Latin America

Trends and opportunities

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Like in other parts of the world, forecasts indicate that economic disruption will continue to impact Latin America during 2023.

Growth in Latin America is predicted to slow to 1.4% during the year[1], driven by adverse external conditions and monetary policies aimed at tackling high inflation rates, with the effects exacerbated by high interest rates. The cost of living and political crisis have fueled widespread protests, causing a decline in disposable incomes and loss of consumer confidence, which is expected to affect credit growth. However, companies in Latin America have proven resilience and skill and appetite to tackle these challenges and take advantage of new opportunities based on changing market dynamics.

Redefining supply strategies

In this context, companies in Latin America have been forced to redefine their strategies to mitigate the impact of this complex set of economic, consumer and supply chain challenges, whilst continuing to pursue sustainability objectives, innovation and growth. Corporations have been looking not only for ways to better manage their working capital, but also for new efficiency strategies and revenue opportunities, looking beyond their operational boundaries and creating new business models in collaboration with supply chain business functions and partners.

For example, supply chain disruptions prompted by the Covid-19 pandemic encouraged companies to consider or embark on a process of "nearshoring", whereby firms move production closer to their home country or major customer markets. For U.S. companies, Latin America, particularly Mexico, has been an attractive alternative production location to China or wider Asia. The advantages are that transportation costs are reduced, visibility over production is increased, and supply chain risks are easier to manage and mitigate.

According to recent studies conducted by the Interamerican Development Bank (IDB), nearshoring could add a USD 78bn to Latin America in annual exports of goods and services in the near and medium term, with particular opportunities for the auto industry, textiles, pharmaceuticals, and renewable energy. Mexico and Brazil could see the biggest gains.[2] In 2022, for example, the world's second largest toymaker announced the expansion of its operations prioritising its Mexico plant over factories in Asia.[3]

The impacts of regulatory changes on supply chain management

Several Latin American countries, including Brazil, Mexico, Argentina, Colombia, Peru, Chile and Costa Rica amongst others, have been at the forefront of the fight against fraud and tax evasion, with governments implementing a variety of initiatives to ensure checks and balances on transactions. These changes create transparency and a more positive trading environment, but also present specific challenges for companies operating in these countries, particularly those doing business in multiple countries in the region, where different regulations result in varying operational and reporting requirements.

Most of the countries in the region have introduced mandatory e-invoicing and tax validation for taxpayers. Brazil is one of the forerunners in adopting e-invoicing. Transactions are registered through a government portal which produces an access key. This key must be included, decoded, and double-checked against the invoice details. Invoices and other e-tax documents must be authorised by the Brazilian tax authority before issuance. Even though the invoicing process is considered one of the most complex in the world, the result has been a significant reduction in the informal economy and the country has become a global leader in the use of e-invoices and other electronic tax documents. Authorities in Brazil have announced a new requirement for taxpayers to issue electronic invoices through a government portal from January 1, 2023.[4 5]

In Colombia, the National Tax Authority (DIAN) has made e-invoicing a mandatory guideline for all companies operating in the country since 2019, with e-invoices registered via the RADIAN platform. This electronic system checks that e-invoices meet tax and commercial requirements, and provides visibility over e-invoice status.[6]

In Argentina, invoices carry revenue codes that need to be captured and integrated with their invoice number, which must be produced in a specific format.

Despite the positive results that can come out of the new e-invoicing and tax validation for taxpayers' processes, the additional requirements can create operational and integration burdens due to the complexity of the invoice data capture requirements, because businesses need to make sure they have captured the data in the format that the relevant authority requires, and work with government-supplied data files to ensure compliance. Mexico, Chile, and Peru all require supplementary XML files to be submitted, and cross-checked against their invoices. In Mexico, for example, the new electronic invoice 4.0 (CFDI 4.0) will be mandatory from 1 April 2023, which could cause major disruption to companies' payables processes if not timely addressed.[7]

Given the additional regulatory and operational challenges, large and medium-sized companies operating in Latin America are increasingly seeking solutions that enable regulatory compliance, workflow automation, improved data quality and lower processing costs. Supply chain financing plays a critical role in enabling new supply chain models and ensuring supply chain resilience. This involves working with their banks, technology providers and suppliers to adapt processes, e-invoice formats, integration and documentation to support the various regulatory and fiscal requirements in the relevant country or countries. Investments in technology and automation are crucial to adapt processes and handle current and future regulatory requirements.

The use of digitisation to improve SCF accessibility

The need to manage regulatory requirements in an efficient and compliant way without compromising operational efficiency is an important driver of digitisation for companies in Latin America. Likewise, the Covid-19 pandemic emphasised and accelerated many companies' digitisation efforts. A process that has already been underway for many companies, with plans often extending over years, is able to be achieved in weeks, as customers' digital adoption has soared. Latin America is no exception to this phenomenon, with internet penetration reaching 75.6% by June 2022 compared to a 66.9% in the rest of the world.[8]

Digital innovations in the use of data and automation have led to the development of entirely new SCF business models and solutions. Latin America is a region led by small and medium-sized enterprises (SMEs). These companies play a fundamental role in supply chains and constitute 99.5% of the region's companies, generating 60% of formal productive employment.[9] Banks have developed technology to make SCF more accessible to the large and underserved community of SMEs in Latin America, and create cost-effective means of providing broader services to this segment.[10]

By leveraging Citi's digital onboarding tools, which are available globally, including eight Latin American countries, together with the use of e-signatures through tools such as DocuSign and TAOS where available, suppliers no longer need to prepare and deliver physical documents. They can onboard the bank's programmes quickly and easily, and therefore gain rapid access to short-term financing. The use of mobile apps, available in some Latin American countries, also makes SCF more readily accessible to suppliers, which encourages participation in SCF programmes. Citi released a mobile app in several markets in Latin America, enabling suppliers to access liquidity and discount receivables using their smartphones, a tool that is being used by thousands of suppliers in the region.

The benefits to individual suppliers – and therefore to the supply chain as a whole – can be considerable. It is reported that 51% of SMEs in Latin America using online financing solutions see an increase in turnover while 62% have realised net profit growth (31% seeing 5% profit growth, the remainder seeing 10-50% growth).[11] The opportunity to leverage these benefits increasingly extend beyond companies' first-tier suppliers (direct suppliers). In 2022, Citi partnered with Stenn, a global fintech provider, to help close the financing gap faced by SMEs. This new financing model involves innovative ways of assessing risk, onboarding, and compliance to provide the large universe of deep-tier (second tier and beyond) suppliers with financing options, who have historically found access to financing difficult.

Non-traditional SCF players are also playing a role in supporting SCF in Latin America, with 112% growth in the number of regional and global fintechs operating in this space over the past three years, led by Brazil, Mexico, Colombia, Argentina, and Chile.[12] Fintech participation in SCF is often seen as a positive development in driving end-to-end digitisation, leveraging these companies' 'last mile' capabilities and delivery to improve both accessibility and the overall client experience. However, before engaging with fintechs, it is important to clearly understand and address potential risks, such as ensuring regulatory compliance on an ongoing basis, and adherence to industry best practices around security and technical standards. When developing an SCF strategy, choosing the right partner is essential, in order to manage these evolving risks and ensure that programmes meet liquidity and supply chain objectives, and remain robust, secure, accessible and compliant over time.

Incorporating sustainability and ESG standards in SCF programmes

While managing liquidity and risk remain core financial objectives, sustainability has also emerged strongly as a corporate priority, with environmental, social and governance (ESG) KPIs sitting alongside commercial objectives. Companies in all industries recognise that their activities have a tangible impact on people and the planet, which is of particular concern in regions such as Latin America where social and environmental challenges are significant.

Although Latin America lags behind other regions in developing ESG strategies, this is changing as companies in the region work towards improving ESG standards, using internationally accepted criteria, including metrics adopted by credit rating agencies that focus on ESG when evaluating a company's creditworthiness. Likewise, Brazil, Colombia, Chile and Mexico have recently taken steps to strengthen the regulatory framework for including ESG factors as part of investment processes. In Colombia, the government introduced a standardised classification scheme (Green Taxonomy) in April 2022, which also defined the primary guidelines for the development of green finance.[13]

In April 2022, the Financial Regulator (CNBV) in Mexico launched a voluntary tool to help financial institutions measure their ESG and climate-related risks. The tool will provide the CNBV with valuable information on ESG-related risks and potentially influence future regulation.[14]

In Brazil, the Securities and Exchange Commission established Resolution 59 in December 2021 to align ESG-related disclosures with international standards. The resolution expands the ESG-related disclosure requirements for publicly listed companies and takes effect in January 2023 based on information as of December 2022.[15]

Banks have a major role to play in providing the finance required to help public and private sector clients achieve their ESG objectives and drive positive change. In 2021, Citi announced its goal of USD 1trn sustainable finance by 2030, which comprises USD 500bn in environmental finance and USD 500bn in social finance.[16] Latam has contributed with USD 9.5bn to the goal as of 2021. Alongside this commitment, Citi has developed a Sustainable Supply Chain Finance initiative. This aims to generate economic, societal and client value by helping to enable sustainable growth and economic progress throughout clients' entire supply chains across the region and beyond. As part of this initiative, importers or buyers are able to provide additional benefits to suppliers that comply with pre-defined ESG goals, therefore incentivising good ESG practices across supply chains. For example, a multinational company in Brazil recently launched a sustainable SCF programme that provides an incentivised discount rate to suppliers based on independent certification of agreed ESG metrics.

While sustainable SCF programmes can offer considerable financial, environmental and social benefits, it is essential that metrics are measured and monitored in a credible, robust and systematic way, to ensure that programmes are creating a positive impact. Choosing the right financial partner is essential to this effort to ensure full transparency, independent measurement and robust reporting.

Although 2023 is expected to continue to bring challenges for the region, companies in Latin America have proven resilience and skill and appetite to take advantage of new opportunities. Some companies are already driving growth through nearshoring and innovative supply chain strategies, while digitisation of processes and business models and a focus on efficient liquidity and risk management will be critical strategies over the coming years. At the same time, sustainability and ESG is becoming – and must remain – at the forefront of strategic and tactical decision-making process to drive sustainable growth that benefits shareholders, employees, customers, communities, and the environments in which they operate.

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