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## LATIN AMERICA ADVISOR ► FINANCIAL SERVICES

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### FEATURED Q&A

#### Are Latin American Financial Companies Lending Responsibly?

**Q** Mexican Finance Minister Agustin Carstens said last month that shortcomings in financial literacy among US consumers were partly to blame for the country's financial failure and credit crisis. Are Latin American consumers susceptible to the same mistakes made by those in the US? How can they get the financial education they need to protect themselves? What is the responsibility of banks and insurance companies to control their extension of credit to riskier customers?

**A** **Guest Comment: Richard Child:** "Of the many hypotheses that attempt to explain the roots of the US financial crisis, one that's commonly accepted is the crisis originated with excessive lending by financial institutions that was not well correlated to the risk profiles of the consumers receiving the loans. As we look at Latin America and ask if a similar scenario could play out there, you have to consider the fundamental differences in market conditions and the overall financial system. Ironically, the region's reliance on cash makes it vulnerable to currency shocks but has insulated it from the credit crisis. And if you accept that poor financial literacy played a role, it's not clear it could do similar damage in a region with relatively low penetration of financial services and restricted availability of mortgage loans and unsecured consumer credit. But improving financial lit-

eracy is a priority and essential to successfully extending access to financial services to underserved consumers in the region. The challenge lies in delivering financial education. Because many consumers rely on cash and have no formal relationship with a bank, branches don't offer a suitable channel. Promising options are familiar channels like schools, retail outlets, pharmacies and groceries. We are excited about the possibilities mobile phones present for interacting regularly with consumers to offer experiential education, so you could imagine the mobile channel as another

*Continued on page 5*



#### BBVA Sees 2008 as "Best Year in History" from Latin America

BBVA managing director Jose Ignacio Goirigolzarri announced that first-half net profit from the region totaled \$1.79 billion. See story on page 2.

*Photo: BBVA.*

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## FINANCIAL SERVICES BRIEFS

**Panama Banking Sector on Track to Exceed 2007 Profits**

Panama's Superintendent of Banks reported September 23 that bank profits soared by 33.8 percent in the first half of 2008, to a total of \$694 million, compared to \$497 million during the first half of 2007.

Panamanian banks are on track to surpass the \$925 million in profits posted in the year 2007, **JP Morgan** analyst Franco Uccelli wrote in a research note.

**Fitch Acquiring Majority Stake in Duff & Phelps de Colombia**

New York-based **Fitch Ratings** announced October 2 that it will acquire a majority stake in **Duff and Phelps de Colombia** (DCR), a local ratings agency in which Fitch has had a minority stake for nearly a decade. The agreement is subject to approval by the Colombian SFC, the country's financial regulatory body. DCR would begin operating under the "Fitch Ratings" brand within Colombia if the deal is approved.

**MBA Lazard Opens New Financial Advisory Office in Peru**

**MBA Lazard**, a Latin America-focused investment banking group, announced September 30 that it has opened a new financial advisory office in Lima, Peru. The firm has hired Peruvian banker Augusto F. Barreto as Managing Director to lead the effort. Barreto most recently worked at **Citigroup**. The opening of the Peru office is part of MBA Lazard's broader strategy to offer financial advisory services across Central and South America, the company said in a press release. MBA Lazard is the joint venture between **Lazard Ltd.** and **MBA Group**, the parent company of **MBA Banco de Inversiones** of Argentina.

**Financial Services News****Value of Remittances to Latin Am. Falls for First Time on Record**

For the first time this decade, remittances to Latin America and the Caribbean are expected to decrease in value due to the combined effects of economic downturns in the United States and Spain, inflation and a weaker dollar, according to an analysis of recent remittance data by the Inter-American Development Bank's Multilateral Investment Fund. Migrants from Latin America and the Caribbean will send some \$67.5 billion to their homelands in 2008, compared to \$66.5 billion in 2007. However, adjusted for inflation, this year's total will be worth 1.7 percent less than the total sent in 2007, marking the first decrease in the value of remittances to Latin America and the Caribbean since the MIF started tracking the flows in the year 2000. Until last year, remittances to the region had grown by double digits every year. Manuel Orozco, who directs the Inter-American Dialogue's remittances and development program, said in a *Washington Post* article

*Mexico's central bank announced that workers' remittances fell 12.2 percent in August from the same month a year earlier.*

September 30 that development agencies should do more to encourage saving and investments in small businesses to create a cushion if the economy further deteriorates and money transfers slow even more. "If you don't begin to build assets at the time when things are slowing down, then you won't have anything when the flow of money is even less," he said. Mexico's central bank announced October 1 that workers' remittances fell 12.2 percent in August from the same month a year earlier, the biggest monthly decline since the central bank began tracking the data in 1995, Bloomberg News reported.

**Brazil Proposes More Real Estate Loans on Model "Different from US"**

Brazil's Minister of Planning, Budget and Management, Paulo Bernardo, said October 2 the government will announce new measures soon to better facilitate real estate financing, Agencia Brasil reported. Bernardo said Brazil "still has a lot of people



**Bernardo**

*Photo: Brazilian Government.*

who cannot finance a property." The minister stressed that Brazil's property system is "completely different" from the US, where a subprime mortgage crisis has sparked worries that other countries may have extended

too much credit to too many people. Bernardo said the new plan will target families with lower purchasing power. Paulo Bernardo said the government wants to expand access and noted that he did not see any problem with the growth of property loans in the country. Brazil's real estate sector grew 92.5 percent from January to August, compared to same period last year.

**BBVA Sees "Best Year in History" in Latin America for 2008**

Spanish bank **Grupo BBVA**, which holds a 50 billion euro (\$US 68.1 billion) credit portfolio in Latin America, anticipates 2008 will be its "best year in history" in the region, a top official said in Madrid on October 6. BBVA's managing director Jose Ignacio Goirigolzarri announced the bank's first-half net profit from the region totaled 1.3 billion euros (\$US 1.79 billion), making up 44.4 percent of the BBVA's global earnings, according to a Web site press release. Goirigolzarri said Latin America is showing a "great resistance" to the global financial turmoil, strength which he attributed to a high demand for its natural resources and responsible fiscal and monetary policies. "Because of these factors, the region is seeing the largest period of stability in the last 25 years," Goirigolzarri told participants

at a forum on Spanish investment in Latin America. BBVA hopes to raise its client base in the region from the current 26 million to 30 million by 2010, bringing a larger proportion of the population into the banking system. An official at BBVA's Mexican unit, **BBVA Bancomer**, said last week the bank would maintain its projected growth rate of 2.5 percent this year and that the international financial crisis shouldn't slow its growth in credit, reported Mexico's *El Financiero*.

## Insurance News

### AEGON Agrees to Acquire 50 Percent of Brazilian Life Insurer Mongeral

Holland-based **AEGON** said October 1 it had signed an agreement to acquire a 50 percent interest in **Mongeral SA Seguros e Previdencia**, Brazil's sixth largest independent life insurer. Mongeral, which was formed in 1835 and is one of the five oldest companies in Brazil, specializes in individual and group life insurance as well as pension and savings products and is Brazil's leading distributor of worksite and labor union pension plans. AEGON CEO Alex Wynaendts said that Brazil is the largest market for life insurance in Latin America. Mongeral has more than 500 employees, 3,000 brokers and 44 branches throughout Brazil. No financial details were disclosed, and the transaction is expected to close by the end of the first quarter of 2009, subject to approval from Brazil's regulatory authorities. AEGON's existing operations in Brazil include **AEGON Direct Marketing Services** and its life reinsurer, **Transamerica Reinsurance**. In recent years, AEGON has sought to expand its presence in Latin America. In 2006, AEGON signed a joint venture agreement with **Seguros Argos**, one of Mexico's leading independent providers of life insurance.

## Political News

### Ricardo Lagos Not Running for Chile's Presidency in Next Election

Former Chilean President Ricardo Lagos

## Research Alert

### Citigroup: Argentine Banks Downgraded on Political Concerns

A number of Argentine banks were given "sell" ratings on October 6 by **Citigroup** analysts, Bloomberg News reported. **Banco Macro**, **BBVA Banco Frances**, **Banco Patagonia** and **Grupo Financiero Galicia**, the holding company for the nation's biggest private bank, were among those given "sell" ratings.

Citigroup said political and economic concerns in the South American country were behind the move. Argentina's inflation continues to be among the highest in the region, while commodity prices for key exports like soy have fallen some 40 percent in the past year. Moreover, increasing difficulties in refinancing debt maturing from next year, brings a measure of uncertainty to the country's fiscal outlook. The economic and political factors "threaten to bring the banks down (again) if a full-blown crisis eventually becomes inevitable," even though the banking system is in a better position than in 2000-2001 to withstand a crisis, Citigroup analysts wrote in the report. [Editor's note: see related Q&A in the August 27-September 10, 2008 [issue](#) of the *Financial Services Advisor*.]

In related news, **Moody's Investors Service** said in its annual report on Argentina's banking system, released October 7, that its "currently negative credit-trend outlook for Argentina's banks should not damage most of their ratings."

### Mexican Banking Sector Outlook "Challenging," New Report Says

New York-based **Fitch Ratings** on September 24 released its semi-annual report evaluating major Mexican banks. The findings indicate the country's banks are facing challenges from their rapid incursion into new retail segments, a worsening economic environment and the global liquidity crunch.

Fitch analysts anticipate the performance of these banks will continue weakening until asset quality problems are fully contained but do not expect downward pressure on the major banks' Issuer Default Ratings in the near future. "The trends in financial ratios among Mexican banks are mixed but recent performance has been characterized in general by deteriorating asset quality, climbing provisions and low and volatile trading results," Fitch said.

The ratings agency noted that consumer portfolios in Mexico are the worst-performing among comparable Latin American peers but strong margins, revenue diversification and contained operating costs have sustained adequate profitability. With the exception of asset quality and profitability, other rating factors such as capital adequacy and liquidity have not materially worsened and remain robust, noted Alejandro Garcia, Fitch's senior director for Latin America financial institutions.

### Fitch: Insurance Sector in Brazil Will Continue to Grow

**Fitch Ratings** said October 3 the Brazilian insurance market will continue to grow in the short and medium term. Despite the low participation of the insurance sector in Brazil's GDP (at 3.3 percent), the sector has significant potential for development, Fitch said in a new report. With more reinsurers coming into Brazil's market, better price negotiation and the possible offer of new products will lead to the adoption of more sophisticated strategies by the companies, Fitch noted.

said he will not be a candidate for president in 2010, local daily *El Mercurio* reported in an exclusive interview October 5. "In this race ... I am not going to participate. I will not be a candidate. There are many ways to serve the country and I will do what I have been doing: helping candidates," Lagos said, according to *El Mercurio*. President Michelle Bachelet said on Sunday that the ruling Concertacion coalition will wait until after municipal elections later this month to determine its presidential candidate. While the coalition has had a remarkable decade-long run holding power in Chile, the administration of Bachelet was rocked early in its tenure by student strikes, transportation problems and energy issues.

### US Congress Extends Trade Benefits for Andean Nations

The US Senate voted unanimously on October 2 to extend for another year trade benefits for Colombia, Peru, Ecuador and Bolivia. The Senate bill amended the House version, passed earlier this week, providing a one-year extension of benefits to Peru and Colombia, a one-year extension to Ecuador with a review in six months, and a six-month extension to Bolivia, after which preferences will terminate for that country unless the President finds it to be in compliance with ATPDEA regulations. Just a week before the vote, President George W. Bush sent a memo to USTR Susan Schwab calling for the suspension of trade preferences for Bolivia because of what the US said was poor cooperation on the war on drugs. That suspension could enter into effect after a public hearing on the issue.

## Economic News

### Jamaican PM "Confident" in Face of US Crisis; Warns of Tourism Decline

Prime Minister Bruce Golding said September 30 that Jamaica's financial system was in a good position to respond to the crisis on Wall Street, and that the biggest blow to the economy would come from an expected downturn in tourism receipts. "We are satisfied based on recent

### What are Latin Americans Saying About the US Financial Meltdown?

**Venezuela:** "This is a hurricane, or more than one hurricane, it's a hundred hurricanes," President Hugo Chavez told reporters September 30. "I'm in the group that believes this will be worse than the 1929 crash. No country can say it won't be affected," Chavez said.

**Mexico:** "The Mexican government, Mexican businesses, the Mexican banking system don't depend on external credit," Finance Minister Agustin Carstens said September 30. "Therefore this situation of volatility is not contaminating our markets in a direct way." Still, the lending crunch in the US will "no doubt" affect Mexico's growth, especially as the tourism industry slows and a crisis in the US housing sector slows money transfers to Mexico, he said.

**Brazil:** "They want to help the banks and not help the poor," President Luiz Inacio Lula da Silva said September 27. "Why give \$700 billion to the banks and no money to the poor guys who lost their houses?" Lula asked.

**Argentina:** "What it has produced is the largest state intervention in memory," President Cristina Fernandez said September 26. "We are seeing how the First World collapses."

**Mexico:** "China is now the most important country to help responsibly in this crisis," billionaire Carlos Slim told journalists at a meeting in Mexico City September 30. "China has great liquidity, large resources, surpluses in its current accounts and a lot of capital flow," he said. "In the past, developed countries had reserves and financed developing countries, while today developed countries, especially the United States, are being financed with resources from developing countries," he said.

*Sources: Bloomberg News, Reuters, AFP, UPI.*

investigations that have been done, that our exposure to whatever contagion may emanate from Wall Street is very limited, and limited to the extent that we are in a position to provide such liquidity support as may be necessary, if indeed it becomes necessary," Golding told reporters September 30 at the Jamaican Embassy in Washington. The Prime Minister said that the Central Bank could draw upon its international reserves to provide liquidity to any Jamaican financial institutions with investments on Wall Street, "should any such call be made." Golding's government has been criticized by the opposition People's National Party (PNP) for not doing enough to prepare Jamaicans for potential fallout from Wall Street, the *Jamaica Gleaner* reported. "I have expressed my concern that the Government is (not) addressing it or speaking to the country to allay our fears or to say, 'Brace yourselves'," PNP President and former prime minister

Portia Simpson Miller said September 29. Golding did not address the criticism in his remarks but he warned that Jamaica's tourism industry, which contributes \$2 billion a year to the economy, would be hit hard by the economic downturn in the US. The government has lowered its projected growth rate for tourism arrivals from 30 percent to 6 percent, he said. Jamaica recently announced a controversial one-year program that provides a \$4.5 million guarantee to carrier **American Airlines**, which the airline can draw upon if its passenger loads fall below the targeted 65 percent.

### Argentina Negotiates with Banks over \$20 Billion Bond Holdouts

The Argentine government on Monday negotiated with international banks to restructure \$20 billion of defaulted bonds that holders kept out of a 2005 settlement. Executives from **Citigroup**, **Barclays** and

**Featured Q&A***Continued from page 1*

choice. Ultimately, financial institutions must balance their fiduciary responsibilities with opportunities to reach new consumers with financial services by combining calculated risks in integrated programs designed to promote consumers' long-term success. It's not just responsible, it's good business."

**A Board Comment: Manuel Orozco:** "Latin American consumers are susceptible to fail to deal with their financial obligations in large part because of lack of financial literacy. Financial literacy is not only educational but also functions as a counseling tool, and in Latin America there is a significant lack of outreach by governments, the private sector or civil society to educate people about their finances. Two of the main problems that can affect people today because of lack of financial literacy refers to their weakness to fall prey to credit card debt and to keep their savings outside the financial sector. Misconceptions of personal indebtedness and financial planning and budgeting have contributed to the assumption of personal debt through credit cards. Moreover, while borrowing for consumption, people's savings are not placed in

the financial system, but rather are kept 'under the mattress.' This situation makes those who happen to be better off vulnerable to external shocks. Governments have to monitor possible bad financial practices on the supply side, and accelerate incentives for greater financial access through savings, starting with expanding financial literacy among consumers."

**A Board Comment: Roberto Teixeira da Costa:** "In Brazil, access to financial services has widened significantly in recent years. Lower interest rates, longer maturities and a better institutional environment have boosted the credit market, especially in the consumer credit segment. But growing financial access and much higher consumer indebtedness have raised concerns about the quality and sustainability of this process. Disseminating financial literacy and the responsible use of credit is a natural step toward sustainability. The Brazilian government, through the Central Bank of Brazil, maintains a program of financial education which has made some headway in that direction. Commercial banks and microfinance institutions take part

	Dominican Republic	Guatemala	Honduras	Nicaragua
People who save (%)	49	18	44	34
People with bank accounts	45	30	40	24
People who save at banks	27	8	16	26
Average amount saved (US\$)	1440	1460	1661	1200
People with credit cards (%)	12		24	8

Source: Data collected by Manuel Orozco through household surveys, 2008.

*Continued on page 6*

**Deutsche Bank** met September 28 with Argentine President Cristina Fernandez to work out details of the plan. Cabinet Chief Sergio Massa disclosed few details on the plan to the press, but said the government will only offer one new bond in the swap and will require investors to put up fresh cash to participate, Bloomberg News reported. Massa said the proposed

restructuring has been made "more interesting" by the US credit crisis, and that the terms of the restructuring would be more favorable to the government than even the previous swap, where bondholders took a "haircut" of approximately two-thirds the value of the bonds. [Editor's note: see related Q&A in the September 29, 2008 [issue](#) of the daily *Advisor*.]

**POLITICAL & ECONOMIC BRIEFS****Chile Consumer Prices Rose 1.1 Percent in September**

Chile's National Statistics Institute said October 3 that consumer prices rose by 1.1 percent in September compared to the month before. The cost of living in Chile has risen 7.6 percent this year, and has gone up 9.2 percent in the past 12 months. Transportation costs were up 1.6 percent in September. Food was up 1.2 percent, and housing up 1.3 percent. Health costs fell slightly, by 0.1 percent.

**Brazil Industrial Production Falls 1.3 Percent in August**

Brazil's industrial output fell 1.3 percent in August on a seasonally-adjusted basis. The drop is the largest this year, Bloomberg News reported. Wall Street analysts said Thursday that IP came in much weaker than expected. Market consensus had been a decline of about half that amount. "Although the 3Q08 manufacturing industry performance should be quite robust, which should be confirmed by the September IP release, the odds of a more pronounced slowdown are increasing," **JP Morgan** noted.

**Argentina's Massa Calls for Transparency at INDEC**

A top official in the government of Argentine President Cristina Fernandez on October 1 called for an end to the "politicization" of the country's controversial statistics agency INDEC, which has been accused of manipulating inflation data, reported Bloomberg News. Sergio Massa, the Cabinet Chief, told members of Argentina's congress that lawmakers, businessmen, and labor leaders should come together to assure "transparency" at INDEC, although he did not outline specific changes for the agency.

**Featured Q&A***Continued from page 5*

on this effort as well. With institutional programs and investments in communication, guidance and training programs the private sector contributes to financial education with financial expertise and credit consciousness formation. Banco Itau is engaged and is considered a reference in financial education in Brazil. It launched a 'Credit Consciousness Program,' recognizing that sustainability

“Getting more transnational families banked, creditworthy, financially educated and asset conscious is a shared responsibility...”

— Irene Lee

and responsibility are part of this business, and critical in building valuable relationships with clients. This full-fledged program builds on the best international practices and offers financial primers to customers. Encouraging responsible behaviors toward credit has been a permanent feature in Itau's myriad advertising campaigns. Its reward is a customer better equipped to engage in credit in a sustainable way, and therefore better able to derive the benefits from access to financial services.”

**A** **Guest Comment: Irene Lee:** "The [Annie E. Casey] Foundation's work in the US has shown that there are more complicated financial products being sold and marketed to working poor families living in urban and rural communities. Beginning in 2000, there was a rapid growth of consumer lending from all sectors of the US financial services industry. One of the pitfalls of this push to increase access to credit was the lack of understanding by consumers of the risks of taking on too much debt embedded in a loan's terms and conditions. Without strong consumer protections and increased financial knowledge, Latin

American consumers could find themselves making the same mistakes as US consumers. Focus group research by the Inter-American Dialogue and Texas Appleseed has raised important consumer empowerment issues affecting US-based transnational families who send remittances. These include a preference for content specific, point-in-time financial education. Examples include providing disclosures on remittance costs at the point of sale and credit counseling after financial difficulties occur. A promising avenue is adding one-on-one financial coaching to help consumers and families make better long-term financial decisions in addition to short-term counseling and general financial education programs. Getting more transnational families banked, creditworthy, financially educated and asset conscious is a shared responsibility of government, financial institutions and philanthropy. Better tools to measure creditworthiness and programs such as home buying clubs to support low-income consumers save and prepare for homeownership, help to decrease delinquencies and increase access and assets to formerly risky customers.”

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