

MANAGING THE RISKS OF DOING BUSINESS IN LATIN AMERICA

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MANAGING THE RISKS OF DOING BUSINESS IN LATIN AMERICA

By: Rafael Castillo-Triana, Esq.¹

Overview

Latin America is commonly perceived as a volatile business environment. It should be futile to pretend to challenge such perception, since the historical facts throughout the 19th, 20th and the beginning of the 21st centuries feed with anecdotic evidence such view.

It must be noted, however, that there is huge business potential of Latin America for an industry such as equipment leasing and financing. The rich natural resources and hard working human resources of a population predominantly young and able to milk from the great United States economy and culture, have the clear possibility to translate new capital investment into wealth and welfare. In economic terms, Latin America has the potential to grow tenfold just to catch-up with the standards of living of the United States (In economic terms this is to generate a purchasing power about the double of the current United States GDP), has a predominant market oriented education and culture (In contrast with such of the emerging giants of Asia Pacific such as China), and in many respects, including religion, is very uniform with the United States values.

A wise approach towards Latin America must intend to extract the fruits of such potential, with a proactive approach towards the risks that are commonly associated to Latin America and its volatility. Some companies have already taken such approach and are succeeding. Others are running afraid, because they lack an adequate risk management approach.

This article will intend to provide some valuable elements to shape a professional risk management approach and being able to extract the fruits of the enormous potential of the Latin American economy.

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A Risk Map for doing business in Latin America

RISK CATEGORY	RISK TYPE
MARKET ENTRY RISK	COUNTRY RISK
	REGULATORY RISK
	STRUCTURE RISK
	DIRECT TAX RISK
	TALENT RISK
OPERATIONAL RISK	MARKET RISK
	FUNDING RISK
	COMPETITION RISK
	CREDIT RISK
	RESIDUAL RISK
	DEAL STRUCTURE RISK
	DOCUMENTATION RISK
	PORTFOLIO SERVICE RISK
	INDIRECT TAX RISK
	REGULATORY OP. RISK
	LEGAL COLLECTION RISK
	REPOSSESSION RISK
	END-OF-LEASE RISK
CURRENCY RISK	
EXIT STRATEGY RISK	INDUSTRY COLLAPSE RISK
	COUNTRY RISK

Table 1: General Business Risk Map

Table 1 summarizes the risks that in our experience need to be assessed when an Equipment Leasing Company, Bank or Financial Institution plans to do business in Latin America. A brief illustration of such risk map is intended to be provided in this article.

Market Entry Risks:

These are the risks that shall be assessed at the initial step when any business intends to enter into any particular Latin American market. We have noted some categories as part of such Market Entry Risks. Such are:

Country Risk:

Country risk is considered from two wide different perspectives: One is the political risk, which summarizes the likelihood that a given country would subject foreign and/or domestic investors to measures that would impair the security in enjoyment of life, freedom, and property. In concrete terms, such political events are political violence and

revolution, expropriation and its different corollaries such as Government breach of contracts.

The second perspective of country risk is economic. Broadly, it can be summarized in a series of macroeconomic events that might impair the enjoyment of expected earnings of any investment. Some analysts segment this perspective under financial (Factors leading to inconvertibility of currencies, such as foreign indebtedness, current account deficits and so forth) and economic risk factors (Government finances, inflation and other, that may lead to higher and sudden taxation or desperate Government imposed restrictions on foreign investors or creditors rights).

Political Risk:

Table 2: Political Risk Ratings

COUNTRY	CURRENT RATINGS				COMPOSITE RATINGS				
	Political Financial Economic			Year	Current Forecasts				
	Risk	Risk	Risk	Ago	Rating	One Year	Five Year		
	09/03	09/03	09/03	10/02	09/03	WC	BC	WC	BC
Argentina	64.0	29.5	36.5	49.3	65.0	58.5	67.5	60.5	77.0
Bahamas	84.0	37.5	36.0	76.0	78.8	75.0	79.5	70.5	81.0
Bolivia	63.5	37.0	33.0	65.8	66.8	62.5	70.0	63.0	74.5
Brazil	69.0	30.5	33.0	59.5	66.3	51.0	63.0	59.0	76.5
Canada	89.5	42.0	42.0	84.8	86.8	77.5	84.0	72.0	87.5
Chile	77.0	37.5	39.0	76.3	76.8	67.5	76.0	68.5	79.5
Colombia	55.0	39.5	32.5	61.0	63.5	57.5	66.5	53.0	69.5
Costa Rica	74.0	37.0	33.5	74.8	72.3	73.0	77.5	69.0	80.0
Cuba	58.5	28.5	33.5	64.3	60.3	50.5	63.0	45.0	71.0
Dominican Rep.	62.5	29.5	27.5	69.8	59.8	56.0	63.5	55.5	69.5
Ecuador	58.0	34.5	34.0	59.8	63.3	51.0	61.0	52.0	67.0
El Salvador	64.0	39.5	35.5	71.5	69.5	71.5	76.0	67.5	79.0
Guatemala	60.5	40.0	33.5	67.3	67.0	65.3	71.5	60.0	75.5
Guyana	68.0	29.5	27.5	62.0	62.5	59.8	66.0	58.5	69.5
Haiti	45.0	31.5	25.5	54.0	51.0	39.5	52.0	38.5	66.5
Honduras	60.5	36.0	28.0	63.8	62.3	57.5	66.0	56.5	72.0
Jamaica	70.5	36.0	32.5	68.3	69.5	66.5	73.0	65.0	78.0
Mexico	69.0	38.0	37.0	69.8	72.0	66.0	72.8	60.0	77.0
Nicaragua	57.5	25.0	22.0	54.8	52.3	44.5	52.0	43.5	60.0
Panama	72.0	35.0	36.0	71.0	71.5	65.0	74.5	59.0	78.5
Paraguay	57.0	39.0	29.0	60.3	62.5	56.3	65.0	42.5	70.5
Peru	62.5	37.5	36.5	68.3	68.3	59.5	71.3	55.0	72.5
Suriname	65.0	35.5	30.0	62.8	65.3	61.0	67.5	57.5	71.5
Trinidad & Tobago	67.0	45.0	41.0	72.5	76.5	74.0	78.8	71.5	80.5
United States	81.0	33.0	38.0	75.5	76.0	73.0	79.5	72.0	84.0
Uruguay	70.5	30.5	28.0	61.5	64.5	57.0	67.5	58.0	73.5
Venezuela	50.0	42.5	26.5	54.3	59.5	54.5	65.5	51.5	76.0

Source: INTERNATIONAL COUNTRY RISK GUIDE, Volume XXIV, Number 9, September 2003

Published Monthly by The PRS Group Inc <http://www.prsgroup.com>.

To understand the ratings, PRS Group explains: The composite scores, ranging from zero to 100, are then broken into categories from Very Low Risk (80 to 100 points) to Very High Risk (zero to 49.5 points).

Recent events that illustrate political risk casualties are these that had happened in Argentina in 2002 which effects are extended until nowadays.

Argentina decided in January, 2002 to make a “U-turn” in its economic policy and particularly in its attitude towards foreign investment. While the country was suffering from rising unemployment and loss of competitiveness, the path elected was to devalue its currency, completely eliminate the convertibility program and converting in local currency all contractual obligations that were previously agreed upon at a rate of 1 to 1. The so called “pesification” of such contractual obligations turned out to be at the same time breach of Government contract, and tantamount or indirect expropriation. Many foreign investors, and in particular some large multinational leasing companies were damaged by such measures. For those not familiar with the economic measures, “pesification” consisted in the mandatory conversion of all domestic obligations formerly denominated in foreign currencies (mainly United States dollars) into Argentine pesos at a forceful rate of 1 to 1, while all costs in obligations payable abroad should keep be paid in such foreign currency, which due to the effect of the devaluation, made more expensive to such creditors holding rights in domestic contracts nominated in foreign currency under prevailing Statute Law at the time when such were contracted.

Fortunately for some, political risk insurance was available at the World Bank’s Multilateral Investment Guaranty Agency (“MIGA”) and other political risk insurance agencies, and for other, it was fortunate that Argentina is a Party to several Bilateral Investment Treaties, that provide the legal grounds for such foreign investors to seek indemnity through international arbitration conducted before the International Center for the Settlement of Investment Disputes (“ICSID”), a multilateral agency also sponsored by the World Bank. Currently there are 29 arbitration cases against Argentina out of 74 pending resolution before ICSID. All International Case Law precedents² point out to forecast that Argentina shall be ordered to compensate foreign investors, including a major US leasing company, for such tantamount or indirect expropriation.

² The most notable being “Metalclad vs. United Mexican States”: Award rendered on August 30, 2000, 40 ILM 36 (2001); 26 Y.B. Com. Arb. 99 (2001); 13 World Trade and Arbitration Materials 47 (2001); 119 I.L.R. 618 (2002); 5 ICSID Rep. 212 (2002); French translation of English and Spanish originals in 129 Journal du droit international 233 (2002) (excerpts). The text of the Award is also available online at <http://www.state.gov/documents/organization/3998.pdf>. (...) National Court Decision: Supreme Court of British Columbia, Reasons for Judgment of May 2, 2001, The United Mexican States v. Metalclad Corporation, 2001 BCSC 664; 119 I.L.R. 647 (2002); 5 ICSID Rep. 238 (2002) (...) Supreme Court of British Columbia, Supplementary Reasons for Judgment of October 31, 2001, The United Mexican States v. Metalclad Corporation, 2001 BCSC 1529, and Técnicas Medioambientales Tecmed, S.A. v. United Mexican States (Case No. ARB(AF)/00/2) [Award rendered on May 29, 2003](#), available on-line at <http://www.worldbank.org/icsid/cases/award21> . Latest visited July 9, 2007

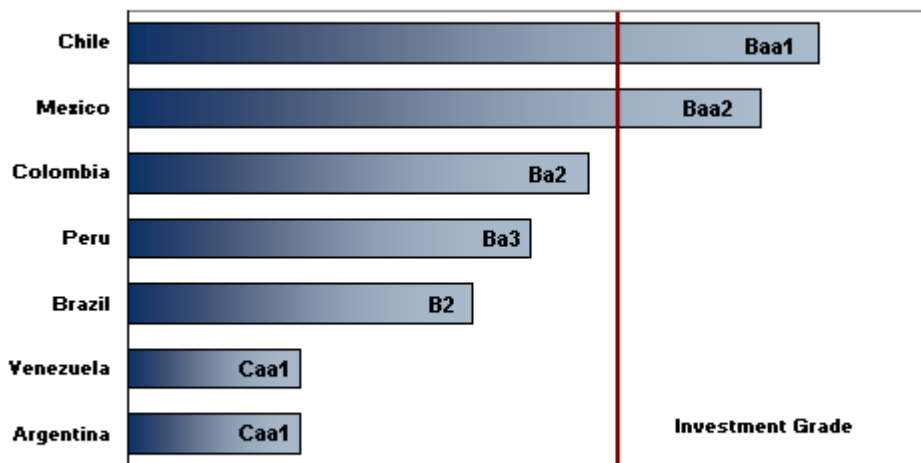
So far, “pesification” has been construed as a tantamount or indirect expropriation by insurance practitioners and investors compensated accordingly³.

Many lessons were learned from this experience. Such lessons are valuable for shaping a comprehensive strategy for any emerging economy, not only for Latin America.

Economic Risk:

Credit agencies normally rate country risk based upon the ability of their Governments to pay back their foreign obligations.

Figure 1: Moody’s Sovereign Credit Ratings to largest Latin American Economies



Another indicator of such risk is the perception of international capital markets towards these countries, measured by the EMBI+ Index⁴. Both are focused upon the same, the likelihood for a Government to payback its debts.

The question is: What are the existing links between a financially healthy Government and the risk/rewards balance of a foreign investor?

³ AON reports: “Catering company – Argentina (...)Caught up in Argentina's recent economic woes, a U.S. company's dollar-denominated certificates of deposit were "pesified" (converted to the Argentina currency) and then access to them was severely restricted. Underwriters agreed that this amounted to expropriation by Argentine government.” Source: http://www.aon.com/us/busi/risk_management/risk_transfer/trade_credit/political_risk/tools_and_solutions/claims_sampling.jsp . Latest visit July 9, 2007.

⁴ The Emerging Markets Bond Index Plus (EMBI+) tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency-denominated Brady bonds, loans and Eurobonds, as well as U.S. dollar local markets instruments. The EMBI+ expands upon JP Morgan's original Emerging Markets Bond Index, which was introduced in 1992 and covers only Brady bonds.

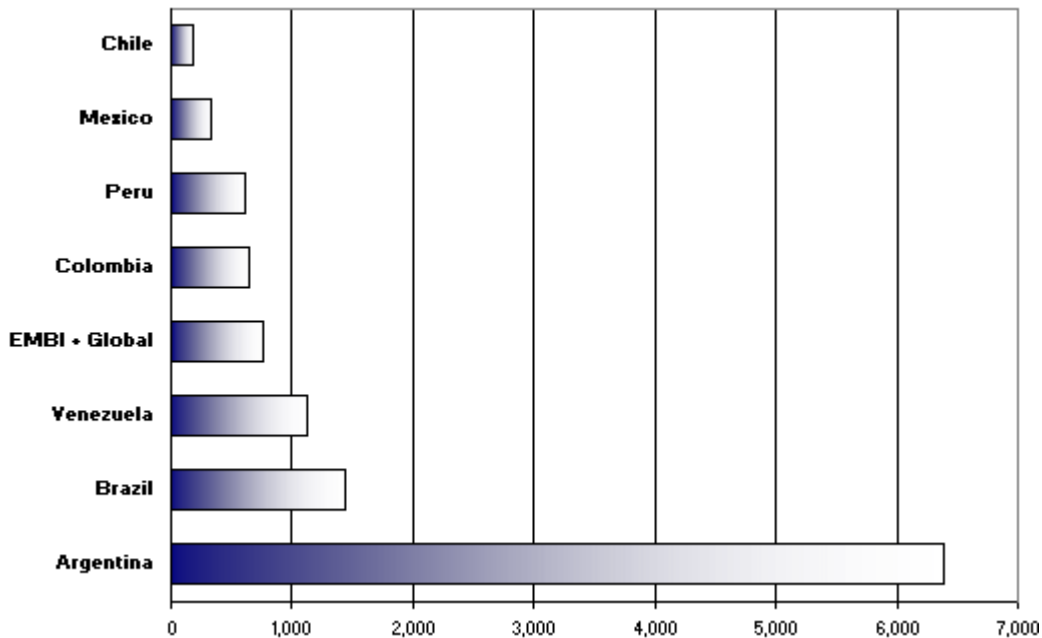


Figure 2: EMBI+ Index for largest Latin American economies, 2002.

First and foremost, a Government facing financial difficulties, would most likely increase taxation, with the effect of either reducing profit margins to investors or affecting the disposable income of purchasers, or increasing the cost of products and services, so that the revenues of such investor might be depressed.

Second, a Government with difficulties may intend to fund itself with newly issued money, furthering inflation, with the same effect of depressing revenues, income and margins;

Third, a Government in trouble may tend to expropriate privately owned assets at different levels.

Recent events in Venezuela are illustrative. A populist government with political instability and lack of acceptance between the domestic business community and local leadership decided to impose restrictions to foreign exchange transactions. Many multinational corporations have suffered the virtual inconvertibility of the Venezuelan currency (Bolivar), due to bureaucratic restrictions. Venezuela created in early 2003 a Government Currency Board, called CADIVI, which regulates inflows and outflows of currencies. Currently Venezuela has over US\$ 21 billion in international reserves and a total foreign debt of US\$ 34.4 billion. It exports over US\$ 25 billion per year. Therefore, the Venezuelan problem is not an economic or financial problem. It is just political.

Figure 3 shows how this restriction is not financially or economically motivated but politically motivated.

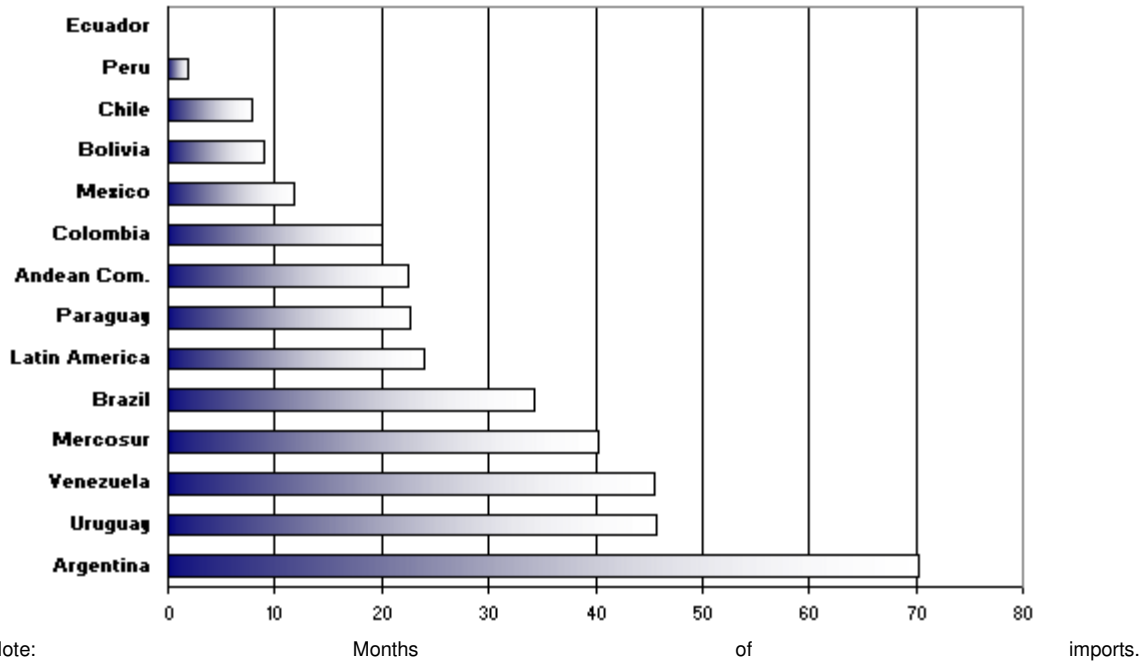


Figure 3: Month of imports per country

How can leasing companies cope with country risk? The answer relies upon its strategic plan. By analyzing the trends of the country environment, leasing companies can improve their risk/reward balance.

Leasing companies are particularly vulnerable to tax changes. A change in tax policy that eliminates any incentive to capital investment is a killer for leasing industries. Therefore, leasing companies and their industry associations must keep a permanent alert on economic policy.

In addition, all these political events, and other such as inherent political violence, must be addressed by leasing companies as an essential component of the environment that determines their strategic plan.

In the couple of examples under examination, the leasing industry has been shrinking, dramatically in Venezuela (though the decline of the Venezuelan leasing industry has some other precedent causes), and in Argentina, up to the end of 2003. It is expected that 2004 will show an increase in the Argentine leasing industry.

Regulatory Risk:

When considering a market entry plan, leasing companies must identify the regulatory risk. Such regulatory risk corresponds to:

- ✓ How likely is the industry to be subject to licensing requirements, i.e. barriers to entry into the market;

- ✓ How likely is the industry subject to reporting obligations that may increase operational expenses?
- ✓ How likely is the industry subject to mandatory ratios and measures such as mandatory low yield investments, which reduce profitability?
- ✓ How likely is the industry subject to regulations that impose red tape but do not add value to the business?

The appropriate analysis must (i) identify the current regulations; (ii) the general trends related to such regulations, and (iii) the adequate resources of the regulators to add value with such regulations instead of depressing the industry⁵.

Typical example of good regulators for the leasing industry can be found in Brazil and Mexico. Both the Central Bank of Brazil and the National Banking Commission of Mexico have developed educated human resources and good systems that make the regulated market more transparent, competitive and efficient. Peru has a second best category of good regulation.

Regulations that have prevented the growth of the markets are found in Venezuela, Colombia and Ecuador, though Colombia is currently reversing such tendency.

Lack of or scarce regulation can be found in Argentina, Chile, Central America and the Caribbean. These environments face the high risk that global tendencies such as the adoption of Basle II to regulate financial markets might lead to strict regulations to leasing companies established in these countries, with the risk of being misunderstood or ill-applied.

Structure Risk:

The chosen structure of a leasing company in a given market is also a major driver of the risk/reward balance. Large corporations need first to address whether they would afford to open a permanent establishment in a given country or just keep a cross-border presence.

Many factors determine such election, notably the existing barriers to cross-border business (Usually tax issues are a big deterrent of such cross-border strategy), and a long term strategy whereby the given captive or leasing company would like to capitalize from the learning curve, through joint ventures with existing players in such given domestic market. Such joint venture permits a participation in the target domestic market without creating a permanent establishment in such country, with the consolidated tax and accounting effects of such permanent establishment.

⁵ For a detailed analysis of regulations, see “Legal Aspects of Equipment Leasing in Latin America”, by the same author. Available in www.amazon.com

When the given company elects to have a permanent establishment, then the type of juridical organization chosen would also influence the risk/reward balance.

Again, in Argentina, from the end of the 19th Century and the beginning of the 20th, large banks such as Citibank (today Citigroup) and Bank of Boston, elected to open branches in the country instead of creating a domestic legal entity, wholly controlled by the parent companies. With the crisis of 2002, such banks realized that all claims by depositors would not stop in Argentina, since clearly the parent companies were direct obligors and responsible vis-à-vis its depositors and creditors. Citigroup and BankBoston (Fleet) exit strategy could not be implemented as fast and effective as the exit strategy applied by the Scotiabank from Argentina, where the legal structure was an Argentine incorporated Bank.

Direct Tax Risk:

Every financial projection is focused on after tax profits, and the structure and impact of direct taxes in the target market are certainly drivers of such final profits. Generally, the most important direct tax is the Income Tax, but it is not the only one. There is an increasing trend of the imposition of taxes on gross revenues by State or Provincial or City authorities, or all of them together, that certainly determine pricing of leases and therefore its viability as an affordable service.

	1998	1999	2000	2001	2002
Antigua and Barbuda	40	40	40	40	40
Barbados	40	40	40	38	38
Argentina	33	35	35	35	35
Colombia	35	35	35	35	35
Mexico	34	35	35	35	35
Trinidad and Tobago	35	35	35	35	35
United States	35	35	35	35	35
Venezuela, RB	..	34	34	34	34
Jamaica	33	33	33	33	33
Guatemala	30	28	31	31	31
Costa Rica	30	30	30	30	30
Paraguay	30	30	30	30	30
Uruguay	30	30	30	30	30
Peru	30	30	30	27	27
El Salvador	25	25	25
Bolivia	25	25	25	25	25
Dominican Republic	25	25	25	25	25
Ecuador	25	..	25	25	25
Nicaragua	30	..	25	25	25
Puerto Rico	20	20	20	20	20
Chile	15	15	15	16	16
Honduras	15	15	15
Brazil	15	15	15	15	15
Bahamas, The	..	0	0	0	0
Bermuda	..	0	0	0	0
Cayman Islands	..	0	0	0	0
Source: World Development Indicators database					

Figure 4: Corporate Income Tax Rates in Latin Americas

Every business or strategic plan must observe the trends in terms of direct taxation at the different levels of Government, and anticipate as much as possible, the effect that such an increase would generate in its business.

In countries where the Law permits Tax stability agreements (Such as Chile and Peru, and until some years ago, Colombia), it is highly advisable to pay attention to the terms and conditions of such agreements, and if possible enter into them. This would provide a framework of security and partial coverage to such risk.

Talent risk:

No business or strategic plan can be executed if there is no human talent, in terms of management, sales and administration, which can turn purposes and objectives into realities.

In such emerging markets, talent is scarce, and in general, once found, there are great needs to train and motivate such talent. As an essential component of such business or strategic plan, there must be a comprehensive approach about how and where to recruit, and train such management. An incentive based plan must be also built-up where compensation must be one, but not the only motivational factor. In Latin countries, a friendly environment generally overshadows better paid but hostile working environments. Such is the prevailing culture.

COUNTRY	Labor Cost per Worker (USD p.a.)Avg 1995-99	Value Added per Worker (USD p.a.)Avg 1995-99	PRODUCTIVITY (VALUE ADDED/LABOR COST)
Colombia	2,507	17,061	6.805345034
Chile	5,822	32,977	5.664204741
Venezuela	4,667	24,867	5.328262267
Argentina	7,338	37,480	5.107658763
Dominican Republic	1,806	8,603	4.763565891
Uruguay	3,738	16,028	4.287854468
China	729	2,885	3.957475995
Mexico	7,607	25,931	3.408833969
USA	28,907	81,353	2.814301034
Panama	6,351	17,320	2.727129586
Ecuador	3,738	9,747	2.607544141
Costa Rica	2,829	7,184	2.53941322

Source: FitchRatings Sovereign Data Comparator- March 2004

Figure 5: Talent productivity in Latin America compared to USA and China

Figure 4 ranks the productivity of workers of selected Latin American countries, compared with productivity data in China and the United States. No data was available about Brazil. The numbers are, however, outstanding, and in a global perspective show that Latin America has a rich endowment of talent.

It is a forceful task, when assessing talent risk to get familiar with domestic labor laws, and labor uses. These include detailed analysis of Statute Law, jurisprudence (Case Law) and prevailing practices.

Operational Risks:

Market Risk:

A business case or strategic plan must assess, as accurately as possible, the potential market for leasing, many indicators can be used, such as the GDP, population, equipment imports and overall level of investment.

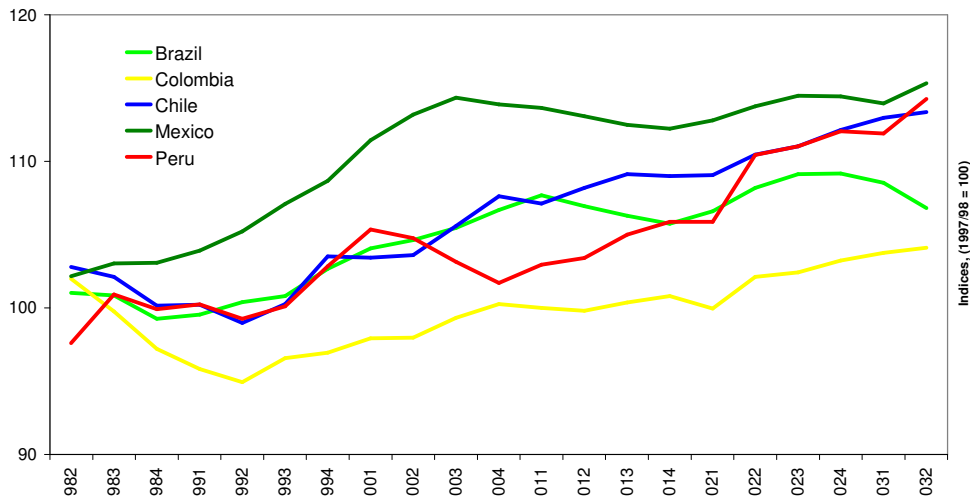


Figure 6: GDP analysis and forecasts for selected Latin American Countries. Source: World Bank, Sept.2003.

Demographics provide interesting indicators about a market potential. Given all considered factors, population and GDP must keep the same ranking while the corresponding economy grows at the pace of improving life conditions. A market with large population shows certainly a great potential.

Table 3: Ten Largest Latin American economies

Countries	GDP	%
Mexico	\$ 637,205,282,816.00	38%
Brazil	\$ 452,387,078,144.00	27%
Argentina	\$ 102,191,431,680.00	6%
Venezuela, RB	\$ 94,339,735,552.00	6%
Colombia	\$ 82,194,358,272.00	5%
Puerto Rico	\$ 67,897,098,240.00	4%
Chile	\$ 64,153,722,880.00	4%
Peru	\$ 56,901,464,064.00	3%
Ecuador	\$ 24,347,000,832.00	1%
Guatemala	\$ 23,251,742,720.00	1%

Table 4: Population in Latin America and the Caribbean

Countries	2002	
Latin America & Caribbean	526,747,712	%
Brazil	174,485,408	33%
Mexico	100,921,480	19%
Colombia	43,744,848	8%
Argentina	37,928,280	7%
Peru	26,749,000	5%
Venezuela, RB	25,093,370	5%
Chile	15,578,820	3%
Ecuador	13,112,100	2%
Guatemala	11,991,950	2%
Bolivia	8,697,080	2%
Dominican Republic	8,634,690	2%
Haiti	8,286,490	2%
Honduras	6,755,060	1%
El Salvador	6,523,910	1%
Paraguay	5,510,000	1%
Nicaragua	5,334,930	1%
Costa Rica	3,941,750	1%
Puerto Rico	3,868,870	1%
Uruguay	3,380,990	1%
Panama	2,940,410	1%
Jamaica	2,612,930	0%
Trinidad and Tobago	1,318,300	0%
Guyana	771,970	0%
Bahamas, The	313,990	0%
Barbados	269,380	0%
Belize	253,330	0%
Netherlands Antilles	220,000	0%
St. Lucia	158,520	0%
St. Vincent and the Grenadines	116,720	0%
Grenada	101,710	0%
Aruba	90,000	0%
Dominica	71,800	0%
Antigua and Barbuda	68,890	0%
Bermuda	60,000	0%
St. Kitts and Nevis	45,980	0%
Cayman Islands	35,000	0%

Source: World Development Indicators database

Tables 3 and 4 show such market potential for Latin America and the Caribbean.

A strategic planner may co-relate population with GDP and assess the potential market in such countries. For the equipment leasing business, an additional factor that needs to be assessed is the capital expenditure of the economy.

It must be noted, however, that there are other factors that are drivers in determining whether or not such big potential can be achieved, such as the availability of natural resources, good infrastructure, improving education and a reliable social net.

There are interesting features that must be noted.

- ✓ While Brazil and Mexico have 52% of the Latin American Population, they generate today 65% of the whole GDP. A simplistic approach would suggest that Brazil and Mexico should be the natural strategic markets for doing business in Latin America. Empirical evidence has shown that such limited approach is wrong, because large markets whereto all players intend to participate reach a fast saturation and competition drives the business very tough. For instance, GE Capital has not developed a real Latin American presence, though its strategy is confined to these 2 countries. Other players such as Caterpillar Financial or CIT have proven more success by holding

- presence into other markets, namely, the five largest markets;
- ✓ Colombia, Peru and Chile have the largest growth potential in terms of catching-up the size of their markets to their population.

But in any event, the markets can shrink, and all other factors considered may impose barriers to the generation of new business.

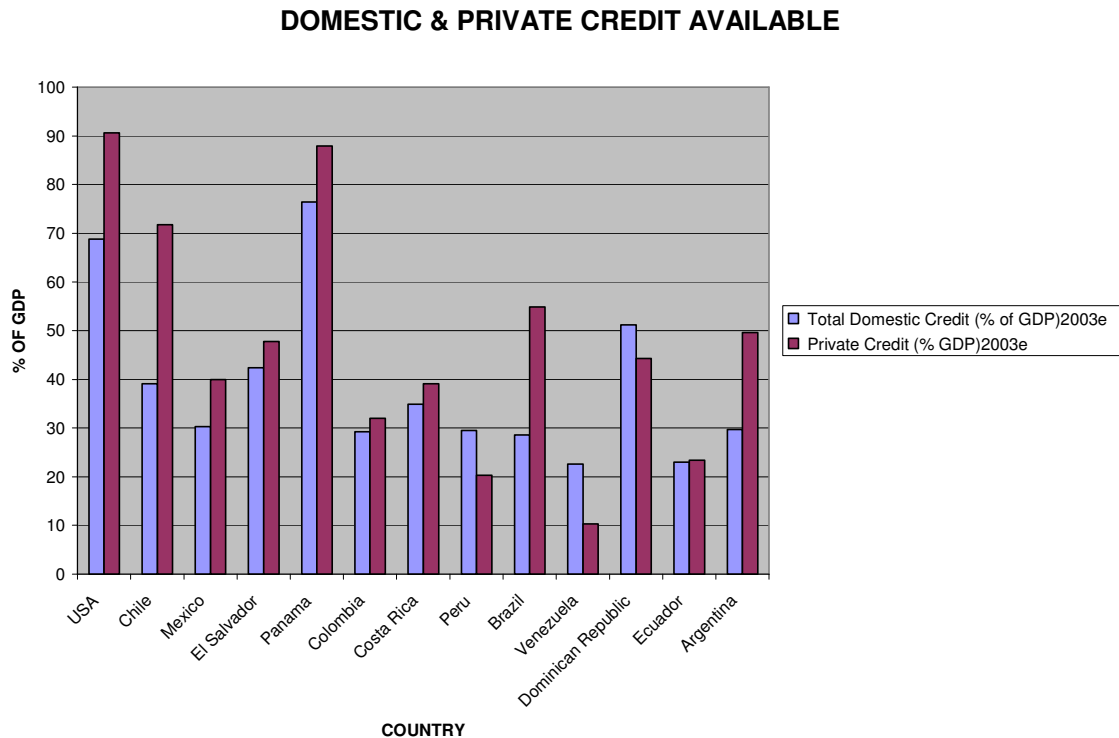
Funding Risk:

A key to success in the equipment leasing business is to have access to competitive funding.

Large multinationals, in particular companies with access to large capital markets, may have the potential of having large resources available and with very competitive low costs. However, cross-border funding faces regulatory barriers (Generally exchange barriers), and of course there is the exchange risk factor, which can be a major deterrent to such international funding, unless an affordable and competitive hedge structure is in place.

Availability of local resources in the domestic capital markets is one of the factors that needs to be assessed. For example, after the devaluation of 1999, Brazilian leasing companies switched their funding strategy from United States dollars denominated borrowings to Brazilian Reais denominated papers. Though the interest gap is so large (The prevailing Central Bank- SELIC rate is currently 16% p.a. while the United States Federal Funds rate is 1.25% p.a.), most leasing companies and leasing customers preferred dealing with Reais. How large is the domestic capital market and how sustainable could be a funding strategy domestically based as opposed to a funding strategy internationally based?

Figure 7: Domestic Capital Markets Potential



Source: Fitch Ratings Sovereign Data Comparator, March 2004. Chart The Alta Group

Figure 5 shows the potential of the domestic capital markets to provide funding for leasing companies. It can be seen that Panama, Chile, Brazil and Argentina have the best potential to raise funds in the domestic markets for funding leasing transactions.

All other countries bear a higher domestic funding risk, and must therefore rely more upon cross border funding than upon domestic financing.

Competition Risk:

Once your company has dealt with building a legal structure, having in place competent management, completed a marketing strategy and with a solid availability of financial resources, it would be tremendously disappointing to learn that your sales people cannot originate enough transactions as planned, because they are losing business from the competition.

This leads to a continuous need for leasing companies to keep updated competitive analysis. Lessors must know who are their competitors, what are their offerings, whether they offer better pricing, better service or differentiated products..., or else.

The larger and more mature an industry is, the tougher the competitive environment. At certain stages of maturity, it is no longer viable to allow your leasing offering to become a commodity and end up trapped by the need to lower prices and margins, or worse, being obliged to accept unacceptable credit risks.

Continuous competitive analysis is certainly an imperative to mitigate competitive risks.

Credit Risk:

Credit risk is the core of the risk undertaken by every equipment lessor. It is a generalized perception that credit risk analysis must assess the famous three “Cs” of credit (Character, Capacity and Collateral).

The problem is that most of the environments in Latin America still are deficient in terms of available information in order to make a credit judgment. The information systems are in the process of improvement, but there is still a large gap between the quality and accuracy of information in Latin America and the United States.

Notwithstanding, Brazil, Mexico, Argentina, Colombia, Peru, are adapting state of the art technology, there are credit bureaus in operation in such countries and the regulations as well as their enforcement are leading to steady but increasing improvement of credit information.

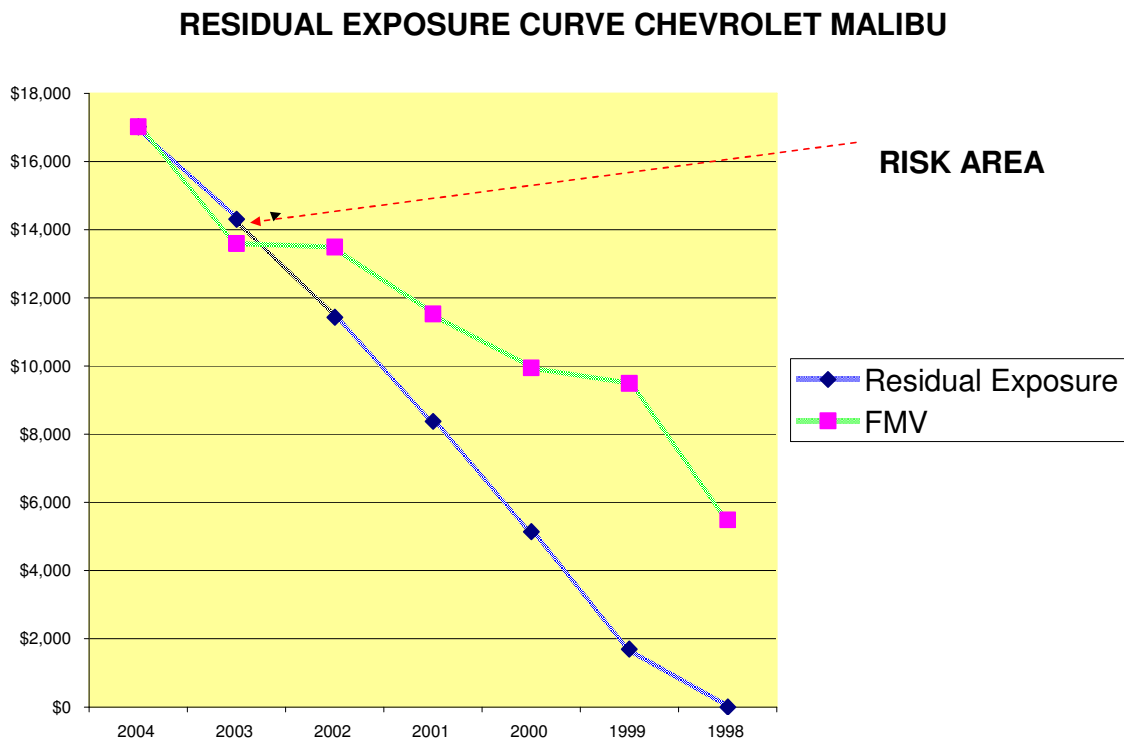
The bottom line is that credit risk must be examined in Latin America with a magnifying glass. The good news is that there is available such magnifying glass.

Residual Risk:

Lessors are confronted to residual risks, not only at the end of the lease, but also during the term of the financing, since there is an inherent probability that Lessor may be forced to repossess the leased equipment, by any reason whatsoever, ranging from voluntary repossessions to forceful recoveries of equipment.

Figure 7 contains an illustration of a residual risk curve, contrasting the amount of still not recovered investment by the Lessor under the lease, arising from collecting stipulated rentals (“Residual exposure”) compared to the fair market value of the equipment over all the lease term (“Fair Market Value”).

Figure 8: Residual Risk Forecast Sample



Source: Kelly Blue Book and calculations of The Alta Group

A more sophisticated residual curve must add to the residual exposure concept the cost of repossession in cash and time (Legal fees, time for repossession, refurbishment and go to market). However, the tools for residual risk management are certainly an in depth up to date information about secondary markets.

In emerging markets such as Latin America there are lesser information sources than in more mature markets such as the United States markets. However, information is available, and certainly, the player who proves able to develop a consistent secondary market information and accurate residual risk curves, will be the winner.

The curves must also consider the changes of technology and how they influence secondary markets of any given equipment.

The good news in emerging markets such as Latin America is that there are second and third layers of customers for used equipment (For instance, there is still a growing market for fax machines in some rural areas of Latin America, while the fax machine alone, became obsolete in the first world).

Deal Structure and documentation risk:

Lessors face double edged deal structure risk as well as documentary risks. From one side, a well based deal structure provides comfort in the enjoyment of Lessor's rights and from the other side may be a competitive tool since it may differentiate the value proposition of a lessor vis-à-vis its competitors (This may be valid for a while, until competition catches-up and copy the concerned successful deal structure). Therefore, sound structures and documentation would be optimal if they achieve the double purpose of enforceability and differentiation from the competition.

The experience in Latin America about how to deal with these two edges, relies upon several factors. Of course that the most obvious and short answer is retaining good legal counsel, but besides that, these are the variables that must be taken into account:

1. The existence or not of a domestic ad-hoc regulation for Equipment Leasing;
2. The existence or not and familiarity of the domestic Courts with equipment leasing as opposed to the traditional rental agreement or the hire purchase or conditional sales agreement;
3. The existence or not of a strong domestic leasing association that defends the interests of the leasing industry and that shall be the adequate communications conduit speaker to the Government, Congress and Courts (and even to the press);
4. The existence or not and prevailing attitude of Government regulators to the financial markets, and in particular towards the equipment leasing industry;

In countries such as Brazil and Mexico, all these conditions are present. However, innovation in the equipment leasing industry (therefore innovative lease structures) should ideally pass a test by the Government regulators prior to launching it, because the lack of awareness about the new structure and its rationale, might be misinterpreted and result in undesirable outcomes and losses by lessor.

It is interesting to note, however, that Chile does not have the first condition, namely there is no ad-hoc legislation for the leasing transaction. However, Chilean Courts have

evolved and produced a very consistent jurisprudence that understands the real nature of the leasing business and favors the enforceability of equipment leasing arrangements.

Other countries, such as Colombia and Peru, Costa Rica and Guatemala, have these structures in place, but not strong enough, though all these countries are at present improving these factors.

Portfolio Service Risk:

It is very clear that a well documented transaction with an acceptable credit risk, and appropriate coverage of residual and other risks, is not enough to bring back to the lessor the cash it needs for feeding its business. Having an adequate structure and organization to bill, collect, liquidate and receive payments is essential for the success of any lessor.

A portfolio may lose its value if portfolio servicing declines. Recently, a securitized portfolio in Brazil experienced some temporary increase of delinquency mostly attributable to a temporary crisis in portfolio servicing, notwithstanding the fact that the credit rating was still investment grade.

The coverage for portfolio service risk shall be based upon a comprehensive assessment of several factors such as:

1. Human factors: Good talent, adequate motivation, constant training;
2. Sound internal procedures;
3. Good information technology and systems;
4. The existing domestic banking infrastructure and banking relationship in place;
5. The existence or not of domestic dedicated portfolio management firms to leverage eventual personnel/outsourcing needs;

Indirect Tax Risk:

Not only in emerging markets but all over the world, there is an increasing tendency of Governments to rely more in indirect taxes than in direct taxes as the core funding source for public finances, i.e. public spending.

An incoming indirect tax may affect the pricing structure of a leasing deal established beforehand. It is worthwhile to notice that in all Latin American jurisdictions, Tax Law is considered Public Interest Law, and therefore its application to ongoing deals is effective since enacted, without regard about whether or not such deals were executed prior to the new Law enactment. Such emerging indirect taxes should be unavoidable.

Therefore, Lessors must anticipate the tendency in their jurisdictions for such indirect taxes to be created or increased, and shall assess whether or not such structure may affect their expected profit margins in certain or all deals.

A simplistic approach to cover such risk would be the insertion of a typical tax indemnity clause in the master or boilerplates agreements. However, such approach is not always effective, some times is even not enforceable. In certain jurisdictions, Brazil or Mexico, for instance, Consumer Protection Laws enable lessees (By extension protected by Consumer Protection Laws) to dismiss such clause on the grounds that the Courts should deemed such clauses as not written, if there is the appearance of an unfair deal in detriment to the Lessee, that the Courts should attribute, by default to the “abuse of the dominant bargaining position of the Lessor”.

A typical example of such indirect taxation is the so-called PIS/COFINS Tax in Brazil, which has suffered several changes over the latest 18 months in terms of rates, taxable events and so forth.

A comprehensive program to assess such indirect taxation would be a wise undertaking. Pricing and documentation may provide responses to the actual needs detected or accurately forecasted, and could provide adequate coverage in terms that neither competition risk or documentation risk are increased. Overall, this would protect lessor’s profitability.

Regulatory Operating Risk:

As mentioned before, the existence of regulators in the domestic Equipment Leasing Industry, could be either a blessing or a damnation. If regulators understand the industry they can stimulate its orderly development for the general welfare of the economy.

But this is an ideal scenario, though, fortunately in some countries like Brazil, Mexico, and increasingly Colombia and Peru, this is improving.

Argentina and Chile do not have such regulatory operating risk at present, since most of the Lessors may be incorporated without any regulatory intervention, except for Bank’s controlled Lessors.

On the other hand, if regulators are not well educated about the real social benefits of the equipment leasing industry, being subject to them would be detrimental. The following factors affect the normal operation of a leasing company due to the regulatory actions:

1. Expensive and useless reporting obligations. In some countries, lessor are subject to fill from time to time (could be from a daily basis, to monthly, quarterly and once a year) reports that are not well suited to the actual legal, economic and financial structure of the Lessor;
2. Inadequate auditing procedures. By the same reasons, auditing by regulators tend to analogize the internal structure and control of leasing transactions to these applicable to bank loans. Sometimes they have commonalities, but they have enormous differences, as well;

3. Limitation on the scope of business offerings and deals structures. Regulators may not understand the rationale of some structures, and for only that reason they forbid it. A typical example is Colombia, where for many years, securitization of leases was forbidden by the Superintendency of Banks;
4. Order or disorder in non performing players from the market. The lack of understanding by Regulators about the leasing industry may create disorder exits, and overall, turmoil that may impair the confidence and trust that the local players, such as Vendors, funding sources and lessees may have on the Lessors overall, and in particular, about the good players;

There are various different approaches to cover such regulatory risks. One, the simplistic, is to avoid entering into market places where the industry is regulated, or focus only in highly educated regulatory environments. Another alternative approach is supporting the local leasing association in providing good education to the regulators, and third, of course, overall, is to deal in an intelligent and strategic manner with such regulators.

Legal Collection Risk and Repossession Risk:

When well structured and documented deals fail, in spite of good portfolio servicing, then it appears the test of enforceability. Such test is what determines the likelihood of compulsory collections and/or prompt equipment repossessions and disposals.

The necessary stone path to enforce leasing transactions comprises three milestones: (i) The rule of Law; (ii) the efficiency of the legal system and (iii) corruption free environment.

Table 5: Rule of Law Index for USA and Latin America

Country	Est.		
	1.70	PANAMA	0.00
CAYMAN ISLANDS	1.55	MEXICO	-0.22
BARBADOS	1.43	BRAZIL	-0.30
CHILE	1.30	JAMAICA	-0.38
BERMUDA	1.28	DOMINICAN REPUBLIC	-0.43
MARTINIQUE	1.28	GUYANA	-0.43
PUERTO RICO	1.15	PERU	-0.44
FRENCH GUIANA	1.02	EL SALVADOR	-0.46
COSTA RICA	0.67	ECUADOR	-0.60
DOMINICA	0.67	BOLIVIA	-0.60
ST. VINCENT AND THE GRENADINES	0.66	NICARAGUA	-0.63
URUGUAY	0.56	ARGENTINA	-0.73
TRINIDAD AND TOBAGO	0.34	COLOMBIA	-0.75
ST. KITTS AND NEVIS	0.33	HONDURAS	-0.79
ST. LUCIA	0.33	GUATEMALA	-0.84
GRENADA	0.28	CUBA	-0.94
BELIZE	0.05	VENEZUELA	-1.04
		HAITI	-1.76

The Rule of Law concept refers to the willingness of the players in a certain country or economy to honor their commitments freely consented or imposed by Statute Law.

The World Bank has developed a measurement system of the Rule of Law⁶. According to such measure, the highest Rule of Law index is 2.5, and the lowest is -2.5.

Table 5 ranks these Rule of Law indexes listing the United States and the Latin American and Caribbean countries. This table is an extract of a rating of 186 countries. For illustration purposes, The United States ranks 20th, below countries such as Monaco, Switzerland, Denmark, Canada, and the worst index is for Somalia (-2.05).

Having the knowledge about the effectiveness of the Rule of Law, has a direct implication about the overall likelihood of prompt payments and voluntary repossessions. Therefore, such factors must be considered in shaping a risk management strategy.

The second factor to be considered is the efficiency of the Court Systems in the target country. If negotiations do not succeed for many reasons, including poor Rule of Law, then going to Court must be an effective alternative. The reality shows that not always going to Court is an efficient alternative for the effectiveness of Lessor's rights.

The World Bank and Lex Mundi undertook a study to measure the efficiency of Judicial Systems in 109 countries⁷. Several indicators emerged from such study. Table 6 shows the average prevailing times that take in each country to enforce a contract. The table includes some relevant Latin American countries and the United States of America, for comparative purposes.

⁶ Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi (2003). "Governance Matters III: Governance Indicators for 1996-2002". World Bank Policy Research Department Working Paper.

⁷ COURTS: THE LEX MUNDI PROJECT, Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer; Working Paper 8890; <http://www.nber.org/papers/w8890>; NATIONAL BUREAU OF ECONOMIC RESEARCH, 1050 Massachusetts Avenue, Cambridge, MA 02138, April 2002

Table 5: Court System efficiency

Time to enforce a contract (days)	2002	2003
Nicaragua	65	125
Paraguay	..	188
Chile	200	200
Jamaica	202	202
Honduras	225	225
El Salvador	..	240
Argentina	300	300
Mexico	283	325
Ecuador	333	332
Uruguay	360	360
Venezuela, RB	360	360
Puerto Rico	..	365
United States	270	365
Costa Rica	370	370
Brazil	180	380
Peru	441	441
Bolivia	464	464
Dominican Republic	215	495
Colombia	527	527
Guatemala	1,460	1,460

Based upon such results, a Lessor can assess the time involved in enforcing a leasing document. In order to determine the costs, the World Bank also undertook a cost analysis, that is presented in Table 7:

Table 6: Cost to enforce a Contract

Cost to enforce a contract (% of GNI per capita)	2002	2003
United States	0	0
Brazil	2	2
Bolivia	2	5
Colombia	6	6
El Salvador	..	7
Honduras	7	7
Argentina	9	9
Mexico	10	10
Ecuador	11	11
Uruguay	14	14
Chile	15	15
Nicaragua	18	18
Guatemala	20	20
Puerto Rico	..	21
Costa Rica	23	23
Peru	30	30
Paraguay	..	34
Jamaica	42	42
Venezuela, RB	47	47
Dominican Republic	441	441

A combination of time and cost, may give some strategic tools for an adequate risk management approach.

When the players succeed in their strategies, they may face another obstacle in order to enforce their rights, i.e. the corruption of the Government and of the Judiciary Power.

Table 7: Corruption Perceived Index

	Country	CPI 2002
Rank		score
16	USA	7.7
17	Chile	7.5
32	Uruguay	5.1
35	Trinidad & Tobago	4.9
40	Costa Rica	4.5
45	Brazil	4
47	Jamaica	4
48	Peru	4
57	Colombia	3.6
58	Mexico	3.6
59	China	3.5
60	Dominican Rep.	3.5
63	El Salvador	3.4
67	Panama	3
70	Argentina	2.8
72	Honduras	2.7
82	Guatemala	2.5
83	Nicaragua	2.5
84	Venezuela	2.5
89	Bolivia	2.2
91	Ecuador	2.2
92	Haiti	2.2

Source: Transparency International

Table 8 contains the ranking of corruption for some selected Latin American countries compared to the United States and China. The highest the ranking, the lesser corrupt the Government's country.

An interesting and unique feature of leasing enforceability is the prevailing recognition of the preferential rights of the Lessors vis-à-vis secured and unsecured lenders. Bankruptcy Courts and Liquidators have systematically accepted the preferential range of lessor's rights in bankruptcy proceedings. In practical terms, both in the cases of finance leases and operating leases, lessor rights to collect rentals under an automatic stay are treated as operational expenses of the reorganization, and then shall be paid with preference, or in case that the leased assets are not essential for the continuation of the business, friendly

repossessions ordered by the Bankruptcy Courts tend to be the solution. This has been extensively documented in Mexico, Brazil, Chile, Colombia and other jurisdictions⁸.

End-of-lease Risk:

The equipment leasing industries in Brazil, Mexico, Chile, Colombia, Peru and Argentina are evolving from the pure finance or capital lease based model that normally is supported by tax incentives, to a more mature operating leasing environment.

In a prevailing finance lease model, end-of-lease risk is not an issue, since normally lessees tend to purchase for a nominal or very low value the equipment at the end of the lease.

However, in an operating lease model, end-of-lease opens many potential alternatives, and therefore, implies several risks to be considered by lessor:

1. Return of the equipment: In such events, Lessor face, *inter alia*, the following risks:
 - a. Equipment in poor condition, below fair wear and tear standards;
 - b. Obsolescence of the equipment;
 - c. Need to refurbish the equipment;
 - d. Other logistical conditions
2. Extension of the lease for a further period. In such case, Lessor faces an extension of its exposure to lessee's credit risk;
3. Purchase of the equipment for fair its market value. Here the associated risks are taxes applicable on the sale, if any, and of course the credit risk of the lessee, or final purchaser;
4. Refusal by lessee to exercise any of the above mentioned options, and therefore withholding of the equipment. In most of the jurisdictions, if the contract does not provide otherwise, the lessee may have a statutory right to keep possession of the equipment, alleging that there are amounts due by Lessor by any reason associated to the same. The clear coverage in these cases shall be of course a very well drafted contractual provision. However, in some cases, even a good contractual provision may be challenged at Court by Lessee. In such case, screening the character of the lessee shall be one of the major preventive measures for a sound risk management.

⁸ For more detailed information about Court precedents in the most active countries, we encourage reading "Legal Aspects of Equipment Leasing in Latin America", by this paper's author. See note 5 above.

Currency Risk:

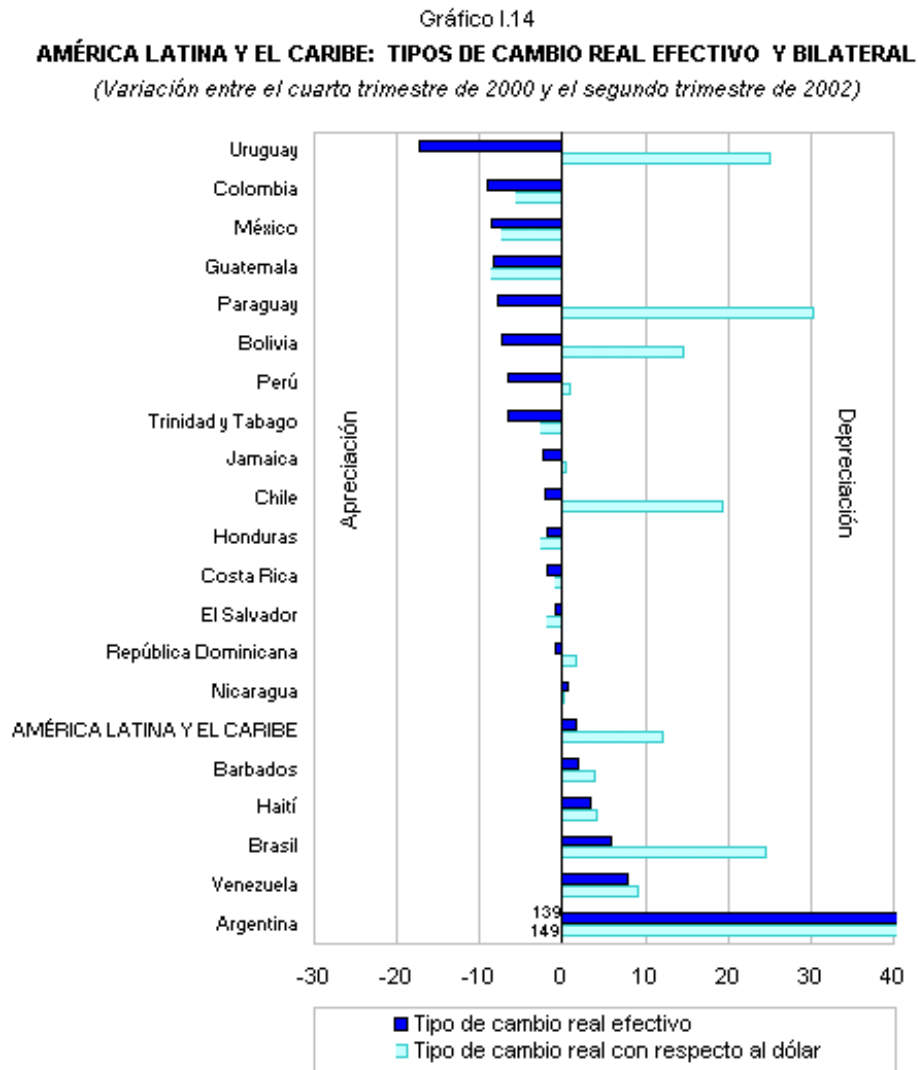
Lessors and Equipment Finance lenders face the currency risk, not only in its overall portfolio recoveries, collecting any receivable out of the stream, of rentals when such rentals have been denominated in local currency, but also when at the time of liquidate any transaction, they need to convert all the proceeds in local currency into hard currency (United States dollars, Euros or any other hard currency).

In a global environment where the international monetary system tends to eliminate or at least condemn to failure any artificial government imposed exchange rate, due to the unavoidable forces of the free exchange markets (legal or illegal- white or black markets), the general tendency is for floating exchange rates. And a tendency into floating exchange rates can lead to anticipate and cover currency risks.

From time to time, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) records and analyzes the purchasing power parity of Latin American currencies vis-à-vis its prevailing exchange rates. Such data bring good indicators and warning signs about whether or not a given national currency is overvalued or undervalued, (which means, in the case of overvalue, a significant risk of devaluation, and vice versa in the case of undervalue). Such indicators should lead to the suggested strategy to hedge the exchange rate variations, using the available derivative instruments⁹. The latest information published by ECLAC corresponds to FY 2002 and is shown in Figure 9:

⁹ All Latin American Countries have banks offering forwards and sometimes swap agreements. Brazil and Mexico have more sophisticated derivatives markets, since each one of them has a derivatives exchange. The rest use public debt instruments denominated in US dollars or Euros, but one must warn that Sovereign Risk shall be also evaluated by using such hedging instruments.

Figure 9: Overvalued (left) and undervalued (right) currencies in Latin America



Fuente: CEPAL, sobre la base de cifras oficiales.
 a/ Un aumento significa una devaluación real.

Exit Strategy Risks:

A sound business plan must foresee an exit strategy for the business. As stated in the series of “The Perfect Storms” and “Forecasting quality”¹⁰, it is pointed out the central purpose of any Leasing Business to create, add and capture value. An exit strategy makes possible to realize this value captured at a certain stage of time.

A typical exit strategy could be to sell the company to a third party, or to organize a successful Initial Public Offering (“IPO”) to distribute ownership of the company in the open capital markets.

In our risk map, we have identified two major risk sub-categories in connection with an exit strategy, namely country risk, already addressed, and an industry collapse risk.

Industry Collapse Risk:

Between 1969 and 1996, Venezuela had a healthy and growing equipment leasing industry. Investment in capital equipment was flowing and competition was intense, developing a highly sophisticated and well funded leasing system.

What happened then? A financial turmoil that affected some of the major Venezuelan Banks lead to Government intervention, change of the legislation, enactment of the Universal Banking model, and the indiscriminate application of all Basel Rules to all financial institutions. Talent migrated to other activities and priorities, and the equipment leasing industry collapsed. Today, it is hard to find independent leasing companies in Venezuela, and even more difficult to find equipment leasing portfolio among Venezuelan Universal Banks.

¹⁰ The Equipment Leasing and Finance Foundation, in 2000, commissioned The Alta Group to examine why an unusually large number of companies had exited the industry in a short period of time. The purpose of this study, aptly titled The Perfect Storms, was to determine why, although most companies are successful,

a few failed in a condensed timeframe.

The Perfect Storms study consisted of ten companies (the target companies) that had exited the industry, either voluntarily or involuntarily, during the period 1998-2000. These companies represented a broad cross-section of the equipment leasing industry and were active in several different markets. Specifically, the Foundation sought to determine if this Perfect Storms was a series of isolated events, or an indication of a failing industry. More importantly, the Foundation wanted to know if there were any signals or indicators of these eventual problems. The conclusion reached in this study was that highly questionable decisions were made that, when combined with external factors, created disastrous results for the companies involved. Furthermore, there were signals and trends presaging these results.

In a second stage, the Foundation asked The Alta Group to identify key measures and useful indicators helpful in successfully managing an equipment leasing and finance business. Lessors can use Forecasting Quality to evaluate their own financial health, that of possible acquisition targets, and continue to make good business decisions. Further information can be found in www.LeaseFoundation.org.

The analytical methodology of The Perfect Storms can and certainly were applied in such context¹¹. The conclusions of the study for Latin America were the same:

- ✓ Poor or not tested sustainable business models;
- ✓ Management issues;
- ✓ Poor controls;
- ✓ Uncontrolled and indiscriminate growth;

But in addition to the above, when the Equipment Leasing Association is weakened, the industry tends to collapse, because it lacks the appropriate advocate to safeguard its interests, not only towards the Government but also towards the markets and the public.

¹¹ In 2002, The Alta Group Latin American Region conducted a Seminar where a research entitled “Mares Tormentosos en América Latina” was presented. This research in its Power Point version is available for download at www.thealtagrouplar.com.

Summary and Conclusions:

Every human activity has inherent risks. As the current advertising message of an insurance company states: “The worst risk is not taking a risk”.

Companies that succeed do not hide from risk. They define the risks and prepare themselves for such risks, making themselves less vulnerable to any such risks than any of their competitors. While Latin America presents most attractive features, the risk events are magnified by the press and by all those that have failed to do their homework.

A good tool to be prepared could be the risk map that we suggest in this paper. Such risk map does not pretend to be complete. Some risk factors might be ignored. A suggested check list could be the suggested Table 9.

While globalization is unavoidable, for the Western Hemisphere it makes sense to integrate better its economies. A new frontier is open for pioneers exploring the south of the Rio Grande.

As Thomas Mc. Namara, then chairman of the Council of the Americas, declared in Buenos Aires during the Summit of the Trade Ministers of the Free Trade Area of the Americas declared in 2001, the United States of America was the first free trade area of the Americas that gathered 50 States, with different environments. Well, the challenge for today business leaders is to embrace 34 additional States, increasing business with such players, for the mutual benefit of the creation of wealth and welfare.

Panicking today about the threats of foreigners producing anything at lower costs, is a short sighted vision that could lead America to disaster. Using these diversities combining technology, know how and good management with the neighbors of the South to build a strong united Western Hemisphere is exactly what makes sense and will be sustainable in the long run.

Table 8: Risk Map and how to respond

RISK CATEGORY	RISK TYPE	SUGGESTED APPROACH/ PREVENTION OR COUNTERMEASURE
MARKET ENTRY RISK	COUNTRY RISK	Simulation analysis/ Political Risk Insurance/ Check for International Investors Protection Treaties;
	REGULATORY RISK	Review Regulations/ assess quality of Government entities/ retain competent counsel
	STRUCTURE RISK	Undertake comparative analysis/ choose the right structure for your interests;
	DIRECT TAX RISK	Analyze Government Finances/ Prepare a long-term strategy;
	TALENT RISK	Evaluate quality of local talent/ develop comprehensive training programs/ coach and motivate
OPERATIONAL RISK	MARKET RISK	Assess purchasing power/ identify the potential of your niche/ identify how to exploit the population-GDP gap;
	FUNDING RISK	Assess domestic financial markets, and barriers for cross border funding/ develop a long-term funding strategy;
	COMPETITION RISK	Keep permanent competitive analysis on your peers in the business;
	CREDIT RISK	Develop an approach combining sound risk acceptance criteria with a deep understanding of the particulars of the domestic economy;
	RESIDUAL RISK	Develop a permanent collateral curve and complete and accurate database/ permanently inspect leased assets and keep track of secondary markets tendencies;
	DEAL STRUCTURE RISK	Build a project team between your business development and sales people and competent counsel/ Schedule permanent interaction;
	DOCUMENTATION RISK	Rely upon competent and experienced counsel and establish control procedures and levels of authority for documentation risks;
	PORTFOLIO SERVICE RISK	Keep a motivated and diligent team/ keep analyzing offerings of outsourcing and cluster services (such as bank collection services) available in the marketplace;
	INDIRECT TAX RISK	Build a competent team to track tendencies/ Keep a sound pricing policy and have bullet proof documentation, with red flags for changes;
	REGULATORY OP. RISK	Analyze competency of regulators/ cooperate with the industry association in building training programs for regulators/ be proactive;
	LEGAL COLLECTION RISK	Develop a delinquency management strategy with competent personnel and counsel;
	REPOSSESSION RISK	Combine permanent assets tracking and inspections with delinquency management strategy;
END-OF-LEASE RISK	Anticipate likelihood of events, and analyze in advance probability of such risks/ combine the strategy with assets tracking and delinquency management;	
EXIT STRATEGY RISK	INDUSTRY COLLAPSE RISK	Support a strong domestic industry association/ Make prevail standards of good management practice/ develop from time to time “Perfect Storms” analysis;
	COUNTRY RISK	Track the host country macroeconomic and political evolution/ combine independent reports with your assessments, and challenge them with competent consultants/ Build a “shelter” strategy accordingly;