ARTICLE

MODERN PUBLIC AFFAIRS: THE PATH FOR ENDURING TECHNOLOGY COMPANIES IN LATIN AMERICA

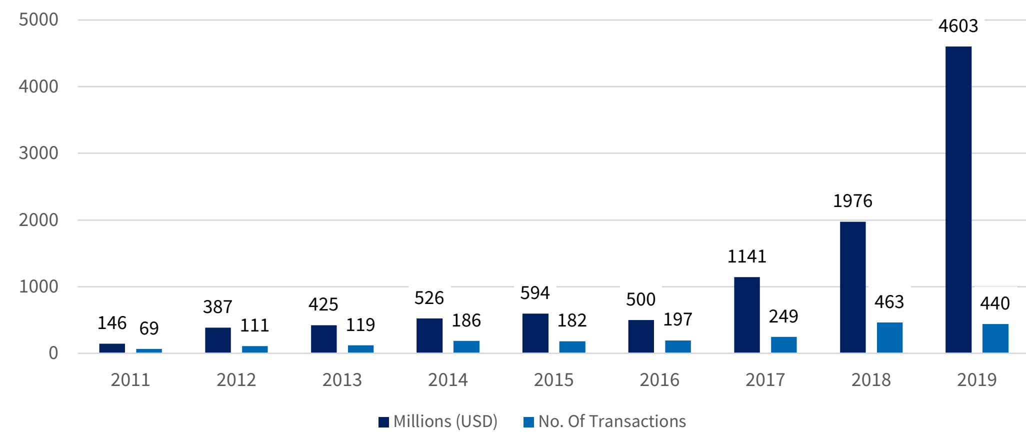
Tech Innovation, State and Civil Society: During the last decade, the tech sector has been rapidly developing throughout the region, leading to the creation of a significant number of companies that are offering new and more efficient solutions to daily-life problems and high-level economic operations. These companies have supplied alternatives for connectivity, transactions, transport and information needs that many countries in Latin America required.

However, while bringing tremendous positive outcomes for people and the economy, their "disruption" has also created impacts on internal and external stakeholders and different sectors of society.

This inevitable reality has brought the attention of governments, who are rapidly trying to develop new regulation to "solve" those impacts, targeting these new technological actors and their operations. Despite having good intentions, a lack of understanding of the sector and the tech actors' specific characteristics, as well as the excessive use of foreign regulations as public policy roadmaps (the brussels effect)[1], is currently affecting the operational freedom of new companies and delaying the consolidation of a collaborative, sustainable economies.

In this context, Modern Public Affairs play an essential role in bringing these three forces together: Tech, State and Citizenship. Each group has common interests, goals and the desire to flourish, but they do not necessarily know how to interact, collaborate and take out the best of one another. By understanding this specific context and linking mutual interests of these stakeholders, Public Affairs advisors are called to promote a collaborative roadmap, facilitating stronger companies, growing economies, efficient states, and sustainable communities.

Exhibit 1: VC Investment in Latin America



Source: LAVCA 2020

The Latin American Context: challenges and opportunities

Good investment conditions with a strong growing market

Currently, Latin American economies are in the need of new investments that allow the consolidation of stable growth. The economic crisis derived from the COVID-19 pandemic took a toll on growth perspectives throughout the region, mainly affecting formal employment and SME (small and medium enterprises) stability. In this scenario, according to a recent study developed by the OECD, new technologies represent a great opportunity for growth in the region, incentivizing new employment opportunities and increasing the levels of formality within the small and medium sized businesses.

There has been a constant growth in VC investment during the last decade, which has been reflected in the strengthening of international and local companies throughout LAC. Essential operational voids and a developing and increasingly technical educated workforce are the reasons that Latin America is attracting the interest of foreign tech investors, willing to support new and growing businesses. For example, there has been a great investment in companies related to logistics & distribution, such as Rappi in Colombia; Fintechs and neobanks like Nubank in Brazil; and e-commerce as Mercadolibre and MadeiraMadeira.[2]

As seen in **figure 1**, there are Lantin American countries that have increased their investment reception in the past two years. The 2019 numbers show growth, not only in terms of investments, but also in the number of projects that are attracting those investments. This proves that the region has the potential of developing a tech industry that allows the consolidation of new, well constituted enterprises, which generate wealth and formal employment in a context that desperately needs it.

Brazil **50.5%** of deals in 2019 **2019:** USD $2.49b invested in 222 deals **2018:** USD $1.3b invested in 259 deals	**Mexico** **22.7%** of deals in 2019 **2019:** USD $649m invested in 100 deals **2018:** USD $175m invested in 95 deals	**Chile** **9.1%** of deals in 2019 **2019:** USD $63m invested in 40 deals **2018:** USD $46m invested in 49 deals
Colombia **8.2%** of deals in 2019 **2019:** USD $1.09b invested in 36 deals **2018:** USD $334m invested in 19 deals	**Argentina** **6.6%** of deals in 2019 **2019:** USD $290m invested in 29 deals **2018:** USD $84m invested in 19 deals	**Peru** **1.4%** of deals in 2019 **2019:** USD $3m invested in 6 deals **2018:** USD $16m invested in 11 deals

Source: LAVCA 2020

Regulatory intervention and public-private disconnection

However, despite of the growing investments, the region still has significant challenges. Local governments and companies have diverse interests, which vary through every country. There is no clear collaborative workstreams between the private and public sectors in the search of economic growth and sustainable development.

There have been various initiatives from private companies regarding the improvement of infrastructure and connectivity, but there is no evidence of a large scale, long-term collaboration policy. According to the OECD, in Latin America, "the public sector is responsible for the majority (about 60%) of the region's total Research and Development (R&D) expenditure".[3] This evidences a relevant contrast with the OECD's members average, which shows that private investment is responsible for approximately 70% of R&D.

Tech companies (with some exceptions) are mainly focused on innovation and growth, while governments, having seen the velocity at which the tech world is gaining influence, is more worried on how to regulate the sector based on the European and U.S. examples.

This has resulted in lack of collaboration, and in some cases antagonism, causing a clear deterioration of the public-private potential.

Covid Context and Fintech: a window of opportunity

In recent months, a general academic, public policy and public opinion consensus has been evolving regarding the need of a digital transformation to help foster development in the region.

Among other relevant sources, this consensus is particularly evidenced in the *Latin American Economic Outlook 2020*, a public policy report produced by the OECD Development Centre, the United Nations Economic Commission for Latin America (UN ECLAC), the Development Bank of Latin America (CAF) and the European Union (EU). In this year´s edition, all of these respected institutions agree that digital transformation is key *"to cope with the current socio-economic situation, boost productivity, strengthen institutions and achieve higher levels of inclusion and well-being."*[4]

At the same time, Latin America is experiencing a "Fintech boom" which is revolutionizing the banking industry by offering more services to traditionally marginalized sectors of society, fostering financial inclusion. According to Finnovating's annual report[5], in 2019 the Fintech investment in LAC grew 180% if compared to 2018. 90% of the total investment was concentrated in three verticals: Neo & Challenger Banks, lending and payments.

In the Fintech sector in particular, the public-private collaboration has been more evident. Nonetheless, the traditional antagonism, obstacles and the Brussels effect phenomenon are also starting to emerge:

- **Intervention of exchange platforms:** With the current cryptocurrency boom, exchange platforms have been growing in most Latin American countries. As a result, the governments and specialized authorities have been working on regulations that, due to the speed of the industry's development, are not necessarily responding to better market conditions.
- **Federal cryptocurrencies:** Federal governments are also exploring the implementation of crypto currencies, challenging the status quo, and increasing destabilization risks for the traditional financial sector.
- **Unleveraged playfield led by state-owned actors:** Governments (Central Banks) are directly and indirectly imposing their own payments schemes, with increasing market share. By having the double role of regulator and competitor an unleveraged playfield is generated, affecting market conditions.
- **Market chain diversification:** With the emergence of actors with new and interconnected services, governments and regulators are setting conditions that aim to avoid abuse of dominant positions. Although this strategy may be useful to prevent unfair advantages from traditional power players, excessive requirements and role limitations could affect new actors from expanding and strengthening the market.
- **Increased taxes to the digital economy:** Conversation around taxation of digital services has grown, and the risk of unilateral digital tax measures to raise revenues is high.

Despite these challenges, considering the consensus of digitalization for economic recovery and the good shape of the Fintech sector in the region, there is a unique opportunity for the main players of the Fintech world to lead the transformation of the interaction between the private sphere, the State and common citizens, hopefully encouraging a truly collaborative development agenda for Latin America.

How to move forward and take advantage of this window of opportunity

Considering this complex context and in order to shift the stage into growth, sustainable development and stakeholder support, Fintech leaders should have the tools to:

- Understand government and other stakeholders' visions, risk assessments and short-term priorities. This in turn implies having adequate, stakeholder mapping, policy, regulatory and legislative monitoring capabilities.
- Construct shared value agendas based on the development of mutual goals with a sustainable development focus, based on ESG and sustainability principals.
- Set the narrative and strategic key messaging to influence the agenda, reaching and building trust with key stakeholders.
- Manage crisis and pressing reputational threats.
- Comprehend and negotiate with the community and client's needs, especially in high conflict contexts.

This is the path towards **Freedom to Operate** and sustainability and is also the core of what **Modern Public Affairs** are comprised of.

In FTI Consulting we understand this reality and have successfully consolidated a Modern Public Affairs perspective, helping clients thrive in business growth while also becoming a multiplier of development to their governments, stakeholders and communities. Therefore, we are ready to support the Fintech leaders in this challenging but essential quest of becoming the spearhead of an unprecedented social and economic transformation.

Endnotes

1. The "brussels effect" is a term used to describe how countries in the region have adopted or are planning to adopt European policies in their own public policy priorities: https://www.thedialogue.org/blogs/2020/09/ana-heeren-on-the-brussels-effect-in-latin-america/
2. LAVCA's Annual Review of Tech Investment in Latin America, LAVCA 2020. https://lavca.org/downloads/inside-the-4th-consecutive-peak-year-lavcas-annual-review-of-tech-investment-in-latam/
3. OECDE, 2020 Policy Note on Latin America: Leveraging the Impact of New Technologies, 2020.
4. https://www.oecd-ilibrary.org/sites/e6e864fb-en/index.html?itemId=/content/publication/e6e864fb-en
5. https://www.vusecurity.com/descargas/finnovating.pdf

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