

Opinion **beyondbrics**

Refugee bonds could help in Venezuela's humanitarian catastrophe

Regional markets offer possibility for private sector initiatives

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Venezuelan refugees arrive at Boa Vista airport in northern Brazil. About 50,000 have arrived in the country recently © AFP Gary Kleiman MAY 18, 2018

[Emerging market](#) fund managers still invested in Venezuela are no longer just focused on debt restructuring.

As the country approaches elections on May 20 in the wake of self-inflicted economic collapse, more than 1m migrants and refugees have already fled to neighbouring countries to roil their financial markets with the prospects of millions more to come, [according to a study](#) by the Washington-based Center for Strategic and International Studies.

Over 500,000 Venezuelans are in Colombia in advance of the presidential race there, Ecuador and Panama have 250,000 each, Chile and Peru have 150,000 each and there are 50,000 in Brazil.

Latin American stock markets outperformed rival regions on the MSCI index through the first quarter, but the influx's humanitarian and fiscal costs have yet to fully register.

The UN refugee agency declared a crisis and called on regional governments and international development lenders to exercise individual protection and share the funding load. The Inter-American Development Bank and World Bank are gearing up for infrastructure and social support.

Established public-private sector arrangements such as the cross-border Latin America Integrated Market (MILA) stock exchange between Chile, Colombia, Mexico and Peru could also create capital market instruments to foster refugee employment and business creation upon arrival.

With the integration of Mexico's bolsa several years ago, the combined exchange is now Latin America's largest, with capitalisation around \$1tn and hundreds of infrastructure and financial services listings able to more easily place debt and equity with both socially-conscious and traditional investors.

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Separately or through a pooled vehicle such as a Venezuela Emergency Fund, they could offer instruments for specific migrant and refugee purposes, to be tracked in detailed management reporting, to boost their bottom line and corporate responsibility, providing collective, private sector solutions to Venezuela's dual humanitarian and hyperinflationary catastrophe.

Colombia has an estimated 500,000 Venezuelans pouring every day into border towns like Cucuta to meet their daily food and health needs, or to stay indefinitely. The country also has an unresolved legacy of internal displacement as the peace accord negotiated by outgoing President Santos with the FARC guerrillas goes into effect, under the general

principle of exchanging army demobilisation for peaceful civilian return with the promise of job training.

However, the fiscal rule in place limits Colombia's budget deficit to 3 per cent of GDP this year, and the frontrunner in the end-May presidential contest, Ivan Duque from former President Uribe's party, has signalled a harsher stance towards former rebels. The current account gap is at a similar level, putting pressure on the sovereign rating, despite higher foreign direct investment in the oil industry.

Growth and inflation are in the 3 per cent range, as central bank easing is set to continue. A second-round runoff is predicted with more centrist opponents who have tried to co-opt Duque's business-friendly platform, and forced migration will probably be sidetracked as a priority during the leadership transition as headline movements demand action.

Chile is host also to Haitians who fled the poorest nation in the hemisphere after its 2010 earthquake and subsequent hurricanes, and moved further south after facing deportation in Brazil

in particular.

Chile has traditionally attracted seasonal low-wage workers from neighbouring countries, but a permanent presence has posed cultural and labour market challenges. President Piñera, in his second term, promises to revamp the economic model in a free-market and socially-responsible balance, in part to salvage his popularity which previously suffered under an image of wealthy elitism.

Refugees outside Santiago seek employment in the copper mines with keen competition and few protections and, like the middle-class students protesting under the previous administration, seek wider university access for advanced education and skills. With 3.5 per cent predicted GDP growth and negligible inflation, the solid investment-grade credit rating is intact, but Chile will be a test case for a future “melting pot” demographic and productivity engine.

Peru was the Andean stock market champion with a 10 per cent first-quarter gain as President Kuczynski, implicated in the continent-wide Odebrecht scandal, resigned and was replaced by a technocrat successor and cabinet.

Amid the political jockeying before his departure, plans to deepen MILA exchange ties, originally presented to MSCI when it threatened frontier index demotion, were shelved. Now, asset managers expect new President Vizcarra and his team to restore momentum.

Ecuador intends to re-enter the MSCI frontier gauge and consider new local and global financing sources as President Moreno breaks with his socialist predecessor on fiscal discipline and investor compatibility. He plans to again tap global bond markets and renegotiate Chinese debt terms, and may even consider an IMF programme to smooth fundamental and structural shifts including on refugee absorption.

As the international aid and diplomatic communities mobilise to address the systemic [Venezuelan](#) exodus, financial markets looking for fresh impetus could act with the same urgency to adapt solutions.

On the MILA, listed companies could readily issue securities aimed at local and overseas buyers to expand refugee-related capital, hiring and supplier relationships benefiting host economies. Unlike governments and development lenders, this platform could generate longer-term commercial flows so far absent in the “burden-sharing” mix, and offer a more optimistic prosperity prescription to shape the regional debate.

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