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## LATIN AMERICA ADVISOR

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### FEATURED Q&A

#### Will Obama's \$100 Million Microfinance Growth Fund Be Effective?

**Q** At the Summit of the Americas in April, US President Barack Obama announced a \$100 million "Microfinance Growth Fund for the Western Hemisphere," which the White House says will help microfinance institutions "rebuild their capacity to lend during this difficult period." Do you think the program will achieve its stated goal? How quickly will these funds reach microfinance institutions? What more should be done to help the microfinance sector in the midst of the current credit crunch?

**A** **Guest Comment: Carlos F. Gonzalez:** "President Obama's announcement during the fifth Summit of the Americas of a new \$100 million Microfinance Growth Fund (MGF) marks an important step in the region's long-term potential for development. A leader in the microfinance movement since the 1970s, Latin America is home to some of the most-developed microfinance institutions in the world. Unfortunately, the global economic crisis now threatens these institutions' ability to access much-needed funding sources. Yet, unlike others, Latin America's microfinance institutions have a proven track record of success, and the talent and experience to continue positively impacting the region so long as there is enough money. For the MGF to be truly effective, it must act now. The fund must be structured without delay. This requires the development of a lending strategy and the place-

ment of a management team. Next, the fund must increase the current level of 'market penetration' within the region. Although Latin America boasts some of the highest penetration rates in the world, the numbers show significant disparity among individual countries. The International Finance Corporation reports microfinance penetration rates of 3 percent in Brazil and Argentina, while Paraguay, Chile and Peru boast rates of up to 35 percent. Bolivia is the clear leader with a 160 percent penetration rate, meaning microfinance borrowers

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### Mexico: Most-Wanted Trafficker Losing Influence

Joaquin "El Chapo" Guzman, Mexico's most-wanted drug trafficker, is losing influence within the country's Sinaloa cartel, according to Mexico's attorney general. See brief on page 2.

*File Photo: US State Department.*

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## NEWS BRIEFS

**Air France Jet Carrying 228 Disappears Off Brazilian Coast**

An Air France flight carrying 228 people headed from Rio de Janeiro to Paris went missing over the Atlantic Sunday night after hitting strong turbulence, reported the Associated Press. Air traffic controllers lost radio contact with the Airbus A330 aircraft around 10:30 pm EDT last night approximately 190 miles northeast of the Brazilian coastal city of Natal, according to French and Brazilian authorities. The Brazilian air force said Monday it was beginning a search near the Fernando de Noronha archipelago.

**Mexico: Most-Wanted Drug Trafficker Losing Influence**

The most-wanted drug trafficker in Mexico is losing influence within his cartel, the country's attorney general said Friday, according to the Associated Press. Although Joaquin "El Chapo" Guzman is still a main figure of the Sinaloa cartel, he is less involved in the cartel's day-to-day operations, said Eduardo Medina-Mora. Guzman's influence slipped while he was serving a 20-year prison sentence. He escaped in 2001 and has been on the lam since then.

**Mexico March Silver Production Down on Penoles Strike**

Mexico's mining output fell 23.2 percent in March compared to last year, led by a 54.7 percent drop in silver production, national statistics institute INEGI said Friday in a statement. The agency attributed the drop to "labor circumstances of important companies in the sector," hinting at a strike at **Industrias Penoles'** Met-Mex refinery that ground production to a halt, reported Bloomberg News. The strike, which led the company to declare *force majeure*, ended on April 14.

## Political News

**Cuba Signals Willingness to Hold Talks With United States**

Cuban officials have told the US that they are willing to open talks on migration and also will cooperate with the United States on counterterrorism, disaster relief and fighting drug trafficking, *The New York Times* reported Sunday. The messages were transmitted in diplomatic notes on Saturday, according to a top US official. Cuba's messages to the US came as US Secretary of State Hillary Clinton left Sunday for Central America. Today, she is attending the inauguration of El Salvador's new president, Mauricio Funes. From there, she heads to Honduras for a meeting of the Organization of American States. OAS members want the organization to reactivate Cuba's membership, which was suspended in 1962. Last month, Clinton said Cuba would have to abide by the OAS' principles of democracy in order for its membership to be reactivated. "Any effort to admit Cuba into the OAS is really in Cuba's hands,"

Clinton said. "They have to be willing to take the concrete steps necessary to meet those principles. We've been very clear about that—move toward democracy, release political prisoners, respect fundamental freedoms. That is what it means to be a member of the OAS." Cuba has said it is uninterested in returning to the OAS.

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*Clinton said Cuba would have to abide by the OAS' principles of democracy in order for its membership to be reactivated.*

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The Cuban government-run newspaper *Granma* recently called the OAS "that decrepit old house of Washington." In El Salvador, Funes intends to restore his country's relations with Havana as one of his first acts as president. That will make the United States the only country present at this week's OAS meeting without full diplomatic relations with Cuba.

**Featured Q&A**

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may simultaneously draw upon multiple sources of financing in the country's saturated market. To increase market penetration, the MGF must promote, as part of its lending strategy, the expansion of lending services in rural areas. By setting up small outlets in easily accessible locations like pharmacies, microfinance institutions can pursue the same strategies used by banks to expand traditional services to otherwise neglected populations. These strategies together will advance the important goals of microfinance institutions."

**Guest Comment: Rob Scarlett:**

**A** "The micro-lending movement originated in Recife, Brazil, in the early 1970s, so it is entirely appropriate that this microfinance initiative be dedicated to support the economically active poor in the Western

Hemisphere. The amount of capital available for on-lending to these tiny businesses has grown steadily, but in the wake of the global financial crisis, the rate of investment has been declining. In

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“During hard times, these informal microenterprises serve as a 'safety valve.'”

— Rob Scarlett

hard economic times, microfinance institutions with a social mission (serving the poorest of the economically active poor in the Americas) have fared better than upper-tier financial institutions in the same countries. Funds

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## Company News

### Ecuador's Correa Accuses Telephone Companies of Failing to Pay Fees

Ecuadorean President Rafael Correa on Saturday accused telephone companies including **Sprint**, **AT&T** and **MCI** of failing to pay millions of dollars in fees owed to the South American country's government, the Associated Press reported Sunday. On his weekly radio program, Correa accused the US-based companies of "swindling" the government out of about \$100 million in fees Correa said they must pay for international calls to Ecuador. He said the companies underreported the length of the calls and that



Correa Saturday in Guayas province.

*Photo: Ecuadorean Government.*

auditors are currently reviewing telecommunications records. Spokespeople for **AT&T** and **Verizon**, the parent company of **MCI**, could not be reached for comment and a Sprint spokesman could not comment, the AP reported.

### Zurich Mexico Offering New Insurance Products to Public

**Zurich Financial Services'** Mexican unit on Thursday began offering the general public a new lineup of insurance products, Dow Jones reported. **Zurich Mexico** is offering life, property, health and casualty insurance to residents as it expands its offerings beyond the corporate market. The company will offer the products through partnerships with banks, employers and other third parties. Currently, Zurich Mexico provides offerings through life insurer **Zurich Vida Compania de Seguros** and through **Zurich Compania de Seguros**, which provides property and casualty insurance.

## By the Numbers

*A Monthly Look at Latin American Data by the Dialogue's Claudio Loser*

### How Much Danger Does Mexico Face in This Turbulent Time?



WASHINGTON—Mexican Finance Minister Agustin Carstens recently announced that gross domestic product will decline by more than 5 percent in 2009. Only a few weeks ago, in a recent paper on the subject, I suggested that GDP might decline by up to 3 percent. The worsening performance of the Mexican economy is a matter of concern even as the International Monetary Fund is providing the most significant support package granted in recent times and rating agencies have not yet modified Mexico's rating. It has been almost 15 years since the eruption of the Tequila Crisis in 1994-95. After a long stop-and-go process, the period from the Tequila until 2008 was one of the most stable in Mexico's recent economic history. Economic growth was steady, although low, and in general followed the path of the US economy. The macroeconomic management showed a prudence that allowed for a sharp and sustained reduction in inflation and a strengthening of the balance of payments, and the Central Bank was able to accumulate a record level of international reserves.

The smooth macroeconomic performance, in the context of a sustained period of world economic expansion, gave Mexicans a sense of security and even of complacency that was unwarranted. The government found it increasingly difficult to push its structural reform agenda; the emergence of China as a main trade competitor and the decline of oil sector output hurt Mexico's competitiveness. These developments hampered Mexico's growth potential, and may explain a mediocre growth performance, even with high foreign direct investment. In addition, Mexico's climate has been affected by drug wars, even if geographically constrained, and the now abated swine flu.

Mexico is now confronting its worst economic crisis since the Tequila as it is being hit by the US-originated but already worldwide crisis. Export prices and external demand have dropped sharply, output and business confidence are plummeting, workers' remittances are declining, stock prices and corporate finances have weakened, the peso has depreciated sharply and there are growing concerns about Mexico's ability to maintain its hard-won macroeconomic stability. The ability of the country to engage in an expansionary policy is limited, even with the financial support just offered by the IMF, because of its limited access to financial markets. Moreover, the corporate sector has been particularly vulnerable in recent months, as the case of Cemex illustrates, even as risk ratings have remained deceptively stable. Losses in Mexico arising from the world financial debacle are estimated at more than \$300 billion, not including the losses from investments abroad that can amount to \$50 billion.

Even under these difficult conditions, Mexico has shown a resiliency that is not always recognized and seemed well prepared to deal with an external crisis. The government was able to shield itself from the effects of the crisis in the short run, including through financial support from the Federal Reserve and the IMF. Unfortunately, the shock is far greater and the defenses may not be enough to deal with the consequences of the crisis. Moreover, the government's intention to lend to firms in difficulty entails a rise in contingent liabilities that will seriously aggravate its financial position.

All these developments have been further clouded by what can be described as a mistakenly low assessment of risks by ratings agencies that may be corrected but will further burden Mexico. S&P's change in Mexico's debt outlook to negative for the first time since the Tequila is a step in the right direction, but this should be reflected in a

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**Featured Q&A***Continued from page 2*

invested in these financially sustainable MFIs will be able to pay a reasonable rate of return while also reducing economic hardship in the poorest areas of the Americas. During hard times, these informal microenterprises serve as a 'safety valve.' As more people slip into poverty, they engage in supplemental economic activity in order to survive. In these times, it is reasonable to expect greater demand for microloans. It is important that the Microfinance Growth Fund be invested in social-mission-driven, financially sustainable, microfinance institutions (MFIs). This focus will ensure the greatest possible impact on poverty in the region. If the Obama administration also encourages increased research on the social impact of microfinance and the universal adoption of standards and procedures for protecting the interests of MFI clients, then the longer-term beneficial impact of this Microfinance Growth Fund will be that much greater."

**A Guest Comment: Franco Moccia:** "President Obama's announced proposal to create a \$100 million fund to rebuild microfinance capacity in the Western Hemisphere is a good idea, however its impact will be very limited due to its size. A \$100 million fund for the Western Hemisphere will not generate the proposed goal. This amount will have an impact only if it is dedicated to one or two medium-sized countries in the region. The main problem that the microfinance institutions are facing today as a consequence of the credit crunch is the lack of interest of foreign lenders to

continue providing financing due to country, foreign exchange and liquidity risks. The US government can help to mitigate the problem in a more effective way directly or via the regional multilateral institutions offering contingent facilities or partial guarantees. They would cover cross border, foreign exchange or

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“A \$100 million fund for the Western Hemisphere will not generate the proposed goal.”

— *Franco Moccia*

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liquidity risk. The funding would be provided by the private sector but the US government or the multilateral institution would take the mentioned risk totally or partially. This contingent risk-taking system would generate more impact than lending directly as the funding will come from the traditional sources. Alignment of incentives can be reached avoiding full coverage with a partial guarantee model."

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**By the Numbers***Continued from page 3*

reduced rating, to be fair in conjunction with that of other countries' bonds. The authorities have a full plate in finding a balance between economic stimulus and support of corporate survival on the one hand and financial viability on the other. However, even if a revival of US economic activity, an adequate assessment of the situation by rating agencies and the pursuit of the right policies are likely, they are not, unfortunately, a foregone conclusion.

*Claudio Loser is a senior fellow at the Inter-American Dialogue and former head of the Western Hemisphere Department at the International Monetary Fund.*