With increasing demand for food, organic pesticides, and pharmaceutical products, the price of agricultural commodities like neem is likely to remain on an upward trajectory.

An ethical investment

“One thing we’re particularly proud of is the fact that our investments are socially, ethically, and morally sound. Not only do we look after the community we invest in, but the products themselves are also green. Traditionally, the agricultural industry has relied on chemical pesticides for its crops, but 98% of those sprayed reach a different destination than intended, resulting in the pollution of plant life, animals, insects, and water, as well as building up harmful toxins in the atmosphere. According to a 2004 World Health Organization report, 250,000 people die each year from pesticide poisoning, 3 million suffer from severe cases, and 25 million experience mild cases. With awareness growing, chemical pesticides are coming under greater scrutiny, with North America and Europe looking for alternatives,” says Mr. Archer.

This presents a lucrative opportunity. The neem tree fulfils the requirements for low carbon agriculture, and serves as an attractive organic cattle feed and fertilizer. Its use as an organic pesticide feeds into the demand for organic foodstuffs, a market estimated to be worth US$105 billion in 2015. “Neem is something we’re very passionate about, because it’s very socially sustainable,” says Mr. Archer. “It grows berries you can crush with a cold press into an oil, and the oil diluted and sprayed on your crops is an organic pesticide. The problem has been that not enough trees have been produced in Brazil to be a viable alternative for farmers. So our mission is to grow these trees and berries, and make them available to farmers across the world.”

“The neem combats up to 500 different types of pest, appealing to farmers in many different industries. And unlike chemical pesticides, which filter into the soil negatively, when neem oil filtrates into the soil during the rains it actually helps nourish and fertilize it, as opposed to damaging the soil’s productivity. Since the trees live up to 200 years, it’s a multi-dynasty investment. There are other uses for the tree as well. Once you’ve taken the oil from the berries, you have what they call a neem cake, which looks like dirt. You can feed that to cattle or mix it with cattle feed. And since it’s antifungal and antibacterial, you don’t have to pump your cattle full of antibiotics. I know that given the choice, none of us would eat antibiotics in our food. It’s a great core demand from an investment point of view, but also something that helps humanity.”

According to Liquid’s Chief Research Officer James Duckworth, “There’s essentially no control over using antibiotics on cattle in the US. The practice started in the 1950s, almost like how humans take an aspirin a day to help prevent heart attacks. The equivalent in farming was that cattle were fed antibiotics to make them heavier. The argument was that it would help cattle absorb nutrients, and prevents them from falling ill. But over time the doses have had to become higher and higher. You have a situation now in the US, with both cattle and humans, where antibiotics are no longer working. In cattle, you have a vicious cycle where they’re ineffectually being pumped with greater and greater doses, and at the same time there’s massive consumer pressure saying that actually we don’t want to eat this kind of meat. Organics are about 5% of the US market, but it’s rapidly gaining market share.”

The advantages of Brazil

Liquid’s neem plantations are in Brazil, the largest and potentially most powerful economy in the southern hemisphere. Since the Brazilian real isn’t pegged to the US dollar, euro, or pound sterling, it's a free-floating and independent currency. This is backed by central bank reserves of US$380 billion and an industrial and commodity base supplying one of the world's largest and youngest domestic consumer markets as well as a broad range of emerging and developed markets.

Brazil continues to be a major international investment story. It's the primary global producer of many commodities such as oranges and coffee, as well as the largest producer of cattle. It's a stable democracy, more transparent and less risky than other emerging markets like China and Russia. In addition, its governments have tended to support pro-environment agendas with respect to agriculture and renewable energies.

According to Liquid's Chief Financial Officer Sandeep Chadha, "The government is currently undergoing a multibillion-dollar program to enhance the infrastructure of various cities across the country. You will immediately see the impact of improved infrastructure. Every Brazilian will benefit from better utilities, better transport networks, better roads, better trains. And this infrastructure will only aid economic development in coming years."

As CEO Anthony Archer notes, "The consumerism within the country is huge. They don't have to export everything they produce, which really is quite unique to any emerging market across the globe." Brazil's central bank reserves are equivalent to the rest of the continent combined and it is the recipient of the highest foreign direct investment (FDI) across the continent, as well as being one of the largest recipients globally.

Elizabeth de Freitas of organic pesticide company Organeem believes that neem has a great future potential in Brazil. "Today neem's market is huge. Europe and the US, everybody's looking to neem. The market is far-reaching and the oil is spectacular. Today's chemical pesticide market is a thing of the past; there's a growing desire for organic now, and young people are more organically conscious."

Reaping the benefits

"We make sure we focus on good sustainable green investments that also deliver a good yield. We're constructing our own factory, and from it we sell directly to farm organizations and large farmers. But we also produce products like mosquito repellent for your skin, made from neem. So there are some uses for the home and others that are more industrial. We want to corner both markets, and we believe we'll be the first organization to do so on the scale we want."

In a previous interview Mr. Archer said, "in India, where the tree is native, the farms are all very small, with plantations four hectares or fewer because legally you're not allowed to own more land than that. These are disadvantages we can overcome in northeast Brazil. We already have the trees growing, and a factory we bought has supplies of these seeds coming in. We expect our first trees to start harvesting a yield within the next 18 months to two years."

Famed commentator and international investor Jim Rogers remarks, "I wouldn't believe all this about the neem tree if I didn't know it had been studied and proven. What I don't understand is why nobody's exploited it before. Investing in neem plantations seems like a good thing, there's no question about that. And if the execution is competent, somebody is going to make a lot of money. Brazil has always been an agricultural nation; in my experience coming to Brazil over the last 40 years, it is certainly becoming more aware of the outside world and interacting more with it. If you find the right opportunities you have the chance to make a lot of money. The people that run Liquid have had the foresight to see the opportunities agriculture presents in the next decade or two."

About the Author

Liquid provides global investment solutions enabling investors to accumulate wealth using real estate backed assets. The company generates returns for investors by applying multiple layers of diversification, including by asset class, currency, geopolitics and products. This helps us to minimize specific country based risk factors. Further Information

Panama Fisheries

Fisheries products are extremely important in the economy of Panama, being the second largest export after banana. Fishing represents a considerable source of employment with more than 50,000 fishermen (industrial and artisanal), aquaculture and processing workers. The division between artisanal and industrial fisheries is based on legislation that establishes that ships larger than 10 GRT are industrial vessels.

Stephen Kaczor

Industrial fishing products (shrimp, herring, anchovy) are exported from dozens of processing facilities to the US, EU, China & Japan. With approximately 40 shrimp farms covering an area of 9,000 hectares, combined with efficient technology and good management practices, the Panamanian shrimp farming industry is responsible for 80% of the country's fish products exports.

Nearly all fishing activity is developed in the Pacific Ocean where nutrient-rich waters are home to 15,000 fisherman focused on dorado, tuna, marlin, mahi-mahi, shark, octopus, crab, and giant lobster. "Fine" fishing for these high-value species also feeds export markets, as domestic demand is met quickly in a nation with a population of three million. Catch statistics of these species, along with sea bream, dusky grouper, pompano dolphinfish, and shark include both industrial and artisanal vessels, and are responsible for 20% of fish products from Panama.

The Inter-American Tropical Tuna Commission (IATTC.org) operates a hatchery and laboratory where scientists study tuna ecology in Bahia de Achotines off the Azuero Peninsula. Here a narrow continental shelf and good marine currents provide a year-round spawning ground for ten species of tuna. Billfish run offshore. IATTC's Tuna-Billfish Program researches the egg, larval, and early juvenile stages of tuna life. The facility includes incubation pools and tanks where juvenile tuna fatten.

There is potential for the development of marine cultures such as yellowfin tuna in floating cages, sea bream, meagre, and species of mollusk, lobster, and sea weed. The occurrence of an important upwelling on Panama's Pacific coast in the dry season increases production and accelerates the

development of a great number of marine species.

Case study: Mahi-mahi

Grupo Panalang Union is a seafood company working in Panama with CeDePesca.net, the Limnology Center at University of Panama, the Artisanal Fishermen Federation (FENAPESCA), and the Maritime University of Panama since 2011 to implement a Fishing Improvement Project (FIP) for mahi-mahi.

The mahi-mahi (Coryphaena hippurus) fishery in Panama started in the mid 1980s. Mahi-mahi is a highly migratory pelagic species reported in more than 30 percent of the ocean. It is considered of seasonal occurrence in temperate areas. The mahi-mahi is a fast-growing predator that lives up to four years and can reach a length of two meters. The mahi-mahi is a species associated with blue waters indicating high concentrations of dissolved oxygen.

Periods of greater availability of mahi-mahi in Panamanian waters occur during April and May and again from November through January. Mahi-mahi fishing in the Panamanian Pacific depends on seasonal migratory patterns of the species and the behavior of the market. Artisanal fisheries operate in waters relatively close to the coast.

Fisheries market

Mahi-mahi catches are mainly for export, with the US as the most important market. During 2010, according to ARAP statistics, approximately 1,800 tons of mahi-mahi were landed in Panama.

Fishing methods and gear

The catches of mahi-mahi in the territorial waters of the Republic of Panama were artisanal and industrial until December 2010, when the government issued Executive Order No. 486, prohibiting the use of longline vessels over 6 GRT. Then, in December 2011, Administrative Order No. 125, issued by the Aquatic Resources Authority of Panama (ARAP), allowed only the use of longline with hand roller, with no mechanical, hydraulic, or electric connections, and a maximum of 600 hooks.

Panama continues to break fishing records, especially with regard to capture and release of the most elusive or "most wanted" species.

These measures placed important limits on fishing effort, and this fishery is now 100% artisanal.

Longline is a recognized fishing gear, the use of which involves incidental turtle and shark catches. In Panama, circular hooks (#13) are the most popular, so observed related mortality for turtles has been low, perhaps because the migratory season of turtles occurs after the mahi-mahi fishing season. The impact of longline fishing on sharks still must be evaluated. There is no reported interaction of longline fishing with seabirds, though this assessment must be part of a monitoring program.

Beginning of the FIP

SFP is associated on this FIP with CeDePesca, a South American NGO whose mission is to work toward socially, economically, and ecologically sustainable fisheries. Recognizing the importance of having sustainability certification to continue supplying the US market, Grupo Panalang Union Inc., the most important Panamanian mahi-mahi company, contacted CeDePesca staff at the end of 2010 in order to work on an improvement plan. SFP is working with its major buyer and supplier partners to support the improvement efforts.

Most recent update from CeDePesca.net

In October 2014, a delegation of the FIP participated in the International Scientific Workshop organized by IATTC and held in Manta, Ecuador. The delegation included two to-be-named officials from the new government team at ARAP. There was a presentation from the Panama delegation, and the data base was made available to IATTC scientists. This workshop was attended by delegates from Peru, Ecuador, Colombia, Panama, Guatemala, Costa Rica, El Salvador, and Mexico and represented a major advance in regard to better knowledge of mahi-mahi biology and fishery and a huge step forward for international coordination in regard to this highly migratory species.

Sport fshing in Panama

Panama is a haven for world-class fishing enthusiasts. The passion for fishing and the challenge of a new catch is what brings everyday people from all over the world to embark on a new adventure.

The Gulf of Chiriqui is located at the northwestern corner of Panama, consisting of a coastal marine and insular area of the western Pacific, which includes the Chiriqui Gulf National Marine Park, Isla Secas, Isla Ladrones, Isla Montuosa, and the island chain of Paridas. The Hannibal Bank in the Gulf of Chiriqui is one of the most popular areas for fishing, which produces black, blue, and strip marlin along with giant yellowfin tuna, dorado, and wahoo, among other species.

Panama continues to break fishing records, especially with regard to capture and release of the most elusive or "most wanted" species. In turn, the fishing gear that is manufactured today is lighter, but with the same resistance allowing the sport to be more challenging and fun.

Come Fish Panama is a first-class sport fishing operation, ComeFishPanama.com. Contact Capt. Kerry Leggett, Mother Ocean S.A.

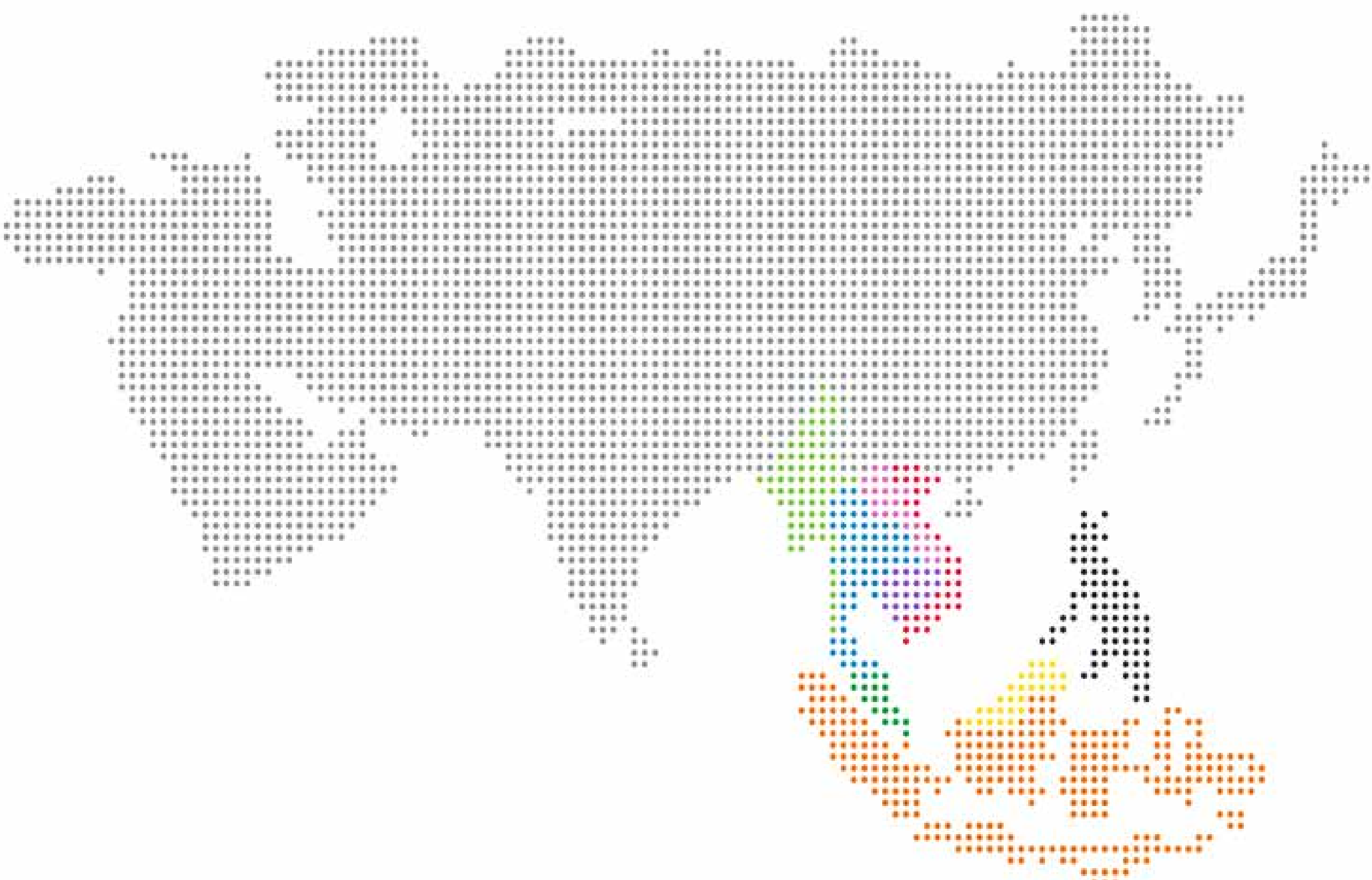
About the Author

Stephen Kaczor is Executive Director of the Big River Foundation, a non-profit focused on river and watershed ecology conservation initiatives throughout the Americas. He is an organic farmer, eco-entrepreneur, consultant, and a writer with a documentary film in production in Central America. As a Panama-based consultant, Mr. Kaczor's focus is sustainable organizational development, research & management. www.BigRiverFoundation.org

Unlocking ASEAN's Potential

Can ten countries with different cultures, traditions, languages, political systems, and levels of economic development act in concert to expand their collective potential? That is the question with which the Association of Southeast Asian Nations (ASEAN) has been wrestling for decades. Judging by their leaders' ambitious vision for cooperation, the answer may be yes.

Kishore Mahbubani & Fraser Thompson



What began as a straightforward push to reduce trade tariffs has evolved into a blueprint for a dynamic open market of 600 million consumers and a production base that can compete directly with the world's largest economies. Once in place, the so-called ASEAN economic community (AEC) will transform Southeast Asia – and its role in the global economy.

ASEAN's economic potential is undoubtedly impressive. Taken together, the group's members – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam – would comprise the world's seventh-largest economy. Moreover, ASEAN's international trade has almost tripled over the last decade. And foreign direct investment has been flowing into the region, with multinationals hoping to capitalize on its rapidly expanding middle class and strategic location at the intersection of China, Japan, and India.

The AEC plan aims to build on this momentum by removing barriers to the movement of goods, services, capital, and people throughout the region. The McKinsey Global Institute (MGI) estimates that, by implementing this integration strategy fully and capturing a larger share of global manufacturing, the ASEAN countries could gain US$280-625 billion in annual GDP by 2030.

Part of that growth stems from encouraging local companies to expand beyond their home markets. By making exporting more efficient and less costly – up to 20% cheaper, in some sectors – a wide range of goods and services would become attainable for millions of new consumers. This could boost consumption across Southeast Asia, leading to a virtuous circle of growth.

But ASEAN's quest to become a unified market is far from complete. While average tariff rates in the original five member states (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) have been virtually zero since 2010, some barriers must still be dismantled. An MGI survey of regional businesses identified restrictions on foreign investment and ownership, inconsistent standards and regulations, and inefficient customs procedures as the biggest remaining barriers to trade.

For ASEAN to become a real manufacturing powerhouse, its lower-income economies will need to focus on modernizing equipment and processes and building their workforces' skills.

Though full integration appears unlikely by ASEAN's target date of 2015, lately the effort has been imbued with a renewed sense of urgency. As wages in China rise, Southeast Asian economies have a window of opportunity to become the next "factories to the world."

Of course, competing on the basis of low wages alone would be inadequate to raise living standards in the long term. ASEAN will also need to compete on productivity – an area in which countries like Cambodia, Indonesia, and Vietnam are currently at a disadvantage. Excluding Singapore and Brunei, average labor productivity in ASEAN remains about 40% lower than in China.

For ASEAN to become a real manufacturing powerhouse, its lower-income economies will need to focus on modernizing equipment and processes and building their workforces' skills. They must also increase – and sustain – investment to address glaring infrastructure gaps and bring down high logistics costs.

Some critics insist that, even with such efforts, ASEAN members vary too widely in terms of their level of economic development to create a smoothly functioning single entity. But ASEAN, unlike the European Union, is not attempting to form a monetary union.

In fact, ASEAN's focus on trade makes diversity an advantage, as companies seek to benefit from low-cost labor in some countries and intermediate manufacturing capabilities in others, all while gaining access to one of the world's most sophisticated financial and logistics centers. Though member states may sometimes have to compete with one another for market share and multinational operations, their areas of specialization would largely be complementary.

ASEAN's lower-income economies have expressed concern that they will miss out on many of the benefits of deeper integration. But this does not have to be the case. Mexico, for example, has arguably enjoyed greater economic benefits from the North American Free Trade Agreement than the United States or Canada has.

Nevertheless, this uneasiness reflects a central challenge facing ASEAN. From its inception, the group has fundamentally been a top-down project, driven by the region's leaders instead of its people. But as member countries have become more democratic, solidifying public support has become increasingly important – meaning that ASEAN leaders must work to communicate the benefits of integration more effectively.

At the same time, ASEAN governments must urge businesses – many of whose leaders, according to MGI's survey, have limited awareness of the opportunities that integration presents – to expand into neighboring markets. Here, removing a handful of key administrative barriers could go a long way.

As it stands, restrictions on foreign investment and trade barriers continue to shield many domestic industries from competitive pressures. Now, ASEAN countries must decide whether to retreat into protectionism or reaffirm their commitment to a more open approach. Though the latter option would undoubtedly create winners and losers, it could also stimulate the region's overall productivity growth.

As a regional grouping, ASEAN does not have the kind of deep institutional ties and infrastructure links that bind together the EU's members. Nor has it built the kind of seamless supply chains that funnel massive trade flows through North America. But if ASEAN can execute the vision outlined in the AEC plan, it could exceed the sum of its parts.

About the Authors

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Why Cuba Turned

Jorge G. Castañeda

The phone call between US President Barack Obama and Cuban President Raúl Castro, followed by the exchange of an American prisoner for three Cuban intelligence agents detained in the US, marked the most important moment in the countries' bilateral relationship in decades. Shortly afterward, the US and Cuba announced that they would begin the process of resuming full diplomatic ties.

At first glance, the agreement looks like a great victory for Cuba, with the US finally backing down from its attempt to isolate the communist island. The reality is somewhat more complicated.

For starters, this is not the end of the American trade embargo, which can be lifted only by the US Congress. Nor will relations be fully normalized; there will be embassies, but not ambassadors.

But there is no question that the agreement – brokered by the Vatican and Canada – is an important step forward. Travel to Havana for Americans who are not of Cuban descent will become easier. It will be possible to conduct bank transactions between the two countries. Some commercial issues will be settled. The US State Department will remove Cuba from the list of countries that it accuses of supporting terrorism.

It is true that Cuba seems to have given up very little in exchange. In addition to releasing the American, Alan Gross, Castro agreed to free 53 political prisoners, loosen restrictions on the internet, and grant access to United Nations human-rights officials and observers from the International Red Cross. These are concessions, to be sure, but not large ones in view of what Cuba stands to gain with the resumption of diplomatic relations after a half-century of isolation.

Nevertheless, Cuba is in trouble, owing to a crucial variable that probably motivated Castro's decision: the recent collapse in the price of oil. A series of factors – the spectacular increase in oil and gas production in the US, the recession in Europe and Japan, the decision by Saudi Arabia to keep its taps flowing, and the economic slowdown in China and India – have led to a supply glut. And the two countries most affected are precisely those on which Cuba has historically depended to keep its economy afloat: Russia and Venezuela.

Of the two, Venezuela and its troubles pose the biggest threat to Cuba's stability. Russia has not supported Cuba significantly since the collapse of the Soviet Union. But Venezuela – especially under former President Hugo Chávez – has been an important patron, sending Cuba about

100,000 barrels of oil a day, along with some US$5-15 billion in aid every year.

Those subsidies are unlikely to continue. Indeed, it is likely no coincidence that the talks between the US and Cuba started shortly after Venezuela's Chávez died in 2013. There is little doubt that, in the absence of Venezuelan subsidies, Cuba will once again plunge into depression – as it did after Russian assistance dried up in the early 1990s.

This leaves Cuba extremely vulnerable. Economic reforms have clearly not had their desired effect. Incomes have fallen. Widespread shortages have fueled rampant inflation, with hyperinflation a growing risk. Currency trades on the black market are at little more than 3% of the official rate. A major political upheaval is becoming increasingly likely.

In their book Back Channel to Cuba: The Hidden History of Negotiations Between Washington and Havana, William LeoGrande and Peter Kornbluh describe how Cuba has consistently refused to offer political concessions in exchange for the end of the embargo or diplomatic normalization. And, indeed, Castro did not offer any in the recently announced deal.

And yet the economic calculus makes it very likely that change will soon be forthcoming. In the absence of a rich and generous patron, the revival of the Cuban economy will depend on the full normalization of relations with the US – and this is certain to prove impossible without major changes with respect to democracy and human rights.

When the history of the present is written, it may very well turn out that it was not force of arms or the efforts of diplomats, but disinterested interventions by remote oil barons in North Dakota and the Arabian Peninsula that finally unlocked Castro's Cuba.

About the Author

Jorge G. Castañeda was Mexico's Secretary of Foreign Affairs from 2000-2003, after joining with his ideological opponent, President Vicente Fox, to create the country's first democratic government. He is currently Global Distinguished Professor of Politics and Latin American and Caribbean Studies at New York University, and is the author of The Latin American Left After the Cold War and Compañero: The Life and Death of Che Guevara.

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Argentine Regulation of Renewable Resources

Javier Canosa

With a collapsed energy market in Argentina and a change of the current administration in 2015, it is clear that Argentina will have to develop and invest in the energy sector, and especially in the renewable energies sector. The purpose of this note is to briefly develop some of the main traits of the renewable energy legislation in – and the prospects for – Argentina.

National System for Wind and Solar Energy

The first piece of legislation regulating the energy sector is Law No. 25,019 that entered into force in 1998. Its main purpose is to declare that the production of electricity from wind power and solar energy is a matter of national interest, and also to promote the research and use of renewable energy. It is noteworthy that this law provides that the production of power through such renewable sources does not require authorization from the national government.

Law No. 25,019 complements the following national legislation:

- Law No. 15,336, that law came into force in 1960 and regulates the electrical industries' activities in connection to the generation, transformation, transmission and distribution of electricity within the national jurisdiction, whatever their source, that belongs to public or private individuals, becoming a marketable good. This law regulates concessions and authorizations, transport and distribution of electricity, the Federal Council of Electric Energy ("FCEE") and the National Electricity Fund ("NEF").
- Law No. 24,065, which relates to electric power, and determines specific regulations on transmission and distribution of electricity. It is noteworthy that Law No. 24,065 provides that the NEF, which is managed by the FCEE, is subsidized by a special rate of zero point zero three pesos per kilowatt-hour (US$0.03 Kw/h) to pay the wholesale market buyers such as distribution companies and large us-

ers (Section 70), and that the monies so raised shall be distributed as follows:

- 60% to the provinces that have acceded to the tariff principles contained in Law No 24.065, and
- 40% goes to the Electrical Inland Regions Development Fund ("EIRDF"), being that from this percentage the FCEE can use resources to promote the generation of wind power and solar energy (Law No. 25.019, Section 4).

In connection with this fund, Law No. 25,019 provides that the applicable assessment within the margins set by Law No. 24,065 shall be increased. The rate specified shall be allocated to the Trust Fund for Renewable Energy ("TFRE"), which is created by Law No. 24,065. The use of resources shall remunerate the energy generated through alternative energy sources according to their origin (such energy should be aimed to the wholesale electricity market or the provision of public services).

In order to determine a charge established by the NEF, the value stipulated in Section 70 will be affected by the Quarterly Adjustment Coefficient ("QAC") referred to seasonal periods. The QAC is calculated as a result of considering net revenue by forward contracts and spot in the market. Compensation arising from the zero point zero three pesos per kilowatt-hour (US$0.03 Kw/h) increased "on demand" from Law No. 25,019, Section 5, the amount of zero point nine pesos per kilowatt hour (US$0.9 Kw/h) will be destined for solar photovoltaic generators already installed and/or to be installed in the future.

Economic benefits of the National Regime of Wind and Solar Energy

Law No. 25,019 provides that plants and/or solar equipments to be installed in Argentina shall have the following benefits for a 15 year period:

- The remuneration received by the alternative energy generated (Section 5).
- They have "fiscal stability" ensured, which involves the impossibility to

fix a higher total tax burden or creating new ones, which may apply to the relevant company (Section 7).

National Development Scheme for the Use of Renewable Energy Resources for the Production of Electricity in Argentina

Law No. 26,190 enacted on December 2006 deals with the specific subject of renewable energies. This legislation is further regulated by Decree No. 562/2009. We will analyze some of the main characteristics of these regulations.

3.1 Scope and purposes.

Law No. 26,190 declares of national interest the generation of electricity through renewable sources in general (it does not refer to specific types of energy), being both for the provision of public services and the investigation for the technological development and manufacture of equipment for those purposes.

This regulation aims for Argentina to be able to cover 8% of its energy demand with renewable sources in a 10-year term. Renewable sources comprise all energy sources of non-fossil character such as wind, solar, hydro power up to 30 MW, biomass, biogas, etc. (Section 4); biofuels are not considered renewable energy. In order to reach the goal set by National Law No 26.190, it is established an Investment Regime ("IR") with an extension of ten years, destined to the construction of new facilities (civil, mechanical and assembly) aimed to the production of electricity from renewable sources (Section 7).

Basically, the Law intends to promote investments in the production of electricity from renewable sources throughout all the country.

3.2 Enforcement Authority.

The Enforcement Authority of Law No. 26.190 is the Secretary of Energy under the Ministry of National Planning, Public Inversion and Services. Its creation was established by the Regulatory Decree No 562/2009.

It is important to highlight that the legislation establishes the duty of the national government to apply public policies in order to promote investments on renewable energy (Section 6). As a consequence, its mandate is:

- To coordinate institutes and universities' investigations on the development of technologies to improve the use of renewable sources;
- To create a National Schedule for the Development of Renewable Energies (now known as "GENREN Program," to be discussed below);
- To organize activities to encourage domestic manufacturing of equipment for the generation of renewable energy;
- To execute international cooperation agreements (for example that is the case of the Statute of the International Renewable Energy Agency, as explained later).

3.2. Economic benefits of the National Regime for the use of Renewable Energy Sources.

The beneficiaries listed in this regulation are holders of investments and dealers of new constructions specified in Section 7 of Law No. 26,190, whose production is destined for the Wholesale Electricity Market or the provision of public services. These holders can be both individuals and legal entities.

Unlike as established in Law No. 25,019, Law No. 26,190 does not provide the benefit of fiscal stability for fifteen years, but sets tax credit benefits in favor of renewable energy producers. As a consequence, those who have access to the IR may enjoy, for a period of ten years, the following tax benefits:

- Anticipated refund of VAT credits (as a result of the complementary implementation of Law No 25.924, Section 3).
- Practicing accelerated depreciation in relation to income tax (as a result of complementary implementation of Law No. 25,924, Section 3).
- They will not be included for the basis of Tax for Minimum Presumed Income until the end of the third fiscal year (this is established in accordance to Law No. 25,063).

The aim of the previous dispositions is to reinforce the importance of those companies that stimulate employment and strengthen the domestic production of capital goods (Law No. 25,063).

Statute of the International Renewable Energy Agency

The Statute of the International Renewable Energy Agency ("SIREA") was approved in October 2012 by Law No. 26,769. The SIREA is an intergovernmental agency that works in accordance with the purposes and principles of the United Nations.

The SIREA aims to promote the production and use of renewable energy. To achieve its objectives, SIREA provides advice on matters regarding public policies and seeks to facilitate the building and transfer of technologies and information about the latter. The agency created for this purpose is primarily budgeted by SIREA's member states' mandatory contributions and by those made voluntarily.

The statute mentioned above has been criticized for several reasons. However, the hardest criticism is that it has no enforcement actions to implement against parties that do not seek to achieve sustainable development on renewable energy in their respective territories. At the same time it has been held that it is quite unrealistic to promote renewable energy potential to achieve a decentralized energy access as it is something that is still difficult to implement.

The Argentine Constitution and Renewable Energy

In the Argentine Constitution, in Section 41, Argentine citizens are directed to maintain a balanced operating environment. According to that, it is easy to understand that one of the best ways to achieve it is by incorporating renewable energies into the national energy system.

At the same time, as energy is a marketable good destined for consumption and also it is an element used for public service provision, we may relate Section 42 to this subject. Therefore, electricity users and consumers have the right to get information about what kind of energy they consume or use. For example, individuals and legal entities are able to require information on how much energy they pay for comes from renewable energies and require its increase.

General Environmental Law

Law No. 25,675, which came into force in November 2002, relates to the production of renewable energy and its aim is to maintain the dynamic and harmonious balance of ecosystems as a legal asset that should be protected. One way to pursue this legislation's objectives is to promote the production and use of renewable energy. At the same time, salaries established by Law No. 26,190 are based on a principle of subsidiarity that is linked to environmental policies at national level and regulated by Law No. 25,675.

GENREN Program

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In 2009, in order to implement the national program to encourage the development of renewable energy required by Law No. 26,190, the national government and the public company "Energía Argentina SA" ("ENARSA") launched the GENREN Program ("GENREN").

Argentina has one of the largest global potentials for renewable energy. In that sense, our country has excellent geographical conditions that would enable the development of these energy sources.

GENREN is a project comprising bidding electricity generation from renewable sources, offering buying megawatts (1,000 MW) of renewable energy by fixed contracts for fifteen years.

This program not only pretended to increase incentives for investments of approximately US$2.5 million but also aims to:

- Reduce carbon dioxide from the atmosphere. To be more specific, the objective is to reduce 2,900,000 tons of carbon dioxide per year.
- Create eight thousand jobs.
- Increase national production levels.

Regarding the tender that has been carried out through the program, offers were presented by twenty private companies. As a result, 1461 megawatts of electricity was offered, exceeding 46% of the 1,000 megawatts tendered. The distribution between the different types of renewable energy has been set out in the following way:

- 500 MW wind energy.
- 150 MW thermal energy produced by biofuels.
- 120 MW energy obtained from urban waste.
- 100 MW biomass energy.
- 60 MW small hydro-electric projects.
- 30 MW geothermal power.
- 20 MW solar energy
- 20 MW biogas.

In connection to the distribution determined above, the higher incentive on investments in wind power has been justified by the fact that it required less economic investment, has lower financial risk, and has a significant local market.

However, in June 2010 a total of 895 MW was distributed, comprising only 61.3% of the energy bidders proposed to generate. Consequently, current generation of renewable energy in the country only reached 2.64% of what was expected by the GENREN, comprising only one-third of the target of 8% for year 2016.

Finally, it is important to conclude with some consequences from the application of the GENREN program:

- In connection with wind power production, the company IMPSA has acquired four projects on two wind farms located in the province of Chubut and another in the province of Santa Cruz. Meanwhile, the company Isolux Corsán has been assigned four projects that have become one wind farm called “White Hill” with a hundred wind turbines, located in the province of Chubut.

- Regarding photovoltaic power, the 20 MW offered by ENARSA were obtained by the province of San Juan, where the first Argentine solar panels were manufactured and where an international tender was made to build the first solar park in South America.
- As for hydropower, five small-scale exploitation projects were installed in the provinces of Mendoza, Catamarca and Jujuy. They have been called “in passing” as they lie on the courses of rivers and have no significant environmental impact in contrasting with large-sized hydropower plants. The company IECSA Hyrocuyo S.A. was awarded with two projects in the province of Jujuy and one in Catamarca with two other projects in the province of Mendoza.

Conclusions

Currently, with regard to energy production in Argentina, unfortunately only one percent (1%) comes from renewable energy resources (including solar energy). This implies that there has been little development of it in Argentina, making it difficult to achieve the expected coverage of GENREN program of 8% of energy obtained from renewable sources, a goal that should be reached by 2016.

However, in view of a more attractive investment environment and as positive aspects for the future, we can highlight the following:

- Law No. 25.019 states that a prior government authorization to pursue activities generating wind and solar power is not required.
- Beyond the criticisms, the GENREN has been a first step toward implementing new policies to achieve sustainable development.
- Argentina has one of the largest global potentials for renewable energy. In that sense, our country has excellent geographical conditions that would enable the development of these energy sources.

In other words,:

- To the east of the territory lies the Argentine Patagonian Sea, which is considered one of the three zones worldwide with sufficient potential for harnessing hydro energy (the other two significant areas are the Yellow Sea of Korea and the north coast of Australia).
- Heading west we find the imposing Andes, a mountainous area characterized by volcanic activity with potential as an energy source.
- In the north of the country there are large areas that enjoy significant sunlight for the production of solar energy.
- Finally, in the southern Argentine territory strong winds facilitate the use of wind power, and those winds are also unidirectional, allowing the implementation of simple technological systems to obtain this type of renewable energy.

About the Author

Javier Canosa is a partner in the BA firm Canosa Abogados. His practice develops in corporate law issues, advising several national and foreign companies in various corporate matters, including investment vehicles, corporate management, directors’ duties and responsibilities, audits, risk detection and distribution, documents, policies and corporate contracts, and design and implementation of a suitable corporate form for each business.

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How Real Is the Brexit Risk?

James Knight

Nothing turns people off like the EU. That is probably why so many citizens of the UK feel as though they have sleepwalked into the Kafkaesque nightmare of sovereignty erosion and byzantine, Brussels-led over-regulation that UKIP, the enfant terrible of British politics, is currently presenting so effectively.

Gripes about the EU are nothing new – the UK has long been seen as a "difficult" partner, having negotiated enough opt-outs and horse-trades to exhaust even the wiliest of MEPs. But European capitals are now humming to the talk of "Brexit" – the inelegant term used to refer to the distinct possibility that the UK could leave the Union. British Prime Minister David Cameron has committed to an "in-out" referendum in 2017 on whether the UK should stay if his conservative party wins elections in May 2015.

The reasons for a split have more to do with British identity politics, sovereignty concerns, and a creaking welfare system than trade protectionism. No one has yet made a compelling case that Britain would be overwhelmingly better off outside the EU, and in fact most of the data suggests a negative GDP hit of 1-5 percent (equating to a maximum of GBP78 billion per year lost to the UK economy). That is a significant sum in any era, but particularly amid this administration's focus on austerity.

Future visions

Why should readers of this publication care about what happens in the relatively developed markets of Europe? The Brexit lobby has presented a vision of a country unshackled from the restrictions imposed by Brussels. Having remained within the European Free Trade Area (EFTA), but outside the single market that currently allows for free exchange of goods, people, services, and capital, the UK would be free to pursue bilateral agreements with the emerging economies of the world, where the real growth is, indulging its natural mercantile instincts to jump ahead of its rivals to deepen trading relationships with China, India, Russia, and Brazil – to become the Chile of Europe, if you will,

with a twist of Singaporean light-touch regulation and low taxation thrown in to help maintain the competitiveness of the financial services industry.

For those in emerging markets, it is worth pausing a moment to consider whether this vision of the UK feels apt, or achievable. My personal view is that the rest of Europe does not see its relationships, inside and out, as a zero-sum game. On a bilateral basis, European partners are well ahead in pursuing new trade partners, building for the future, and promoting their companies abroad. The French diplomatic service is probably the best in the world at commercial lobbying in the national interest: witness the success of the oil major Total in Anglophone west Africa, which no British company can replicate in francophone neighbors. In Brazil, German companies enjoy a strong profile, due to the time and effort senior executives have put in, and win significant business as a result. Schiphol airport in Amsterdam serves more destinations in China than Heathrow, while having a fraction of the same overall traffic. Only in the UK is there a lobby that wants to distance itself from its closest trading partner in order to chase new ones.

Contingency planning

The City handles 74% of Europe's forex trading and 40% of global trading in euros, holds 85% of Europe's hedge fund assets and 42% of its private equity funds. The 250 foreign banks located in London employ 160,000 people. From an FDI perspective, the UK receives 53% of inward investment from outside the EU, particularly the US, China, and Japan. Part of the reason is that the City of London offers the powerful combination of a highly competitive financial center and a beachhead for the EU. That is why foreign companies flock to list on the AIM stock market, while running their payroll through Luxembourg. It is why family offices in Peru buy their Eurobonds in London; why Nigerian banks purchase UK retail stocks; why Ukrainian manufacturing firms wants to export there; and why it is the jurisdiction of choice for the settlement of disputes from Abu Dhabi to the Bahamas.

If the economic consequences of Brexit for the UK are uncertain, the political fallout for the EU would be disastrous, leaving the entire European project in tatters. However, the larger picture is in danger of being lost behind shorter-term UK electoral pressures, linked to the specter of migration (never to be underestimated in a small, overcrowded island state) and loss of sovereignty. These factors are driving the desire to walk away from this troubled marriage. But the anti-EU lobby fails to recognize that the UK is not alone in its exasperation with how the EU is funded, run and perceived, and that building a consensus for reform would be a harder but more worthwhile foreign policy objective than leaving the table.

A referendum is still a long way off, and a lot can happen before 2017. But what surprises me is the lack of contingency planning that is taking place in boardrooms in Sao Paulo, or Cape Town, or Dubai to deal with the Brexit possibility. Some clients, the smart ones, are beginning to realize what is at stake – for their cost of capital, their access to markets, their forex hedges, their regulatory oversight – and they are beginning to follow events closely. But as I said, unfortunately the EU tends to turn people off – just as it becomes more important than it has at any stage in my lifetime.

About the Author

James Knight is a consultant with ten years' experience of working in and with emerging market countries. He is director of Pionero Partners, a UK-based risk and strategic advisory consultancy serving international clients. He previously handled projects for Barclays Bank plc, the World Bank, and the United Nations. He started his career as a journalist, working for The Sunday Times, Reuters, The Economist, and Africa Confidential covering business, investment, and conflict. He holds a degree from Cambridge University.

Minority Shareholders' Right to Sue Directors and Controlling Investors in Brazil

Adler Martins

The Brazilian stock market has recently watched the crash of OGX and the ensuing lawsuits filed by its minority shareholders, who claimed compensation for the losses allegedly caused by the company's directors.

Now Petrobras, one of Brazil's largest companies, is involved in corruption scandals that have caused the price of its stock to decline sharply.

Several American law firms, including Wolf Popper, are representing holders of Petrobras American depositary receipts (ADRs) in a class action against the company. In Brazil, investment funds and other minority shareholders are reportedly considering filing a lawsuit against the company.

In this note I will give a brief overview of the legal paths available for investors who own Petrobras shares traded in the Brazilian stock market, and comment briefly on the foreseeable consequences of a hypothetical future ruling in the class action filed in the US.

Brazil and the US: Different systems for compensating investors

The US is famous for allowing direct compensation of shareholders in cases where misrepresentation, fraud or management failure has caused losses to investors.

In Brazil the system is different. Shareholders are not allowed to receive direct compensation for losses caused by bad management or misrepresentation. According to Brazilian rules, the main victims of such acts are not the shareholders, but the company itself.

Thus, any lawsuit should be directed at obtaining compensation for the company. The company may, in the future, cause this compensation to flow to the shareholders in the form of dividends, but there is no direct connection between the shareholder's future dividends and the compensation to be paid to the corporate entity.

A lawsuit can be filed by the corporation itself against its management staff. Minority shareholders representing at least 5% of the shares can also file such a lawsuit.

Where the losses have been caused not by the directors but by a majority shareholder acting in bad faith, minority shareholders are also allowed to seek compensation for the company. The minority shareholder that files the lawsuit might receive 5% of the award as bonus compensation. Even so, this is an exception built into the law and does not change the overall system.

Taking those differences in consideration, it is clear that ADR holders have a greater incentive to litigate in the US, where the financial compensation can be received directly.

The class action filed in the US, however, only covers the losses regarding the trading of Petrobras ADRs. The vast majority of the company's shares are traded in Brazil only, where direct compensation is not available.

Enforcement of foreign rulings in Brazil

I'm not an American lawyer and, thus, cannot comment on the consequences of the class action lawsuit in the US. I may, however, speculate on the consequences

that a direct ruling against Petrobras (and not against any financial intermediary backing the ADRs in the US) would have in Brazil.

Assuming Petrobras (or its directors or controlling shareholders) were to be condemned to pay compensation for the losses caused to ADR holders, how would this ruling be received by Brazilian courts if enforcement against assets located in Brazil became necessary?

Brazilian procedural rules state that any foreign rulings can be enforced in Brazil, as long as they fulfill basic formalities such as valid citation of both parties and do not conflict with Brazilian public order. The Brazilian Superior Court of Justice (STJ, not to be confused with the Supreme Constitutional Court, known as STF) is the venue responsible for evaluating such formalities.

After the green light by the STJ, the ruling would be enforceable in Brazil as if it were a Brazilian order issued by a local judge or tribunal.

The most relevant aspect of this simulation is that, in theory, a foreign ruling that is evaluated and approved by STJ before any other Brazilian lawsuit on the same topic has received a final decision will become the final decision on the matter.

As we have seen, the main cause for litigation is different in each country. In the US the class action seeks direct compensation to shareholders, while in Brazil any lawsuit would mainly seek compensation to the company.

Even so, either lawsuit must investigate corruption accusations, misleading declarations, etc. Therefore, it may be that the American ruling becomes the valid and final decision in Brazil. Not to mention, of course, the execution of the indemnity claims, which could become a huge burden for Petrobras.

Further complications

The company's rules state that arbitration should be used as the means for dispute resolution. This matter will probably be called to the attention of American courts. It is unclear now if arbitration would prevail over the class action lawsuit.

Also, if US courts decide that arbitration is not applicable, it is not clear if this would be considered by STJ as a breach of formal requirements. This would put the enforceability of the American ruling in Brazil in jeopardy.

I'm also curious about the production of evidence regarding corruption accusations. Brazilian law offers any plaintiff extensive rights to produce evidence in its favor. Would a lawsuit conducted in the US be able to provide similar leeway?

Finally, one might wonder what would be the consequences if the controlling shareholder (which is the Brazilian federal government) were found responsible for choosing inept directors. Enforcement of monetary claims against the Brazilian government is legally and historically very difficult.

About the Author

Adler Martins is a law graduate from the Federal University of Minas Gerais (UFMG), and he holds an MBA from Fundação Getúlio Vargas. He is currently pursuing an LLM at Pontifical Catholic University of Minas Gerais and a postgraduate course in financial planning at São Paulo City University. He can speak English, Spanish, Portuguese, German, and some Chinese (Mandarin). Mr. Martins has working experience in Argentina, Mexico, India, England, China, and Dubai, along with extensive experience in Brazil.

He is the co-founder of UFMG's group on the study of international trade law (GEDICI) and has represented UFMG at the Vis Arbitration Moot in Austria. He is also a pioneer in legal research of contracts among Brazil, Russia, India, and China.

Mr. Martins has lectured on foreign investment regulation in Brazil to audiences in Brazil and India. Recently, he lectured about Brazilian import regulations at the Ecommerce expo 2011, in London, as a guest speaker. Currently, he works advising companies and entrepreneurs on how to do business in Brazil.

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Fund Formation, Domiciling and Distribution 2015
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The fourth annual report examines the challenges of launching new fund structures in an environment increasingly influenced by evolving regulatory reform, the widening scope of investors "alternative" propositions, and the ongoing need to manage costs throughout the formation, domiciling and distribution stages of a fund.

Smart Beta Investing, Europe 2015
Published February 2, 2015

The fourth annual report will bring together UK and continental European chief investment officers, heads of asset allocation, and portfolio managers to discuss the real need for smart beta strategies and their specific uses for funds in an institutional investment portfolio.

Infrastructure and Project Finance Investment, Europe 2015
Published February 16, 2015

This is the second annual report exploring this alternative investment strategy over that of traditional fixed income financing. The report will focus on key issues including the fundamental drivers for infrastructure and project finance investment, the outlook for the asset class over the next 5 to 10 years, and alternative forms of project finance.

Environmental, Social and Governance Investing 2015
Published March 2, 2015

The fourth annual report brings together institutional investment groups from across the globe to discuss this key topic and the increasing need to adopt an ESG strategy in line with future legislation and the need to truly incorporate it from the heart of the business.

Colombia's Tax System

Destroying Entrepreneurial Endeavors

Felix Villalba

Colombia has a very complex tax system that is getting even more complex by the day. The Colombian government is now under enormous pressure to raise taxes in order to satisfy significant increases in government spending. The Colombian tax system is complex because there is a seemingly endless list of taxing authorities, there are multiple tax rates for different economic activities, and companies are obliged to collect taxes on behalf of all those taxing authorities.

In Colombia, companies at the end of the supply chain bear the responsibility to collect taxes on behalf of others. Unlike the United States where the obligation ends with the filing of a 1099, in Colombia companies must also withhold taxes from payments made to suppliers. In essence, the Colombian government forces businesses to become tax collectors on its behalf. And if you don't collect, too bad – you still owe other people's taxes. If a business does not withhold enough, it has no way of collecting but ends up holding the bag.


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The withholding responsibility doesn't end with the DIAN (the equivalent of the US IRS); it extends to many other taxing authorities. I count at least four different tax authorities that require reporting much like the main tax authority, the DIAN. Examples include the SENA (government-funded technical education), DAMAB (environmental agency), and others. Each of these may send you a tax bill and require you to send them financial statements with details by account and all sorts of other documentation on a regular basis. They will also require you to prove that your suppliers have paid their taxes – and if they have not, you are supposed to pay on their behalf! The argument goes something like this: in your contract you must require your suppliers to do as the law says, and if they do not agree you should not hire them. Therefore, if you hire them, then you are liable. Many insurance companies will insure against one of these liabilities, mainly the required-by-law benefit portion of employee compensation (pension fund contributions, health insurance, accident insurance, etc.). It is customary for contracts to require this insurance. If a supplier fails to pay these "taxes," then the insurance should step in.

Withholding obligations include calculating and withholding taxes for suppliers using different tax rate tables depending on the type of payment, monthly reporting, monthly payments, and constant audits. Imagine a world where you have four or more IRS-like entities asking you to report and threatening to impose penalties and constantly asking for additional information. That is the Colombian tax system.

The irony is that the government is "encouraging" small single-owner entities like your handyman to incorporate. However, how does a handyman possibly comply with this world of complex requirements and still make enough money to take any home? In Colombia, there is no such thing as a company that does not have a licensed accountant working for it on a regular, ongoing basis. Unlike in the United States where a single-owner entity seeks the accountant at the end of the year, in Colombia any entity has to consult one 12 times per year at least. This added expense makes many a business not economically feasible. The unequivocal long-term result will be the sole proprietor going out of business and large companies taking over (consolidating industries). However, if larger companies are not interested in consolidating an industry there will still be a need in the market. This creates all sorts of unintended consequences and black markets. The unavoidable consequence is that people will continue working, but they will do it outside of the system.

On the surface it seems that the Colombian government is unaware of the unintended consequences of such a complex system. There is also the possibility that politicians simply do not care.

The more complex a tax system, the more difficult it becomes to forecast profits. This translates to a higher risk that investor returns may not materialize as expected. In such an environment, small company profitability suffers. Management expenses can make a significant dent in the profitability and survival of new and small entrepreneurial entities. Larger companies, with their army of accountants, tax experts, and lawyers, perhaps may navigate the complexity and come out alright.

Foreign investors interested in the small company space will soon be discouraged by the disadvantaged position in which small companies find themselves in Colombia. Perhaps as investors take flight, policy makers will wake up. However, in Colombia, given the leftist and populist tendencies on display in the region, politicians may use the age-old argument: investors are evil, especially if they are foreign investors. This would take Colombia further into a market with a deeper need for state intervention. State intervention is precisely the preferred methodology of left-leaning governments. Let us then hope that at some point small companies will be exempted from such significant and burdensome regulations and taxes. Perhaps some policy makers are still looking to more advanced economies and will realize that the driving and innovative force behind capitalism are small entrepreneurial endeavors, and that it is best to protect them.

About the Author

Felix Villalba has over 15 years of experience on both the operating side and the investment side of business transactions. After his MBA, Mr. Villalba worked for captive financial services companies at Dell and Whirlpool, and he later spent over five years as CFO with two venture backed technology companies. Dell's successful effort to start Dell Financial Services marked his official involvement in the venture industry in 1997. After that he joined an Austin Ventures-backed company that later led to his joining Pacesetter Capital Group. At Pacesetter, Private Equity firm, he was vice president and served as portfolio manager for several inherited deals, some of which required intervention strategies. In 2009, Mr. Villalba formed his own private equity management firm, Accordo LLC and raised Accordo Fund 1 and 2 placing investments in residential and hospitality developments in Colombia.

Mr. Villalba is a graduate of the University of Notre Dame with three degrees, a Masters in Business Administration, a B.S. in Civil Engineering, and a B.A. in Economics. He successfully completed the Harvard Business School's Executive Management Development Program.

An Open Letter to Board Members Regarding Cyber Exploitation

Every day, stories of data breaches, identity theft, and credit card fraud can be found littered in newspapers across America. From the individual citizen to multinational corporations, the size and scope of cyber attacks seem only to grow. In the past 90 days alone, cyber attacks on JP Morgan Chase and Home Depot resulted in breaches affecting more than 76 million and 56 million customers, respectively.

The actors involved in cyber attacks include rogue insiders, state-sponsored government hackers, and organized crime. Among the most notorious are Russian organized crime syndicates; such groups are believed to have stolen billions of dollars from companies and consumers over the past several years. State-sponsored Chinese hackers are similarly notorious. In May, the FBI indicted five Chinese military hackers on charges of computer hacking and economic espionage. And just this past week US and European authorities seized over 400 Dark Web sites suspected of supporting black market activities.

The costs of cyber attacks are immense, although not always immediately understood. Pilfered trade secrets, diversion schemes, account breaches, loss of consumer confidence, and reduced sales are among the many effects that cyber attacks can have on a company. To boot, CEOs are no longer immune to the blame that comes with having failed to prevent such attacks. The widely publicized breach at Target in late 2013 resulted in the downfall of CEO Gregg Steinhafel.

Given the onslaught of cyber attacks, it's reasonable to assume that every corporate board member would not only be engaged on the topic of cyber security, but actively orchestrating strategic plans to combat such breaches. Yet, despite the clear and present danger, a recent Thomson Reuters Accelus survey of corporate secretaries found that only 67% of boards were very concerned about cyber security risk, and only 44% admitted to actively making decisions based on the perceived risk. Even more disturbing is that only 23% of boards have received training on the topic.

As these statistics illustrate, many companies have yet to come to grips with the electronic wild west that is cyber space. With criminals becoming more emboldened every day the risk to companies the world over will only continue to grow. All too often, companies approach cyber security with a fortress mentality – focused exclusively on keeping bad actors outside the walls of the company.

As recently noted by Tom Horton, "A primary responsibility of every board of directors is to secure the future of the organization. The very survival of the organization depends on the ability of the board and management not only to cope with future events but to anticipate the impact those events will have on both the company and the industry as a whole."

Is your board thinking strategically about cyber security?

The Institute of Internal Auditors Research Foundation, in a report addressing board members, stated, "It is incumbent on the board of directors to demand information and insight on the issues that could affect the future of the organization. Cyber security is one such issue."

"It is imperative that the board not relegate the cyber security topic to the IT department. Directors need to take an active role in the organization's cyber security or face the possibility of potential shareholder lawsuits, and even the possibility of being removed from the board."

According to the National Association of Corporate Directors, American International Group, and the Internet Security Alliance, five principles should be considered:

1. Cyber security is an enterprise-wide risk management issues, not just an IT problem.
2. Address the serious legal consequences of cyber risks.
3. Cyber security must be addressed with professionals and given board-level priority.
4. Directors must advise management to take all steps necessary to comprehensively address cyber risk with personnel and resources.
5. Determine how your organization would deal with a breach and whether liability can be addressed via insurance.

In light of these principles, what questions should boards be asking? Among the most pressing questions boards should ask are:

Does the company have a cyber strategy?

Frequently, the most basic questions are the most overlooked by both companies and boards. Establishing a dynamic, multi-dimensional cyber strategy is critical for any business, particularly now.

An appropriate sub-question might also be, does the company's cyber strategy focus on both current as well as future threats? Is the strategy innovation-based? Cyber threats are constantly evolving and efforts to counter such threats must likewise evolve. Complacency, particularly with respect to cyber security, can be the kiss of death.

Does the company employ a robust cyber security training program?

All too often companies presume their employees possess the necessary cyber security know-how to protect a company's network and information from external actors. All too often, companies are wrong. Employing a robust cyber security training program is an important element in attempting to shore up a company's cyber defenses.

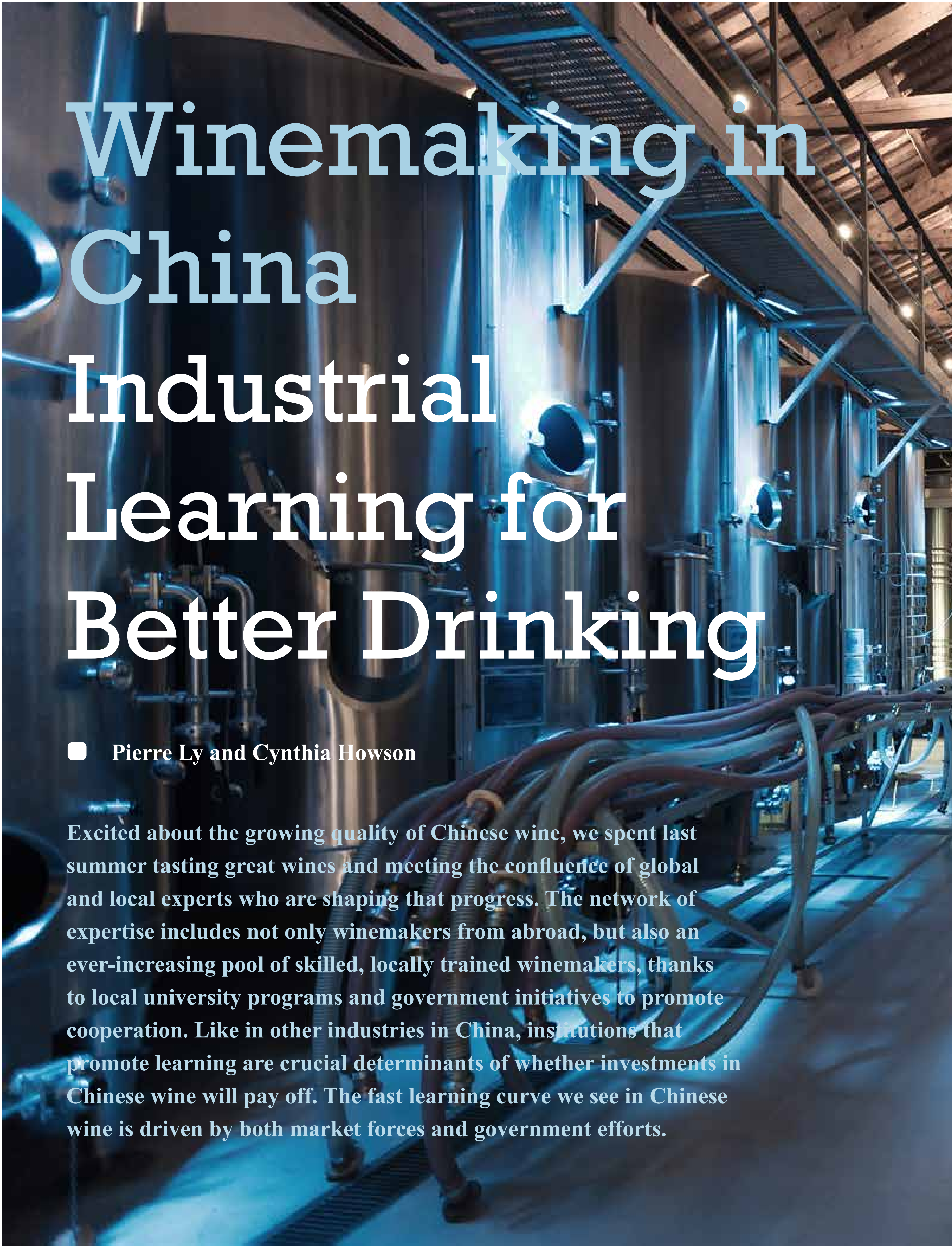
What tripwires are in place to identify external as well as internal threats?

Establishing proactive defense measures is critical to ensuring that companies are not only aware of who is looking for their information, but identifying leaks the moment they occur. Simply protecting the walls of a fort is not sufficient to combat cyber criminals – the plan is to win. This may not be defined by never becoming victimized by a cyber exploitation, but it may be by whether the right thinking was conducted to prevent an attack.

Boards are increasingly expected to be knowledgeable about cyber security. Are you prepared?

About the Author

Mark R. Johnson is the founder and CEO of Sovereign Intelligence. He is an experienced trial attorney, former special agent, Naval Criminal Investigative Service, and clandestine intelligence officer. Sovereign Intelligence specializes in addressing multi-dimensional cyber security. Sovereign harnesses state-of-the-art technology to protect our client's intellectual property, reputation, brand, identity, and financial data. Our state-of-the-art trip wire monitoring system, cyber risk assessments, and Deep Web and Peer-2-Peer domain expertise enable us to provide exclusive cyber security to some of the world's largest companies.



Winemaking in China

Industrial Learning for Better Drinking

Pierre Ly and Cynthia Howson

Excited about the growing quality of Chinese wine, we spent last summer tasting great wines and meeting the confluence of global and local experts who are shaping that progress. The network of expertise includes not only winemakers from abroad, but also an ever-increasing pool of skilled, locally trained winemakers, thanks to local university programs and government initiatives to promote cooperation. Like in other industries in China, institutions that promote learning are crucial determinants of whether investments in Chinese wine will pay off. The fast learning curve we see in Chinese wine is driven by both market forces and government efforts.

Private and state-owned wineries alike need guidance, and with the incredible growth of the local industry, the market for consultants is huge. Flying winemakers, these consultants working on contract with wineries around the world, seem to be almost everywhere in Chinese wine. Much like in Argentina or Chile a couple of decades ago, they bring invaluable knowledge and experience, although they sometimes struggle to navigate the local geography and institutions. One of the world's biggest star enologists, Michel Rolland, is in China too, of course, although he has decided to limit his Chinese presence by working exclusively with the state-owned group COFCO, producer of several brands under the Great Wall label. Beyond Rolland, there are countless flying enologists of all ages and nationalities working all around China for large and small producers alike.

But it is not just a market phenomenon. In Ningxia province, the local government itself has sponsored the involvement of flying winemakers in a very original competitive format called the Ningxia Wine Challenge. In 2012 seven foreign winemakers were selected (out of fifty applicants) to have the honor of making wine from the grapes of a single vineyard in Ningxia. Prizes ranging between 10,000 and 50,000 RMB were awarded to the winners of a tasting by a panel of judges. Over the last two years, contestants made several visits at important stages of production, and consulted with local staff from a distance more regularly. This project must have been an invaluable learning experience for the Chinese staff working alongside the competitors, but there was more to it than the competition. David Tyney from Australia, who took first place in both red and white wine, reported that in addition to making wine for the competition, he was assigned as a consultant for a local winery. Jim Boyce, who blogs on the Chinese wine scene and helped organized the Ningxia Wine Challenge, reported that the government is planning a new project to attract even more flying winemakers. Clearly, the local authorities are not just leaving it to the market for consultants to engage with Ningxia wineries.

In addition to flying winemakers, multinational corporations help improve skills in the industry. As in so many other sectors across China's history of industrial upgrading, learning in wine also happens thanks to foreign direct investment by multinational companies. LVMH has just released its first sparkling wines made in Ningxia province, and the first reviews are promising. Meanwhile, Domaine Baron de Rothschild (owners of Lafite) is just starting to make wine in Shandong province. Local staff working for these companies benefit from learning on the job with experienced in-house experts. And the resulting nexus of local expertise can in turn benefit other local wineries. Interestingly, both the LVMH and Lafite projects are joint ventures with state-owned enterprises, reinforcing the lesson that industrial learning is often the result of market and government investments together.

Finally, neither the flying winemakers nor the multinational corporations could succeed without the ever-growing supply of highly skilled Chinese winemakers trained locally in public universities. Professors Li Demei and Li Hua, two leading Chinese enologists, received their degrees from Bordeaux but later helped develop local academic programs. Li Hua, now the vice president of NorthWest Agriculture and Forestry University in Shaanxi province, founded the local college of enology. This program's success is such that all around China it is common to meet several graduates working in the same winery.

Thanks to market forces as well as government initiatives, talented local winemakers are learning very fast. But they also face important challenges unique to Chinese wine growing, such as the need to bury the vines to protect them from brutally cold winters in many regions. Many issues will require cutting-edge research. The Shaanxi program lists several academic collaborations with prominent foreign universities, including UC Davis, and it will be interesting to see what role Chinese enology and viticulture departments play in producing the research needed to address specific local challenges.

About the Authors:

Pierre Ly is Associate Professor of International Political Economy at the University of Puget Sound. Cynthia Howson is Lecturer in Political Economy at the University of Washington Tacoma. Their research explores the emerging Chinese wine industry.

Recommended reading if you want to follow the latest news in China's wine market: Jim Boyce's Grape Wall of China Blog and Winechina.com. In addition, Professor Li Demei writes regular columns for Decanter China another great resource.

2015: What to Expect in Political Risk

By Rami Ayyub, Analyst at Global Risk Insights

One year ago today, the world mulled over the global ramifications of Turkish anti-government protests, Chinese escalation in the East China Sea, and the imminent US military withdrawal from the Middle East. With the global economy finally on the mend, the post-shutdown US government abstained from military engagement in Iraq and Syria, instead seeking reconciliation through diplomacy with Russia and nuclear negotiations with Iran.

A year later, however, the tables have turned. Russian aggression in Ukraine has exposed rifts in NATO alliances as Western sanctions bring the Russian economy to its knees. The US-led campaign against the Islamic State has erased any memory of US military disengagement from the Middle East, dragging regional and global players into ongoing civil wars in Iraq and Syria. And yet, as global oil prices continue their fall, promise of reform in India, Mexico, and Indonesia begs investor confidence.

2015 will be defined by the past year's surprises, though bright spots remain. Here's what to expect in political risk over the coming year.

Falling oil prices expose a weakened OPEC

Oil prices are down over 40 percent since mid-2014 as weakened demand from Europe and China meets a glut of supply from Canadian and US crude production. The fracking boom in the United States, along with the development of Canada's Alberta tar sands, has put extra pressure on OPEC members to cut oil production to help stabilize the market.

The Organization of Petroleum Exporting Countries' biggest producer, Saudi Arabia, has refused to cut production in the hopes that lower prices will help Gulf states retain market share amid increased global competition. Lower prices could also put budgetary pressures on US energy firms, who rely on expensive shale technology for oil extraction.

True damage to US competitors, however, would require oil prices to fall as low as $50 a barrel for a sustained period of time. Not even the Saudis have the financial reserves to withstand such low prices. And with the price of oil still at $60 a barrel, OPEC producers will have to find a new strategy to deal with competition from the US, Mexico, and Brazil.

Russia slides into recession

As Russia presses ahead with its annexation of Crimea and support of separatists in eastern Ukraine, Western sanctions have begun to take their toll on the Russian economy. Even if the severity of sanctions remains unchanged, Finance Minister Anton Siluanov indicated the Russian economy isn't expected to grow faster than 1 percent in 2015.

Tumbling oil prices have put extra pressure on Russia's government. Over two-thirds of Moscow's state budgets come from taxes on Russian oil and gas firms. Weakened oil revenues have caused the ruble to fall 41 percent against the dollar over the past year, creating fear that the economy could fall into a recession in 2015. The World Bank sees a recession as likely, indicating it expects the Russian economy to shrink by .7 percent next year.

Fears over Russia's economic vitality have caused mass capital outflow, totaling to

some $85 billion in 2014. And with lucrative energy projects like the South Stream pipeline on hold, President Vladimir Putin will have to find ways to lessen his country's exposure to turbulent oil markets. How Russia navigates between an economic freefall and a brewing war with Ukraine will certainly define its fortune in 2015.

US, Middle East states divided over response to ISIS

Despite a months-long military campaign aimed at slowing the advance of the Islamic State (IS), militant fighters have tightened their grip over large swaths of territory in Iraq and Syria. The US-led campaign, which includes air and ground power from Turkey, Saudi Arabia, UAE, and Bahrain, hopes increased military force can keep IS from establishing new fronts in Egypt and Libya.

Although the US initially limited its campaign to airstrikes, direct engagement of US ground forces in Iraq is becoming more likely by the day. The US strategy has drawn criticism from allies in the region, such as Turkey, who have been reluctant to intervene militarily in Syria. Tensions between the US and Turkey increased when the US airdropped weapons to the Democratic Union Party in Iraq, considered by Turkey a "terrorist organization."

These disagreements underscore the division between the US and its Middle East allies over how to respond to the threat posed by IS. Turkey, Jordan, and Egypt worry that military intervention will drag them into an increasingly sectarian civil war in Syria, while Saudi Arabia fears a faulty strategy will give legitimacy to neighboring Iran. The US, whose nuclear negotiations with Iran are likely to continue throughout 2015, is unlikely to find a strategy in Iraq and Syria that appeals to the varying interests of its allies.

NATO alliances are tested, threatening Euro zone recovery

The crisis in Ukraine has highlighted divisions within NATO, raising questions about the future of the transatlantic military relationship. Disagreement over financial sanctions against Russia has further complicated ties between Germany and the US, whose relations hit a new low last year following revelations of US government surveillance programs that targeted German Chancellor Angela Merkel.

European NATO members, many of which rely on Russia for the majority of their energy input, have much to lose in the face of a growing Ukrainian conflict and weakening Russian economy. NATO's strength will rely heavily on German leadership, whose status as the diplomatic and economic backbone of the EU will help to stabilize a tepid European economic recovery.

Germany's leadership in NATO and the EU will set the stage for both the Ukrainian conflict and the Eurozone recovery throughout 2015.

Promise of emerging market reform begs investor confidence

With the new year comes the promise of great reform in three key emerging markets: Indonesia, Mexico, and India.

In Indonesia, newly-elected President Joko Widodo increased the price of subsidized fuel by roughly a third, in what investors see as a sign of his government's commitment to economic reform. Fuel subsidies have accounted for up to 25 percent of annual Indonesian government outlays since 2010. Widodo has also committed to resolving legal problems for investors, which would help to bring more foreign capital investment into the state.

Mexico unveiled the first phase of its historic opening of its oil sector to foreign investors in December 2014, allowing foreign companies to drill for oil for the first time since 1938. While this is good news for investors, drug cartels and security concerns have undermined confidence in the stability of a potential Mexican energy market. President Enrique Pena Nieto will have to make ensuring security for locals and foreign companies alike a main priority if he wants energy reforms to bear fruit.

The election of President Narendra Modi has encouraged renewed confidence in India's economic future. Reforms on the table include a goods-and-services tax that would allow India to have a single internal market for the first time in its history, and new laws that would permit commercial mining in the state. Modi has made foreign investment a top priority, forging new economic partnerships with China and the United States. Should the newly-elected President make good on his promises, 2015 in India looks bright.

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