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FEATURED Q&A

Are Latin American Attitudes Toward Foreign Banks Changing?

Q With numerous multinational banks and financial services corporations badly tarnished by their role in the global economic meltdown, are Latin American countries' attitudes toward foreign banks changing? If so, in what way? How might the current environment affect foreign financial services companies operating in Latin America? Should countries make regulatory changes in their banking systems? Have foreign banks been a good or bad thing for Latin American countries?

A Board Comment: Thomas Morante and Yani R. Contreras: "Foreign banks play an important role in the Latin American financial system given their substantial market presence. Although many global banks and financial services companies have sustained losses and struggled during the economic meltdown, this has not necessarily impacted the extension of credit by multinational bank subsidiaries operating in numerous Latin American markets. The subsidiaries of foreign banks in Latin America, much like locally owned banks in the region, have funded operations from deposits obtained from the local market rather than securing financing from cross-border transactions or international markets. This has provided a certain stability to their loan activities. While it is true that some international banks have adopted new internal policies restricting their lend-

ing activities to accommodate the lack of liquidity in the market by imposing stricter criteria for borrowers to obtain loans, it does not appear that foreign bank subsidiaries in select Latin American countries such as Brazil, Mexico and Peru have reduced their lending activity when compared to locally owned banks in the region. Further, Latin American countries do not appear to be imposing higher barriers to entry for foreign financial institutions, in part due to commitments under DR-CAFTA, and NAFTA and other bilateral FTAs. Banking system problems in Latin

Continued on page 6



Santander Eyes Selling Latin American Insurance Units

Banco Santander is considering the sale of its insurance operations in Mexico, Argentina and Chile, according to the Spanish bank's CEO, Alfredo Saenz. See story on page 2.

File Photo: Banco Santander.

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FINANCIAL SERVICES BRIEFS

Redecard Supports Some Changes to Card Payment Industry

Brazilian credit card payment processor **Redecard** agrees with some regulatory changes to the card payment industry proposed by the Brazilian government, according to Chief Executive Officer Roberto Medeiros, Bloomberg News reported July 24. Medeiros said some of the proposals outlined in a central bank study, which suggested lowering merchant fees and allowing different brands of cards to use the same network, were necessary to increase credit card penetration from 22 percent today to 45 percent in six to eight years, according to the report.

Bank of Nova Scotia's Chilean Unit Eyeing Possible Acquisitions

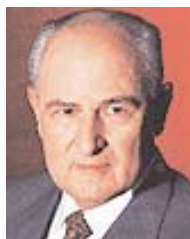
The Chilean unit of **Bank of Nova Scotia** is considering acquisitions in order to increase its share of the country's loan market, Dow Jones reported July 30, citing local newspaper *Diario Financiero*. James Callahan, the chief executive of **Scotiabank Sud Americano**, said the unit is seeking to increase its market share from 6.6 percent to 10 percent, probably through acquisitions. "We're not only looking at small banks," said Callahan.

NCR Corp. Plans to Lease Brazil ATM Manufacturing Plant

NCR Corp. plans to lease a Brazilian manufacturing plant in order to build automated teller machines, industry publication *ATM & Debit News* reported July 31. NCR, based in Dayton, Ohio, said in June that it would build a new \$37.5 million manufacturing plant in Brazil's Amazonas region, but the company has since changed its plans. The company will use the leased factory to produce its SelfServ ATM line.

Financial Services News**Bradesco Chairman Wants Bank to Catch Up to Itau**

The chairman of Brazil's **Banco Bradesco** said in a newspaper article published July 27 that he wants the bank to grow enough to catch up to its rival **Itau Unibanco**, Reuters reported. Lazaro de Mello Brandao told *Valor Economico* that "it wouldn't be honest to say we will leapfrog" Itau. However, he said Bradesco might have advantages to attain more account holders due to Brazil's population growth, expanding banking industry and growing number



Brandao

File Photo: Fundacao Bradesco.

of formal-sector jobs. Brandao added that he expects local growth and possibly acquisitions to drive Bradesco's expansion. For decades, Bradesco was the largest non-government bank in Brazil. However, the Itau-Unibanco merger in November created the largest bank in Latin America, with assets totaling approximately 600 billion reais (\$US 317 billion). Bradesco has fewer assets than Itau by about 137 billion reais. Brandao said that Bradesco is seeking to reduce Itau's lead "progressively." He added that the bank may "try to speed it up" with acquisitions. However, he said expansion through acquisitions is difficult because of the scarcity of good opportunities. This year, Bradesco plans to open 100 new branches, half of last year's total, Brandao said. However, if the economy shows more signs of recovery, the pace might quicken, he added.

Argentines' Uruguay Deposits Grew by 30 Percent in Year's First Half

Argentines' deposits in Uruguayan banks grew by 30 percent in the first six months of 2009, *Clarín* reported July 31, citing statistics from Uruguay's central bank. In the first half of the year, Argentines deposited approximately \$300 million in Uruguay's banks. Private banks in Uruguay currently

have foreign deposits of approximately \$2.35 billion. Analysts believe that approximately 90 percent of foreign deposits in Uruguayan banks are from Argentines. Before Argentina's economic crisis eight years ago, Uruguayan banks had approximately \$6.3 billion in foreign deposits. Argentines' current deposits in Uruguayan banks are "minimal," said Juan Carlos Protasi, an economist and former president of Uruguay's central bank. "It only represents 3 percent, at most, of the capital flight that the country has experienced," he said.

ING Groep Sells Chilean Annuity and Mortgage Business

Dutch financial services company **ING Groep** said July 31 that it agreed to sell its Chilean annuity and mortgage operations to **Corp Group Vida Chile**, Reuters reported. ING said its annuity and mortgage business in Chile had approximately 35 million euros (\$US 50.38 million) in pretax earnings last year. It did not disclose the sale price of the operations. The Dutch company said the deal is expected to close in the fourth quarter of this year and it did not say what effect the sale would have on its earnings. ING's sale of the Chilean operations comes as the company is putting into effect its "Back to Basics" plan, which includes planned asset sales totaling 8 billion euros. The company described the Chilean business it is selling as "non-core." ING will continue operating in Chile through its offerings of life insurance, retirement and asset management services. ING is Latin America's second-largest pension provider with 10 million clients and 29 billion euros in assets under management, the company said.

Mexico's Banco Azteca Begins Operations in El Salvador

Mexico City-based **Banco Azteca** on July 30 began operations in El Salvador, EFE reported. The bank began doing business in the Central American country with 29 branches and initial capital of \$16 mil-

lion, according to Banco Azteca and Salvadoran banking authorities. The bank will offer its customers in El Salvador credit and savings accounts as well as investment products. The bank, which currently has Central American operations in Guatemala, Honduras and Panama, is starting its operations in El Salvador with 448 employees. Banco Azteca is part of **Grupo Elektra**, one of Latin America's largest appliance chains.

Insurance News

Spain's Santander Eyes Sale of Latin American Insurance Operations

Spain's **Banco Santander** is considering the sale of insurance operations it owns in Latin America, according to the bank's chief executive, Alfredo Saenz, Dow Jones reported July 30. Santander may sell its insurance businesses in Mexico, Argentina and Chile, Saenz said. The bank last year sold its pension operations to the Netherlands' **ING Groep**. Recent years have seen significant activity in Mexico's insurance industry. ING sold its Mexican insurance operations to France's **AXA** last year for \$1.5 billion. Australia's **QBE Insurance Group** acquired **Cumbre Seguros** for an undisclosed amount. And **Aegon** bought 49 percent of life insurance company **Seguros Arcos** in 2006. Last year, Santander's Mexican insurance unit, **Seguros Santander**, reported 443.3 million pesos (\$US 33.6 million) in net profits. It had 3.03 billion pesos in premiums last year, amounting to a market share of 1.5 percent, according to Mexican insurance regulator CNSF. At the end of last year, Grupo Financiero Santander said its 99.9 percent stake in Seguros Santander was worth 1.33 billion pesos. The insurance units of the major banks operating in Mexico have seen success in selling insurance to customers through bank branches. The business model, called "bancassurance," has helped drive the companies' growth. "Bancassurance is a very successful distribution channel because it allows you to combine banking and insurance products," said Alfonso Novelo, the associate director of financial institutions for **Standard and Poor's**. "It's

Earnings Results

Banco Bradesco Reports 33 Percent Increase in First Half Net Income

Banco Bradesco, Brazil's second-largest private bank, posted a net income of 2.3 billion reais (\$US 1.3 billion) in the year's second quarter, a 33.3 percent increase over the same period last year, as the company said signs of recovery in Brazil's domestic market were "unmistakeable." Bradesco's second-quarter and first half results were boosted by the sale of a portion of its stake in payment processor **VisaNet**, which netted the company 462 million reais after setting aside 1.3 billion reais for additional loan provisions. The company's loan portfolio expanded 18.1 percent year-on-year to 212.8 billion reais at the end of June, while the effects of the economic crisis continued slow portfolio growth and led to high delinquency levels, according to a press release. In a letter to shareholders, the board of directors said it maintained a "cautious attitude towards the world economy," but saw an opportunity for Brazil to distinguish itself from other emerging economies. "Domestic recovery signs are unmistakable and point at a better second semester, reinforcing optimism towards the country," the letter said.

BBVA Bancomer Reports 15 Percent Drop in First Half Profits

Mexico's **BBVA Bancomer** saw its first-half net profits fall 15.1 percent this year to 12.4 billion pesos (\$US 946 million) as exchange-rate losses, lower sales volumes and changes to its credit portfolio continued to cut into earnings. Net profit in the second quarter was down 5.2 percent from the previous three-month period, although it showed a slight year-on-year increase of 8.7 percent. The bank, Mexico's top lender and a unit of Spain's **Banco Bilbao Vizcaya Argentaria**, said it upped provisions for loan losses by 68 percent in the second quarter in comparison to the same period last year, largely due to the deterioration of its credit portfolio. Loan loss provisions decreased over the first three months of 2009, however Bancomer sought to underline the strong position of its credit portfolio. "The latest data available show that Bancomer maintains a risk premium lower than that of its main competitors, due to a more prudent management of risk," the company said in an earnings statement. Still, the company saw its net financial income decline 12.7 percent in the first six months of 2009 as its loan portfolio relied more heavily on mortgages and commercial loans, instead of more profitable consumer credit.

Mapfre Reports Strength in Latin American Businesses For First Half

Spanish multinational insurance company **Mapfre** reported net earnings of 530.6 million euros (\$US 759 million) during the first half of 2009 on the strong performance of its international and Latin America operations, which increased their share of the company's business as the economic crisis hurt demand in the Spanish market. Mapfre's earnings increased 0.2 percent over the same period in 2008, while consolidated income rose 12.9 percent to 10 billion euros. The company's premiums worldwide grew 13.3 percent to 8.3 billion euros despite a 1.3 percent decline in Spain. "The international business continues to be the Group's growth engine," Mapfre said in a press release. In Latin America, total premiums increased 20 percent to 2 billion euros, spurred by growth in Brazil, Colombia and Venezuela, primarily in the auto, health and life insurance sectors. During the first six months of the year, the group's Latin American unit, **Mapfre America**, accounted for 23 percent of premiums, 1 percentage point higher than last year, and 11.6 percent of net earnings, up from 9.3 percent in 2008.

definitely an advantage with respect to other insurers who don't have this channel." Mexico is seen as a market that has strong potential for growth because of its large middle class, young population and comparatively low level of financial services use. As a percentage of gross domestic product, insurance premiums in Mexico amounted to 1.7 percent last year. The figure was 2.5 percent on average for Latin America and the Caribbean, 4 percent in Chile and 3 percent in Brazil.

Economic News

Argentina Rejects Cuts in Agricultural Export Taxes

Argentina's government on July 31 rejected any reductions of agricultural export taxes, dealing a defeat to farmers who had sought tax cuts after the most severe drought in 70 years took a toll on their profits, Bloomberg News reported. "There



Anibal Fernandez

File Photo: Argentine Government.

are no conditions to lower export taxes," said Cabinet Chief Anibal Fernandez after meeting with leaders of farming organizations in Buenos Aires. The taxes "allow us to encourage production and guarantee that Argentines have access to those products at affordable prices," he said. Farmers had demanded lower export taxes for corn, wheat and soybeans, arguing that the drought and lower commodity prices were taking a toll on profits. However, farmers' profits have rebounded in the midst of rising agricultural prices, said Argentine Production Minister Debora Giorgi.

IMF: Brazil Can Continue Rate Cuts if Economy Worsens

If Brazil's economy deteriorates further, monetary policymakers could continue cutting interest rates, which are at a record low, the International Monetary Fund said July 28, according to

Research Alert

Dominican Republic's Insurance Sector Could Face Obstacles This Year

The Dominican Republic's insurance sector managed to maintain profitability as the country's economy deteriorated in 2008, but companies could see profits weighed down even further this year by higher operating costs and greater loss ratios, **Fitch Ratings** said in a special report released July 28.

The sector started to see a slowdown in demand for premiums during the second half of last year as the world economic crisis took its toll. In 2008, the number of total premiums written grew 8.8 percent to 22 billion Dominican pesos (\$US 614.53 million), which represented a significant slowdown from the 47 percent registered over the previous two years, according to the ratings agency. Fitch said this pattern could continue in the current year due to a downturn in vehicle sales—auto insurance makes up over a third of the industry's earned premiums—and a decrease in purchasing power among Dominicans.

Competition between insurers could also have a negative effect on premium growth, as companies seek to attract more clients by lowering premiums, Fitch said.

"The less favorable economic conditions will result in a greater deceleration of premium volume, which along with an expected increase in loss ratios and operating costs, could result in additional declines in the combined ratio," Fitch analysts wrote, referring to insurance companies' key measure of profitability that combines losses, earned premiums and expenses.

Last year, Dominican insurance companies managed to make up for lower premium growth thanks to a temporary increase in interest rates, which kept profits mostly stable over 2007 levels. This time around, lower interest rates will reduce financial income and make profitability more difficult, Fitch said.

Fitch did not rule out a change in corporate ratings for some of the companies. "The national

ratings of the sector's financial stability were stable during 2008, although the less favorable economic environment could negatively affect some insurance companies' risk portfolio," analysts wrote.

The Dominican Republic has one of the most concentrated insurance sectors in Latin America, with six companies accounting for over 95 percent of all premiums written in 2008.

Biggest Players in Dominican Insurance Sector

| | Market Share (%) | Fitch National Rating |
|----------------------|------------------|-----------------------|
| Seguros Universal | 30.4 | A(dom) |
| Seguros Banreservas | 21.3 | A+(dom) |
| MAPFRE BHD | 16.3 | A-(dom) |
| Proseguros | 12 | BBB(dom) |
| La Colonial | 11.5 | not rated |
| Seguros Constitucion | 3.5 | BB+(dom) |

Bloomberg News. The IMF added that Brazil, the largest economy in Latin America, also has room to inject more money into its economy through another stimulus plan. The South American country has a "robust policy framework" that

has allowed its financial system to be "proven resilient," the IMF said in a report. "If the growth outlook were to deteriorate significantly from the authorities' current projections, directors saw room for additional fiscal and monetary

easing, subject to careful monitoring of market reaction," said the IMF. Brazil's



Meirelles

File Photo: Agencia Brasil.

central bank, led by its president, Henrique Meirelles, has cut its benchmark interest rate to 8.75 percent, a record low. In January, the rate was at 13.75 percent. Brazil has also poured \$100 billion into financial markets to mitigate the effects of the global credit crunch. In an effort to spur consumer spending, Brazil has also reduced taxes on some industrial products.

Political News

Micheletti Insists Zelaya Cannot Return as Honduras' President

De facto Honduran President Roberto Micheletti reiterated July 30 that he would not allow ousted President Manuel Zelaya to return to power, Reuters reported. "I've clearly said it before and I say it again, if there is a solution where I have to step down I will do it willingly, but I cannot allow Zelaya to return as president," Micheletti told reporters. He said that if Zelaya were to return to Honduras, it would be to face criminal charges. Micheletti's minister of the presidency, Rafael Pineda, told Reuters in an interview that the de facto government's stance against Zelaya returning to the office from which he was ousted June 28 is "firm, unchangeable." Micheletti confirmed that he invited former Inter-American Bank President Enrique Iglesias to Honduras to attempt to restart negotiations aimed at ending the standoff. Zelaya said he asked a delegation from the United States to bolster measures against

the Micheletti government and also said he would seek relief in the International Criminal Court. In the United States, the Obama administration has refused to recognize the de facto government and has canceled the visas of four of its officials.

Colombian President Begins Tour to Boost Support for US Military Plan

Colombian President Alvaro Uribe on Aug. 4 began a three-day tour of seven South American nations in an effort to boost support for his country's pending military agreement with the United States, BBC News reported. Uribe began his visits in Peru where he met with President Alan Garcia. Uribe is also visiting with the presidents of Bolivia, Chile, Paraguay, Uruguay, Argentina and Brazil. However, Uribe does not plan to visit Venezuela and Ecuador, which have been the most vocal critics of the military deal, which is expected to be finalized later this month. Colombian officials have said they want an agreement that would allow the US military greater access to two Colombian naval bases and two air bases, the Associated Press reported. Under the plan, US Air Force counternarcotics operations that had previously been based in Ecuador would be relocated to Colombia's Palanquero base in the Magdalena valley. US troops had operated from Manta, Ecuador until last month, but Ecuadorean President Rafael Correa asked them to leave. The 10-year agreement between the United States and Colombia would not increase the number of US military members and civilian contractors above the 1,400 currently allowed by the United States, according to Colombian officials. During his tour, Uribe will stress that the US military is not a threat to other nearby countries and that efforts to fight terrorists and drug traffickers benefit the region, the BBC reported. Uribe will hear several concerns about the agreement. Last week, Brazilian President Luiz Inacio Lula da Silva said, "I don't like the idea of an American military base in Colombia," the AP reported. Several South American presidents plan to attend a meeting of the Union of South American Nations (UNASUR) next week in Ecuador, but Uribe does not.

POLITICAL & ECONOMIC BRIEFS

Rebel Apparently Wrote About Donations to Former Correa Aides

A leader of the Revolutionary Armed Forces of Colombia, or FARC, apparently wrote about giving money to former aides of Ecuadorean President Rafael Correa, Ecuadorean Defense Minister Javier Ponce said July 30, according to Reuters. The guerrilla leader, Raul Reyes, apparently wrote in his diary about giving money to the former aides before he was killed last year by Colombia's military inside Ecuador. Ponce said Correa was unaware of any payments. The FARC has denied allegations that it contributed to Correa's campaign.

Chavez Says Venezuela Will Nationalize Coffee Roasters

Venezuelan President Hugo Chavez said Tuesday his government would move to nationalize the country's two largest coffee roasters, reported Reuters. The move followed what the government said Monday was a temporary takeover of **Fama de America** and **Cafe Madrid** to ensure domestic demand. The government accuses the companies of distorting the price of coffee on the Venezuelan market, including by exporting illegally to Colombia, a charge both companies have denied.

Mexican Economy Saw Largest Contraction in Three Decades

Mexico's GDP may have contracted by 10.4 percent during the second quarter despite a few signs the economy may be stabilizing, the country's Finance Ministry said July 30. The decrease—Mexico's largest quarterly contraction in three decades, according to data from Bloomberg News—was due to factors including the ongoing global economic crisis and the H1N1 flu outbreak, the ministry said.

Featured Q&A*Continued from page 1*

America appear to arise not from the competition between foreign and local banks, but rather, because the market is

“Banking system problems in Latin America appear to arise ... because the market is dominated by few participants.”

— *Thomas Morante & Yani R. Contreras*

dominated by few participants, making it an oligopoly. This has increased the risk of instability (systemic risk) and introduced the possibility of contagion risk to other banks in a specific country. Furthermore, the decrease in money remittances has affected the availability of credit for both local and foreign banks in Latin America given that reduced remittances has meant reduced savings. In the context and spirit of the G-20 recommendations, it would appear that Latin American regulators will seek to ensure the continuation of credit and the strength of each local financial system. ”

A **Guest Comment: Carlos F. Gonzalez:** “Although hard to believe now, there was a time in the not too distant past when foreign banks greedily eyed Latin America's largely untapped markets. In those heady days, foreign banks were tempted by opportunities in retail and small and middle market business banking. These institutions also promoted mortgage and consumer lending, as well as various credit card products. Because of the pronounced lack of penetration of consumer-based financial services (as compared to the US and Europe), Latin America offered the promise of solid and consistent growth. By 2008, the same banks that once capitalized on burgeoning credit markets began to reduce, if not

cancel, available credit lines. Although banks may be cutting back their services, a demand still exists. Who fills that demand needs to be carefully considered. Absent a change in course, the gap created by retreating banks may be filled by other financial institutions looking for new market opportunities. This poses a real danger. The economic downturn in the US exposed serious structural defects in many banks and other financial institutions. Although better oversight may have lessened the blow, the fact remains that certain institutions pursued lending and other business strategies with catastrophic consequences. It is not acceptable to simply allow these institutions to apply those same failed strategies in another market.

“Strict regulation is essential if another collapse is to be avoided.”

— *Carlos F. Gonzalez*

Regulators throughout Latin America must carefully scrutinize foreign banks, particularly those looking to establish a first presence in the current economic climate. While there is a dire need for credit and other financial services, the lessons of the US and Europe make clear that strict regulation is essential if another collapse is to be avoided.”

Thomas Morante is a member of the Financial Services Advisor board and partner at Holland & Knight where **Yani R. Contreras** is foreign legal counsel. Both are members of the firm's Financial Services Practice Group.

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The Inter-American Dialogue's Financial Services Advisor

is published biweekly. Copyright © 2009

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The Inter-American Dialogue's **Financial Services Advisor** is published biweekly, with the exception of major holidays, from 1211 Connecticut Avenue, Suite 510 Washington, DC 20036

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