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Featured Q&A *With our Board of Advisors*

Q Scotiabank CEO Richard Waugh said this month that the Canadian bank plans to open 140 new branches outside of Canada next year, with 100 of them in Mexico. What does the competitive landscape for retail and commercial banking in Mexico look like? What's drawing Scotiabank to Latin America? What other foreign banks are vying for positions?

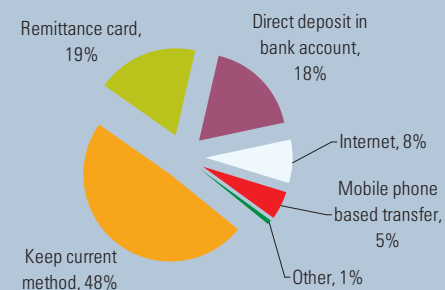
A **Guest Comment: Peter Shaw:** "Scotia is clearly in an expansionary mode in the region—its plans to expand further in Mexico and the planned acquisition of Banco del Desarrollo in Chile are examples of this strategy. It is not alone in seeing potential in the region, as several strong foreign banks have made Latin America a focus of their global diversification and growth strategies—Spain's Banco Santander and BBVA, HSBC, and Citigroup are examples of this. Long present in Latin America and the Caribbean, Scotia has seen its regional presence as an important part of its global strategy; its presence in these markets brings both asset and revenue diversification to its core Canadian business, and the markets it is focusing on in recent months—Mexico and Chile—are the two highest rated countries in the region, both solidly in investment grade territory. The attraction of the Latin markets now is the burgeoning retail banking opportunities, as well as expansion into small and middle market business bank-

ing; the Desarrollo acquisition, for instance, will add niches in both these segments that are complementary to Scotia's current presence. The challenge the bank faces throughout the region is to make its investment solidly profitable in increasingly competitive markets. Growth to date has proved profitable for most well-entrenched players, but seasoning of rapidly expanded loan portfolios and more moderate growth may already have begun to put pressure on the recent strong performance. Scotia is generally competing from relatively low market share in most of the region, and this will add to the above mentioned pressures as the bank seeks to expand its presence."

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FEATURED CHART

Migrants' Preferences for Alternative Remittance Methods



Even as migrants change remittance preferences, money transfer operators are not worried about competition from banks. See **In Focus** story on pages 3-4.

Data: Manuel Orozco, July 2007.

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NEWS BRIEFS

Bank of China Wants to Enter Brazilian Market

Bank of China has requested permission to set up banking and brokerage activity in Brazil, Bloomberg News reported on September 19. The Beijing-based firm, China's third-largest bank, would start operating with an initial \$60 million in capital under the name **Banco da China Brasil** with offices in Sao Paulo. Brazil's Central Bank and the National Monetary Council must approve the request for Bank of China to start its corporate lending and currency trading-focused operations.

Bancolombia Defends Itself Amid Investigation

Bancolombia on September 17 defended itself amid continuing investigations of fraud and other alleged crimes in the 1997 merger that created it. In a [press release](#), Bancolombia said the acquisition of Banco de Colombia by BIC and their subsequent merger was "conducted in accordance with international customary standards and practices for this type of transaction and in accordance with Colombian law." [Editor's note: see related Q&A in the January 23, 2007 issue of the *Financial Services Advisor*.]

Banco Panamericano Gets in Brazil's IPO Line

Brazil's **Banco Panamericano** on September 12 filed to go public on the **Bovespa** stock exchange. It is the latest in a string of Brazilian mid-sized banks to launch an IPO this year. Some local investors have said that their portfolios are already maxed out on banking and real estate stocks, *LatinFinance* reported.

Financial Services News**Brazil's Lower House Postpones Debate on CPMF Tax**

Brazil's lower house of Congress has postponed debate on amendments to a bill that would extend until 2011 a financial transactions tax, Bloomberg News reported on September 20. President Luiz Inacio Lula da Silva is pushing lower house deputies to move quickly on a vote to extend the 10 year-old CPMF tax, which raises 39 billion reais (\$US 20.9 billion) annually and accounts for about 10 percent of government revenues. The levy, which taxes companies and individuals on all financial transactions, is set to expire this year. Lula

pany, **BBVA Seguros**. In a press release, Scotiabank said BBVA Crecer AFP has over half a million affiliates and 6.5 billion pesos (\$US 195 million) in assets under management. Financial terms were not disclosed. Scotiabank veteran Jim Meek was appointed to head all of Scotiabank's Dominican Republic operations, part of a number of management changes announced the same day. Anatol von Hahn was named executive vice-president for Latin America in the firm's Toronto-based international banking division, replacing Peter Carindal, who is retiring after a 43-year career in the bank, according to the Canadian Press. Von Hahn

Lula is pushing lower house deputies to move quickly on a vote to extend the tax, which raises \$20.9 billion annually and accounts for about 10 percent of government revenues.

reportedly wants fast action on the bill in the house so that there is more time for negotiation in the Senate, where the legislation faces resistance from opposition lawmakers protesting the Senate's rejection last week of an ethics committee recommendation calling for the ouster of Senate President Renan Calheiros. Caheiros is accused of allowing a lobbyist to pay his personal expenses in exchange for political favors, as well as other misdeeds. [Editor's note: see related Q&A in the September 18, 2007 issue of the daily *Latin America Advisor*.] To pass, extension of the bill needs two rounds of approval in the lower house and two in the Senate with three-fifths approval in each house, according to Bloomberg News.

Scotiabank Acquiring Control of DR Pension, Insurance Companies

Canada's **Scotiabank** announced September 11 it is expanding its presence in the Dominican Republic with the acquisition of a controlling stake in the Dominican Republic's **BBVA Crecer AFP**—the Caribbean nation's largest pension fund administrator by number of affiliates—and its related insurance com-

joined Scotiabank in 1984 and was most recently president and CEO of **Grupo Scotiabank Mexico**. He will be replaced by Nicole Reich, who was head of Scotiabank's Dominican Republic operations. Separately on the same day, Scotiabank Chief Executive Richard Waugh said the bank plans to open 140 new branches outside of Canada next year, with 100 of them in Mexico [Editor's note: see related [Q&A](#) on page 1].

Fitch Boosts Mexican Bank Ratings; Moody's Reports Strength in Sector

Several Mexican banks and financial service entities received a ratings boost on September 21 from the Monterrey office of **Fitch Ratings**. The decision to notch up the ratings of companies like **Banamex**, **HSBC Mexico**, **BBVA Bancomer**, and **Banorte** followed Fitch's upgrade of Mexico's sovereign ratings and country ceiling on September 19. "The confluence of an improved operating environment, strong ownership structures, sound financial condition, and the upgraded sovereign ratings is a credit positive for the largest foreign-owned banks," Fitch said in a press release. Three Mexican development

banks and the country's deposit insurance entity, IPAB, also got favorable reviews. The long-term IDRs of development banks Nacional Financiera, Banobras and Bancomext were upgraded in line with the sovereign, since they are wholly-owned by the federal government and enjoy an explicit sovereign guarantee, Fitch noted. **Moody's Investors Service**, in its annual report on Mexico's banking system, released on September 20, also noted strength in Mexican banks. "In our view, both bank and customer confidence are bolstered by the economy's good conditions," said Moody's analyst David Olivares-Villagomez. He noted that Mexican banks have reported double-digit loan growth in the past years and could see "similar growth rates for the rest of 2007 and into 2008" if the economic conditions prevail. Current market liquidity "may eventually tighten as lending expansion outperforms deposit and capital growth," the Moody's report stated. "We anticipate additional increases in delinquencies and credit costs," Gomez-Olivares wrote, "but the effects on profitability and capital should be limited because the banks' core earnings are ample enough to absorb credit-related losses."

Brazil's CADE to Review Future Mergers in Banking Sector

The head of Brazil's CADE said September 17 that the competition watchdog would have to be notified of any future mergers in the country's banking sector, in accordance with an August 29 federal court ruling, local news service Agencia Estado reported. "[The court's] decision is clear enough, although there could be appeals," CADE President Elizabeth Farina said of the ruling. "As of today, [CADE] has to be notified of any act of consolidation in the financial sector." As a result of the ruling, CADE is expected to review recently announced deals, including state-owned **Banco do Brasil's** purchase of smaller public banks and the purchase of **ABN Amro** by a consortium of banks led by Spain's **Santander**. Banco do Brasil is mulling the possibility of buying **Banco do Estado do Piaui**, a state-controlled bank in the

In Focus

Money Transfer Operators Not Worried About Bank Competition

By Elisabeth Burgess

WASHINGTON, DC—Money transfer operators (MTOs) **Western Union**, **MoneyGram**, **Dolex**, and **Viamericas**, as well as other remittance service providers, don't think their customers are finding cheaper or better remittance options in banks.

"We don't see much business being lost to banks," Viamericas CEO Paul Dwyer said September 19 at a roundtable discussion on the remittances industry hosted by the Inter-American Dialogue.

With their hidden fees, the account-to-account remittance services provided by some banks are more expensive than money transfer operators, which have seen fees drop tremendously in the last several years, Dwyer explained.

"It's not because banks got into the market that [MTO] fees went from 15 to 5 percent," Dwyer contended. "It's because of competition."

Some banks, such as **Wells Fargo** and **Bank of America**, have tried to reel in customers by offering a free transfer with a new bank account, but when low-income migrants in the United States discover banks' hidden fees, they go back to money transfer companies to send remittances home, according to David Landsman, executive director of the National Money Transmitters Association.

However, some analysts think MTOs are unaware of the inroads banks and technology-oriented money transfer companies are making in the remittances industry.

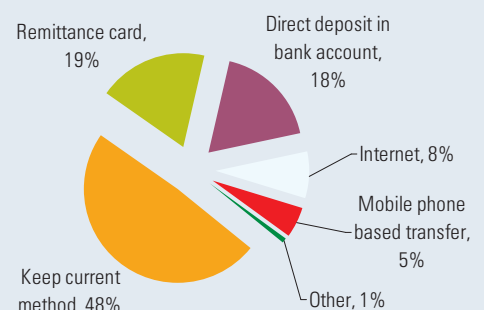
According to Manuel Orozco, executive director of the remittances and rural development project at the Inter-American Dialogue, banks' share of the remittance market is increasing. In the past three years, the percentage of Mexican migrants using banks to transfer remittances from the United States has risen from 2 percent to 6 percent, Orozco's research shows.

Jan Smith, managing director at Miami-based consulting firm **InfoAmericas** and a member of the *Financial Services Advisor* board, said he sees a strong future for remittances in the next 3-5 years, through both traditional and new channels. Migration trends will pick up as construction workers, especially older white males, retire and as the agriculture industry continues to seek cheap migrant labor until new automation technology comes on line in some 20 years.

The question is what type of products migrants will use. Many migrants are changing their product preferences, according to Orozco. A survey he conducted in July among migrants in the United States found that 52 percent of remitters would like to change the way they send money back home [see chart above].

"I do believe that alternative and additional methods will be very important players going forward," said Jeff Slowik, executive vice president of **PayQuik Inc.**, whose firm

Migrants' Preferences for Alternative Remittance Methods



Data: Manuel Orozco, July 2007.

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northeast. Earlier this month, Banco do Brasil said it will buy a majority stake in **Banco de Brasilia** and in April said it plans to buy **Banco do Estado de Santa Catarina**, also known as Besc.

Brysam Completes Purchase of Minority Stake in Mexico's IXE

US private equity firm **Brysam Global Partners** announced September 7 that it completed the \$228 million purchase of a 28 percent minority stake in Mexican financial services company **Ixe Grupo Financiero**. In a press release, the New York-based Brysam, which was launched in January with a focus on financial services in emerging markets, said it received approximately 189 million out of 200 million new issues of Ixe Grupo Financiero's class "O" common shares as a result of the deal, which was first announced in June. Ixe plans to use the proceeds to finance its expansion plans and strengthen its balance sheet. "We are pleased to have completed our initial investment in Ixe and look forward to partnering with the group as it continues to grow and expand into the broader consumer banking market," Brysam Co-Founder and Managing Partner Bob Willumstad was quoted as saying. IXE, which had 26.5 billion pesos (\$US 2.4 billion) in assets as of June 30, provides financial services to middle-class and wealthy Mexicans. It reported a second-quarter profit of 130 million pesos, down from 176 million pesos a year earlier.

Political News

Chavez Threatens School Takeovers if New Curriculum Not Adopted

Venezuelan President Hugo Chavez on September 17 threatened to take over any private schools that do not adopt a new curriculum being introduced by his government, the Associated Press reported. In a televised ceremony to mark the first day of classes, Chavez said all schools in Venezuela must comply with the "new Bolivarian educational system," named after 19th century South American liberation leader Simon Bolivar, who Chavez

In Focus

Continued from page 3

processes remittances for both MTOs and banks. He cautioned against overlooking banks' role in providing these alternative services in the future.

Elizabeth McQuerry, who runs the US Federal Reserve's Directo a Mexico program, also cautioned against assuming that "banks don't represent an important player." Directo a Mexico helps US banks send account-to-account remittances to Mexico.

MoneyGram has tested some alternative products in the marketplace, but hasn't "seen the adaptation rates to other types of services," the company's vice for Latin America and the Caribbean, John Warner-Gutierrez, said Wednesday.

Warner-Gutierrez said he still recommends cash-to-cash money transfers to the immigrants he employs as landscapers. It's "good to differentiate the type of consumer," Warner-Gutierrez said, explaining that banks' account-to-account services aren't the best option for every migrant. "There's a niche of certain people" who prefer cash-to-cash transfers, he said.

Western Union has also tested new technology-based products, but their popularity "is taking more time than we'd anticipated," explained Western Union's director for Mexico, Salo Eduardo Levy.

If MoneyGram and Western Union are right that migrants are showing reluctance to try new services, there is a good opportunity to market to them when they move to a new city, according to Dwyer. Interestingly, the US' stalled immigration reform debate has benefited MTOs in one way; migrants have been relocating in record numbers to more immigration-friendly cities and states, Dwyer explained. "That net-net benefits newer companies" who can attract newcomers to their products, he said.

Smith said that "smaller MTOs who can react nimbly" to changing migration patterns within the US—and to Europe and Asia and "south-south" within Latin America—are going to stand to remain stable or grow."

cites as inspiration for his socialist movement. Chavez said the new curriculum would help students develop values of "cooperation and solidarity" while learning critical reflection, dialogue, and volunteer work, and said education based on capitalist ideology has corrupted children's values. "We want to create our own ideology collectively—creative, diverse," the Venezuelan leader was quoted as saying. Chavez noted that a state role in regulating education is internationally accepted in several countries around the world. Chavez's brother and Education Minister Adan Chavez said the goal of the new curriculum is not to impose a single philosophy, but to develop "critical thinking." More than eight years after President Chavez was first elected, the curriculum at most Venezuelan schools remains largely unchanged, particularly in private schools commonly attended by middle- and upper-class children, according to the AP.

Bruce Golding Takes Office as Prime Minister in Jamaica

Jamaica Labor Party leader Bruce Golding was sworn in as prime minister on September 11, unseating Portia Simpson Miller and ending the 18-year rule of the People's National Party. Golding, whose JLP won 33 of 60 seats in parliamentary elections on September 3, promised to fight corruption and crime in his swearing-in speech, Reuters reported.

Economic News

Argentine Opposition Lawmakers Say Govt. Underestimating Growth

Opposition lawmakers in Argentina on September 19 accused the government of President Nestor Kirchner of deliberately

See "Argentina" on page 4

POLITICAL & ECONOMIC BRIEFS

Brazilian Economic Growth Continued to Accelerate in Q2

Brazil's economy expanded at a lower-than-expected clip in the second quarter, but showed continued signs of accelerating, according to data released September 12 by government statistics agency IBGE. In a press release, IBGE said Brazil's economy grew 5.4 percent year-on-year in the second quarter—the fastest pace of quarterly year-on-year growth in three years, according to Bloomberg News. The annualized growth rate stood at 4.9 percent in the second quarter, up from 4.4 percent in the first quarter.

Perez, Colom Headed for Run-Off in Guatemala

Center-left businessman Alvaro Colom will face conservative ex-army general Otto Perez in a November 4 run-off after finishing first and second, respectively, in Guatemala's presidential election on September 9. Colom received about 28 percent of the votes versus 24 percent for Perez. Nobel Peace Prize winner and indigenous activist Rigoberta Menchu finished in sixth place with just 3 percent of the ballots.

FDI in Panama Rose 19.4 Percent in First Six Months of Year

Foreign direct investment (FDI) in Panama increased 19.4 percent during the first half of 2007 compared to the same period of 2006 to \$598 million, the government said September 19, according to Reuters. FDI is one of the main drivers of Panama's economy, which the United Nations' Economic Commission for Latin America and the Caribbean said will post the highest growth rate in Central America with an expected increase of 8.5 percent, Reuters reported.

Featured Q&A

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A **Board Comment: Edward L. Monahan, Jr.:** Due to wide income gaps among Mexico's bankable population, the formal banking sector has historically targeted the wealthiest 15 percent of the population. The remaining 85 percent has been regarded as risky and unprofitable. On percentage terms, Mexican households with bank accounts are one-third of those in the US and Europe. In the 1990s US, Canadian, and European financial institutions recognized that providing services to 'subprime' borrowers and lower-income customers in their home markets was a highly profitable activity. As institutions have gained experience in delivering consumer financial services to low- and middle-income sectors, the potential of the Mexican market has become irresistible. In addition, legal, regulatory, and technological enhancements have facilitated foreign bank penetration of the Mexican market. During the past decade, consumer education, credit

reporting system development, strengthened bank regulatory supervision, and structural changes to the economy have modernized Mexico's financial system. Foreign banks can now par-

“As institutions have gained experience in delivering consumer financial services to low- and middle-income sectors, the potential of the Mexican market has become irresistible.”

— Edward L. Monahan, Jr.

ticipate in a modern financial sector that is more secure, stable, and predictable than it was throughout recent history. Globalized banking services have found a receptive market in Mexico. In recent years, low interest rates throughout the region have promoted mortgage lending and the use of credit card products

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Argentina

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underestimating economic growth in its 2008 budget in order to spend extra revenues without oversight, Reuters reported. Opposition lawmakers said the government's estimate of 4 percent growth next year was below most other forecasts of 6-8 percent, following growth of at least 8.5 percent per year since 2003. In addition, they said the government's forecast for inflation next year of 7.7 percent was too low. "I would have liked to have asked how they are going to reach 7.7 percent inflation. I think that level of inflation is absolutely possible, but not with this government's policies, which are pushing inflation above 20 percent," said lower house Deputy Jorge Sarghini, an ally of presidential candidate Roberto Lavagna, a dissident member of Kirchner's Peronist party. Argentina's consumer prices have risen 5 percent in the first eight months of this year, compared with 6.1 percent during the same period of 2006, according to

government statistics agency INDEC. However, analysts, consumer groups, and opposition leaders believe the government has been underreporting inflation since January, when the head of the INDEC unit responsible for measuring consumer price increases was replaced. In formally presenting the government's budget to Congress on Wednesday, Economy Minister Miguel Peirano defended the budget's growth and inflation forecasts, saying critics "are ultimately highlighting the government's ability to collaborate with all Argentines so that these budget targets, which are significant and positive, could be surpassed," according to Reuters. "And if we surpass these targets, I'm certain the resources will go toward policies that favor social sectors, increasing pension benefits or boosting resources for the productive sector," Peirano said. Last year, lawmakers made permanent Argentina's so-called "superpowers law," which allows the president to spend extra revenues however he or she wants.

Featured Q&A*Continued from page 5*

among middle-income sectors. Although consumer lending has been growing by 30-40 percent in Mexico, credit card use and access to ATM services have tremendous room for growth. In Mexico, for example, only 30 percent of the employed population uses credit cards, while more than 50 percent now use debit cards for a portion of their daily recurring purchases. Across the region, penetration of broad consumer-based financial services still lags far behind the US and Europe, but room for solid profitable growth is significant. As the larger economies recovered and grew, foreign banks such as Citibank, Santander, and Scotiabank have stepped up consumer lending and telemarketing of financial services. Remittance services between the US and Mexico have grown exponentially among established institutions such as Bank of America, Citibank, and Wachovia.

A Guest Comment: Geoffrey Milton: "It is understandable that Scotiabank would look to expand in its NAFTA neighbor, Mexico, and in the stable economy of Chile. After all, Canada is overbanked, but the government still will not permit consolidation among the big players. Therefore, the only growth opportunity is overseas. On the other hand, Scotiabank has a spotty record in the rest of the region, including a messy exit from its Argentine subsidiary at the time of the last banking crisis. Its behavior toward external creditors compared poorly with other multinationals, such as principle competitor HSBC. It is the Spanish and US majors that are most competitive in those Latin markets with the strongest growth potential. Presumably, Grupo Santander is salivating at the thought of adding ABN Amro's Brazil operations to its own Brazilian subsidiary. Citicorp has not stopped investing in the region either. Given the upheaval this summer in the major financial centers resulting from the 'subprime' fallout and illiquid markets, the BRIC countries and other emerging markets are now considered

more stable investment opportunities. However, with historically high oil prices, I would be wary of those economies dependent on imported energy."

A Guest Comment: Nicolás Mariscal: "Among Latin American countries, Mexico occupies first place in rates of consumer credit and mortgage loan growth. The latter is mainly due to the housing surplus that had accumulated. Fortunately, during the past six years the housing sector has exploded and the trend has been reversed, currently reaching annual growth rates of 28 percent in consumer credit and 26 percent in mortgage loans. The Mexican market has room for growth because of its dynamic demographics, the restoration of income available to the population, the growth of the middle class, and the *bancarizacion* of lower-income and rural classes. That is why banks like Scotiabank see great potential in these markets. The above confirms the interest shown by companies like Wal-Mart and Elektra, which have entered the banking sector. Latin America indeed has great potential. Brazil is one of four BRIC countries and Mexico is a candidate to become a member (according to a study by Goldman Sachs) ... In Latin America, there is great potential to develop and invest in housing as well as in infrastructure. The above, added to the lack of competition, makes the region a very attractive market for banks."

Peter Shaw is Director for Latin American Banks at Fitch Ratings.

Edward L. Monahan, Jr. is a member of the Financial Services Advisor board and Director of Financial Services at Pricewaterhouse-Coopers.

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