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Featured Q&A with our Board of Advisors

Q Mexican retailer Elektra said Thursday that its banking unit, Banco Azteca, has received preliminary authorization to operate in Brazil. Do you see retailers such as Elektra making significant inroads in Brazil's profitable banking sector? What are the biggest risks and benefits of operating in Brazil through this channel?

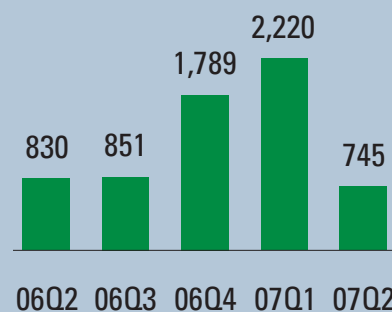
A Guest Comment: **Alejandro García & Maria Rita Gonçalves:** "At present, it is difficult to anticipate how successful Elektra's plans will be in Brazil, even considering that the group's strategy in Latin America presents a good track record, especially on the retail side where the group is specialized. In Mexico, they were pioneers in both the nationwide commercial retail chains (in the early 1950s) and in consumer finance for lower-income brackets of the population (since the 1960s through Elektra directly or after 2002 through the bank) ... One of the main opportunities for Azteca/Elektra seems clear: Brazil is the largest market in Latin America, with hefty growth opportunities in its core market, oriented towards lower-income and middle-class brackets of the population. In contrast, their main challenge is that Brazil already faces high competition, which could somewhat constrain their ability to gain a large market penetration."

A Guest Comment: **Thomas Morante & Yani Contreras:** "Elektra's banking unit, Banco Azteca, should enjoy success in Brazil, especially given that it has been successful in Mexico, where it launched operations in 2002. The Brazil and Mexico markets, in the context of Banco Azteca's business model, are similar and thus afford opportunities which Banco Azteca should be able to take advantage of in the near term. Banco Azteca's unique business model is targeted to low-income earners, and its success derives, in part, from devising business practices with an eye toward the poorest socio-economic group, often

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FEATURED CHART

Grupo Elektra Net Income
(in millions of pesos)



Source: Grupo Elektra.

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NEWS BRIEFS

Barclays Seeks Approval to Acquire ABN AMRO Bank Chile

British bank **Barclays** has requested authorization to acquire all of the shares in **ABN AMRO Bank Chile**, Chile's superintendency of banks and insurance said August 7, according to Reuters. Barclays, which made an \$89 billion offer for ABN AMRO on Monday, is competing against a consortium led by **Royal Bank of Scotland** in the biggest-ever bank takeover bid.

Venezuela to Create State-Run Insurance Company

Venezuela will create a state-run insurance and reinsurance company focused on providing risk coverage to microenterprise and small- and medium-sized businesses, the country's official gazette announced on August 3, according to Reuters. The new company, **Bolivariana de Seguros y Reaseguros SA**, is part of President Hugo Chavez's initiative to promote "21st century socialism."

Banco Azteca Gets Initial Okay to Launch Operations in Brazil

Banco Azteca, the banking unit of Mexican retailer **Elektra**, received initial approval July 26 to set up operations in Brazil, Reuters reported. The bank, which has been successful in marketing to working class Mexicans through consumer loans and remittance services, has been eyeing other countries for expansion. Elektra currently operates retail outlets in Panama, Honduras, Guatemala, and El Salvador. In Honduras, where Elektra has had retail stores since 1998, the company opened 46 point of sale operations last month.

Financial Services News**ING Buying Santander's LatAm Pension Fund Business for \$1.3 Bn**

Netherlands-based financial services giant **ING Groep** announced July 27 it had agreed to buy **Santander's** pension operations in Latin America for \$1.3 billion. In a statement, ING said the acquisition of Santander's pension fund management companies in Mexico, Chile, Colombia, and Uruguay would make it the second-largest pension fund manager in Latin

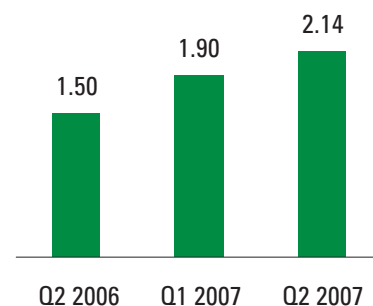
ING said it was holding separate talks regarding Santander's pension and annuities business in Argentina.

America. Earlier that week, news service AFX, citing a report in Argentine daily *Clarín*, said that Santander had also reached an agreement to sell Argentine pension fund manager **AFJP Origenes** to ING for 300 million euros (\$US 413 million). However, ING said it was holding separate talks regarding Santander's pension and annuities business in Argentina, which was not included in the acquisition announced July 27. Excluding Argentina, ING's and Santander's Latin American pension business had a total of 35.5 billion euros worth of assets under management at the end of 2006. ING said it already has pension fund operations in Chile and Mexico, and is the number-one pension fund manager in Peru. Once the acquisition closes by early next year, pending regulatory approvals, ING will be the number-three pension provider in Mexico, number-three in Chile, number-five in Colombia, and number-two in Uruguay, the Dutch financial services company said.

Brazil's Banco Itau Posts 41 Percent Increase in Q2 Profit

Brazilian banking giant **Itau** took in strong profits in the second quarter, with net income rising 41 percent compared to the same period in 2006, the bank reported on August 7. In an earnings statement, the

Sao Paulo-based **Banco Itau Holding Financeira** said net income reached 2.14 billion reais (\$US 1.11 billion) compared to 1.90 billion reais in the first quarter of this year and 1.50 billion in the second quarter of last year. The bank said earnings in the quarter gained in part from the sale of its stake in local credit bureau **Serasa** to Dublin-based **Experian**. In a cautious move to protect itself against a possible economic downturn, Itau made a one-time provision of 400 million reais against bad loans in the quarter, Bloomberg News reported. It was more than the minimum required to cover such loans, Itau said in a press release. Loan provisions reached 1.87 billion reais in the quarter, up from 1.44 billion reais in the year-earlier period. "We preferred to take this cautious measure so we are protected in case there's stress in the market," Silvio de Carvalho, an executive director at Itau, was quoted as saying. The bank's credit portfolio grew along with a country-wide expansion in consumer credit, growing 40 percent from a year earlier to 104.8 billion reais, according to Bloomberg News.

Banco Itau Quarterly Profit
(in billions of reais)

Source: Banco Itau.

Peru's Credicorp Sees Second-Quarter Profit Jump 35.6 Percent

Credicorp, Peru's biggest financial holding company, reported a second-quarter profit of \$87.40 million, up 35.6 percent from the same period last year, on the back of strong growth in net interest and net financial income. In an earnings release, Credicorp, whose main holding is Banco

de Credito, said net interest income rose 22.5 percent year-on-year in the second quarter to 159.31 million, as its loan portfolio grew 27.8 percent to \$7.03 billion. It boosted net interest margin to 5.5 percent from 5.3 percent a year ago. Non-financial income fell 2.8 percent from the first quarter, but rose 49 percent versus the second quarter of 2006 to \$108.03 million. Credicorp attributed the growth in non-financial income to its focus on developing fee income to compensate for increasing competition and tighter margins, and to fees contributed by its pension fund business **Prima**. Profit at Banco de Credito rose 21.9 percent year-on-year in the second quarter to \$82.06 million. The bank has added 22 branches since the second quarter of last year, while its workforce has expanded 17.6 percent to 11,610 employees.

Citigroup's Brazil M&A Business Set to Pass, Possibly Double 2006 Record

Seven months into this year, US financial giant **Citigroup** is already close to matching the volume of merger and acquisition deals in Brazil that it advised on during all of 2006, and the number of transactions in the works may double, Reuters reported on August 7, citing the head of the company's Brazilian investment banking unit, Ricardo Lacerda. Citigroup has worked on 19 takeovers so far in 2007 totaling about \$15 billion, close to its volume last year, Lacerda said. "The M&A

“Given the volume of deals already announced and what's in the pipeline for the main banks, this could easily be another record year.”

— Ricardo Lacerda

business is extremely robust," Lacerda was quoted as saying. "Given the volume of deals already announced and what's in the pipeline for the main banks, this could easily be another record year." Overall, takeovers in Brazil are 50 percent higher than in 2006, while initial public offerings

In Focus

Latin America to Drive Visa, MasterCard Portfolio Growth—Expert

By Kayleigh O'Keefe

Latin America's strong macroeconomic environment and resulting credit expansion will continue to drive loan portfolio growth at leading global credit card companies **Visa** and **MasterCard** in the short- to medium-term, an industry analyst told the *Financial Services Advisor* this week.

"Risk levels are at an all-time low in Latin America, reserves are at an all-time high, so the macro-environment is ideal for credit expansion," said Tricia Juhn, director of financial services at Miami-based consulting firm **InfoAmericas**. "On average, card issuance is up about 30 percent year-on-year; credit card purchases are up about 25 percent," she said.

Indeed, **Banco Itau** estimates that Brazil's 83.8 million credit card holders made 15.6 billion reais (\$US 8.24 billion) in credit cards purchases in July, up 20.1 percent from the same month a year ago, according to *Cards International*. In Mexico, banks lent some 238.7 billion pesos (\$US 22.2 billion) to credit card holders in May, up 37.6 percent from the year-earlier period. The numbers illustrate Latin America's increasing importance for Visa and MasterCard's global portfolios.

The two major credit card firms, accounting for 95.8 percent of Latin America's total transactions, processed \$169.45 billion in credit card purchases in the region last year, according to *The Nilson Report*.

Visa, which is planning an IPO for early 2008, posted the most impressive growth last year, expanding its debit and credit cards in circulation by 48.1 million in Latin America, where the company had 16.7 percent of its total cards worldwide, up from 15.0 percent in 2005. Latin America accounted for 3.5 percent of Visa's worldwide purchase volume last year, up from 3.2 percent a year earlier.

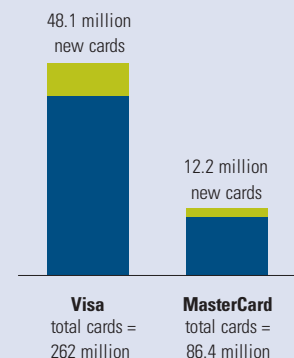
MasterCard, which went public on the New York Stock Exchange in May 2006, added 12.2 million cards in Latin America last year, growing the region to 10.6 percent of the firm's global portfolio from 10.2 percent a year earlier. Purchase volume in Latin America grew to 4.2 percent of MasterCard's worldwide total last year, up from 3.8 percent a year earlier.

"As has been the case with the bulge bracket retail banks, we expect the region to drive portfolio growth for the parent companies over the short- to medium-forecast range," Juhn told the *Financial Services Advisor*.

MasterCard, which last week announced that it upped its worldwide revenue by 17.8 percent to \$997 million in the second quarter, saw its share of the Latin American market increase slightly last year to 27.78 percent from 27.72 percent in 2005. Visa's market share moved from 67.79 percent in 2005 to 68.02 percent last year. But, while Visa card purchase volume grew by \$23.19 billion between 2005 and 2006, its purchase volume market share declined from 65.24 percent to 64.83 percent.

MasterCard & Visa in Latin America

New Cards in Circulation in 2006



Source: The Nilson Report

have reached a record high this year, generating a slew of opportunities for Citigroup, **Morgan Stanley**, **UBS**, and other firms. So far this year 54 companies have sold 43.43 billion reais (\$US 22.63 billion) worth of stock, about 39 percent more than in all of 2006, according to Reuters. Another eight companies have filed to sell shares. "Growth in the capital markets can continue at a good pace going forward because much of the improvements in economic fundamentals haven't completely been felt," Lacerda said. Sectors likely to lead future share sales include technology, energy, media, and consumer products that benefit from economic growth and a trend in favor of lower interest rates, he said.

Bradesco's Second-Quarter Profit Rises 12.4 Percent

Banco Bradesco, one of Brazil's biggest private banks, on August 6 reported a 1.80 billion-real (\$US 946 million) second-quarter profit, up 12.4 percent from the same period a year ago, amid continued strong loan growth, Reuters reported. Bradesco said its credit portfolio expanded 22 percent year-on-year in the second quarter to 108.2 billion reais, with business loans growing 24.3 percent and individual loans 19 percent. The higher demand for credit has prompted the bank to raise its forecast for loan growth this year to as much as 27 percent, up from a previous estimate of as much as 25 percent. The increase in lending at Bradesco has resulted in an increase in provisions for bad loans. The bank provisioned 1.34 billion reais for bad loans in the second quarter, up 16 percent from the previous quarter. Demand for consumer credit has been expanding steadily in Brazil amid a decline in domestic interest rates. Bradesco, one of Brazil's top two private banks along with Banco Itau, had 290.57 billion reais in total assets at the end of June, up 24.7 percent from a year ago, according to Reuters.

Banco Azteca Sees Profit Rise 14 Percent, Launches Honduras Unit

Banco Azteca, the banking unit of Mexican retailer **Grupo Elektra**, posted a

Migrant Remittances to Mexico Slowing This Year—IDB

Remittances from Mexican migrants in the United States back home are flattening out this year, the Inter-American Development Bank's Multilateral Investment Fund (MIF) confirmed on August 8.

Based on a recent survey conducted by the MIF, 64 percent of Mexicans reported sending money back to their home countries on a regular basis, down from 71 percent in the first half of 2006.

In states where Latin American immigration has been growing most recently, such as Georgia, North Carolina, and Pennsylvania, the percentage of Mexicans sending remittances plummeted from 80 percent in 2006 to 56 percent so far this year.

"One out of every three Mexicans—or nearly 500,000 people—in 'new destination' states who were sending remittances last year are no longer sending a remittance home," MIF Manager Donald Terry told the *Financial Services Advisor* in an interview this week. "We attribute that to increased uncertainty and even insecurity among these immigrants due to the increasing anti-immigrant biases that are growing particularly in these new destination states," he said.

However, in "traditional destination" states like Texas, Florida, and New York, the percentage of Mexicans who sent money home fell only slightly, to 66 percent from 68 percent last year, the MIF reported.

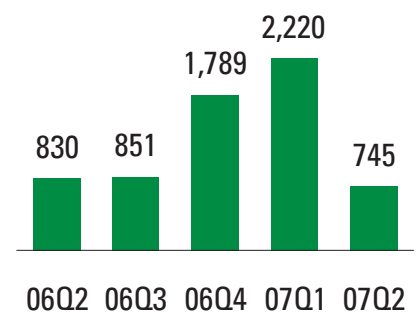
The value of US-Mexico remittances also increased only slightly, from to \$11.5 billion in the first half of the year compared to \$11.4 billion in the first half of 2006, a sharp contrast to the double-digit growth experienced in the last several years, according to data from the Mexican central bank cited in the IDB's press release.

Earlier this year, when first-quarter US-Mexico remittances data became available, analysts predicted that a gradual deceleration of remittance flows to Mexico, as the US housing market slumped, accounting and reporting of money transfers improved, and border security increased. [Editor's note: see related [Q&A](#) in the May 15, 2007 issue of the *Financial Services Advisor*.]

While remittances to Mexico continue to flatten, remittances to El Salvador, Guatemala, and Honduras increased by an average of 11 percent in the first half of the year compared to the same period a year earlier.

14 percent increase in its second-quarter net profit, Reuters reported on July 24. Its gross portfolio gained 15 percent to reach 20.742 billion pesos, with net deposits jumping 23 percent. The bank, which has been successful in marketing to working class Mexicans through consumer loans and remittance services, has been eyeing other countries for expansion. Elektra, which currently operates retail outlets in Panama, Honduras, Guatemala, and El Salvador, launched banking operations in Honduras last week and gained initial approval on July 26 to set up retail and

Grupo Elektra Net Income (in millions of pesos)



Source: Grupo Elektra.

banking operations in Brazil [Editor's note: see related [Q&A](#) on page 1]. As of the end of June, the bank had 6.2 million active accounts, 35 percent more than a year earlier. Parent company Elektra posted a 745 million-peso (\$US 69 million) second-quarter net profit, down 10 percent from 830 million pesos in the same period of last year [see chart on page 4].

HSBC's Latin America Profits Up 16 Percent in First Half of 2007

UK-based bank HSBC announced on July 30 that its profit before tax in the first half of the year in Latin America grew by 16 percent. Latin American operations now account for 8 percent of HSBC's profit, the company said in a press release. Improved credit performance in Brazil, coupled with strong asset growth, contributed to pre-tax profit growth of 43 percent, the company said. Revenue growth in Mexico "remained strong" at 23 percent on market share gains. "We have built a highly successful business in the last five years, which has already returned profits in excess of our total investment," Stephen Green, HSBC's group chairman, was quoted as saying. HSBC in Mexico posted strong market share with credit cards, Tu Cuenta packaged accounts, and premier accounts, all growing by over 45 percent compared with the previous year, the company said. In Argentina, the integration of **Banca Nazionale del Lavoro**, an acquisition in May 2006, contributed to a 14 percent rise in pre-tax profits to \$95 million, Green said.

Political News

US Close to Reaching Major Anti-Drug Aid Package Deal with Mexico

The United States is close to finalizing a major, multi-year aid deal to combat drug cartels in Mexico, *The Washington Post* reported on August 8. Under the plan, which could be announced as soon as August 20, the US would provide Mexico with telephone tapping equipment, radar to track traffickers' shipments by air, aircraft to transport Mexican anti-drug teams, and assorted training, the *Post*

reported, citing unnamed sources. Although the *Post* did not report a specific dollar figure for the aid contemplated under the plan, it said it would be the biggest US anti-narcotics effort abroad since a seven-year, \$5 billion program in Colombia.

Chavez Launches Tour of South America with Visit to Argentina

Venezuelan President Hugo Chavez on August 6 kicked off a four-nation tour of South America aimed at shoring up ties with allies on the continent, the Associated Press reported. In his first stop on the tour, Chavez met with President Nestor Kirchner in Argentina, where he announced plans to buy up to \$1 billion in Argentine debt, as well as an agreement on energy security. The agreement calls for cooperation on initiatives such as natural gas supply and distribution, joint oil refining projects, and coordinated efforts on distributing power and alternative fuels, according to the AP. Chavez also met with Argentine First Lady and Senator Cristina Fernandez de Kirchner, who is running to succeed her husband in the country's October 28 presidential election. "Even the stones in Argentina and Venezuela shout out that Cristina Kirchner will be president," Chavez was quoted as saying. President Kirchner said he supported Venezuela's bid to become a full member of the Mercosur trade bloc along with Argentina, Brazil, Paraguay, and Uruguay. Chavez was scheduled to fly Tuesday to neighboring Uruguay and later in the week to Bolivia and Ecuador, according to the AP.

Mexican Rebel Group Takes Responsibility for Sears Bomb

A Mexican guerilla group claimed responsibility for a bomb that exploded on August 1 outside of a **Sears** store in Oaxaca, the Associated Press reported. The leftist Popular Revolutionary Army (EPR) issued a statement saying their goal was "to hit the interests of Mexican and foreign oligarchy." The EPR has also taken responsibility for oil pipeline bombings in Mexico last month. [Editor's note: see related Q&A in the August 9, 2007 [issue](#) of the daily *Latin America Advisor*.]

POLITICAL & ECONOMIC BRIEFS

Trinidad to Extradite Three JFK Bomb Plot Suspects to US

Three suspects charged with plotting to blow up New York's JFK International Airport will be extradited to the United States, a judge in Trinidad and Tobago ordered on August 6, according to Reuters. One man from Trinidad and Tobago and two men from Guyana face charges in the US for the failed terrorist plot, which aimed to blow up JFK's jet fuel tanks and part of the pipeline that fed them.

Bonicelli Takes Over \$750 Million Latin America Portfolio at USAID

Paul Bonicelli took the oath of office on August 1 as the new assistant administrator for Latin America and the Caribbean at the US Agency for International Development (USAID). Bonicelli will direct an annual budget of more than \$750 million in 17 Latin American and Caribbean countries. Prior to his new post, he was deputy assistant administrator for democracy, conflict, and humanitarian assistance at USAID.

Guatemala's Congress Establishes Impunity Commission

Guatemala's Congress voted on August 1 to establish the International Commission Against Impunity in Guatemala. One of the Commission's primary tasks will be to recommend public policies and legal measures for "eradicating the illegal armed groups and preventing their re-emergence," according to a UN press release. Many such groups are accused of targeting individuals investigating human rights violations committed during Guatemala's 36-year civil war, which ended in December 1996.

Featured Q&A*Continued from page 1*

the largest market segment in the countries where Banco Azteca now has operations. This segment has proven to be a good market for Banco Azteca in Mexico, Panama, Guatemala, and Honduras. Banco Azteca obviously faces the risks inherent in entering a new market, but with its branch operation experience in Elektra stores in Mexico, Panama, and Guatemala, Banco Azteca is poised to benefit from Elektra's recent announcement that it

“Banco Azteca's unique business model is targeted to low-income earners, and its success derives, in part, from devising business practices with an eye toward the poorest socio-economic group.”

— *Thomas Morante & Yani Contreras*

will open eight Elektra stores in 2008 in Brazil, each of which will house a Banco Azteca branch. Banco Azteca will also benefit from the know-how developed in other similar Latin America market segments. The banking services to be provided in Brazil would include saving accounts, personal and car loans, and installment financing for consumers who shop at Elektra stores. This formula—built on the branch model through retail stores with a focus on this consumer group—should enable Banco Azteca to compete effectively in the Brazilian market.”

A **Guest Comment: Daniel Araujo:** "The banking industry in Brazil is going through a period of strong growth in

loans, especially to individuals and small businesses. The maintenance of the growth pattern really attracts the attention of existing players hungry for expansion as well as potential newcomers. Most of the opportunities are captured at the large retail banks that have made agreements with retail chains, as was the case with Bradesco, Unibanco and Itau, among others. By entering into agreements with the large retail stores, banks benefit from an existing client base and the experience of the stores in their relationship with the clients. The entrance of Banco Azteca together with the retail operations of Elektra as a new player in the Northeast of the country is an interesting feature, as it brings the combination of the opportunities of a region that has not been well served—most banks in Brazil have been focusing their attention more on the South and Southeast of Brazil—with the challenges and risks of a new loan portfolio. As newcomers, the main challenges for Elektra and Banco Azteca are to generate a relevant business scale in the retail market and to have adequate risk management of the loan portfolio in a market that is new to them."

Alejandro García is Director of Financial Institutions at Fitch Mexico and **Maria Rita Gonçalves** is Director of Financial Institutions at Fitch Brasil.

Thomas Morante is a member of the Financial Services Advisor board and Chair of the Insurance, Banking, and Financial Services Industry Group at Jones Walker LLP, and **Yani Contreras** is an International Attorney at Jones Walker LLP.

Daniel Araujo is Director of Financial Services Ratings at Standard & Poor's in Sao Paulo.

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Erik Brand,
General Manager, Publishing

Robert Simpson,
Editor

Elisabeth Burgess,
Assistant Editor and Reporter

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Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at
freetrial@thedialogue.org

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Phone: 202-822-9002 Fax: 202-822-9553

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