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## FEATURED Q&amp;A

# Will Blockchain Profoundly Alter Financial Services?



Financial technologies such as blockchain can provide investors protection against low- and negative interest rate policies by central banks, billionaire bond fund manager Bill Gross said in an investment outlook released Oct. 4. // File Photo: Janus Capital Group.

**Q** Blockchain, the technology that underlies Bitcoin and a host of other electronic transactional activities, "could profoundly alter the way banks do business worldwide" by reducing operating costs and making financial services more secure and more accessible, the World Economic Forum said in a report released in August. What should financial services companies operating in Latin America do in order to position themselves to adopt and benefit from blockchain technology? What are the main benefits banks can realize from the technology? What are the main advantages and drawbacks for consumers? What do governments need to do to regulate the industry most effectively with regard to blockchain?

**A** Lindsay Lehr, senior director at Americas Market Intelligence: "The most immediate application for blockchain technology in Latin America is international remittances, which is a \$25 billion dollar business in the U.S.-Mexico corridor alone. The current offering for international money-sending globally is outdated, expensive and opaque, subjecting senders and receivers to high fees, long lines and a terrifying lack of transparency. Blockchain technologists are seizing the opportunity to improve this process; the wisest players will do so in conjunction with local networks to facilitate remittance payouts. Australian blockchain company DigitalX has partnered with mobile operator Telefónica in Latin America to offer AirPocket, a cross-border remittance service that is cheaper and simpler than traditional remittance services. Abra, a blockchain-based remittance company offering free money-sending via smartphones from the

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## Scotiabank Sues Over Puerto Rico Loan Payment

Bank of Nova Scotia filed suit against Puerto Rico's government, seeking repayment of a multimillion-dollar loan to the U.S. territory's Metropolitan Bus Authority.

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## Remitly Expands in Central, South America

The Seattle-based company will now be serving seven new countries. It also received \$38 million in new equity and debt financing.

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## FINANCIAL SERVICES

## Citi Investing Additional \$1 Bn in Mexico Unit

Citigroup announced it would invest an additional \$1 billion in its Mexico unit and rename the unit Citibanamex. Citigroup's chief executive officer, Mike Corbat, said the investment reaffirms the company's commitment to Mexico.

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Corbat // File Photo: Citigroup.

## FINANCIAL SERVICES NEWS

## Citi Investing \$1 Bn More in Mexican Unit

Citigroup is investing an additional \$1 billion in its Mexican unit and renaming it Citibanamex, Reuters reported Oct. 4. The investments will be completed by 2020 and will improve the bank's branches, ATMs and digital tools, the company said. The move to increase investment and rename the unit formerly known as Banamex was seen as a strong sign that Citi

“These investments in Citibanamex reaffirm our commitment to Mexico and our confidence in its prospects.”

— Mike Corbat

intends to keep the operation in the long run, the wire service reported. The money comes from a commitment that Citi made in 2014 to invest in the unit. “These investments in Citibanamex reaffirm our commitment to Mexico and our confidence in its prospects,” Citigroup's chief executive officer, Mike Corbat, said in the announcement. Some analysts and investors have called on Citigroup to explore a possible sale of Banamex, particularly amid statements by U.S. presidential candidate Donald Trump to restrict trade with Mexico. The unit accounts for approximately 15 percent of the global consumer revenue of Citigroup, a higher percentage than any other market for Citi, except for the United States. The Mexican unit also has 1,500 branch offices in Mexico, more than any other country including the United States, where it has 700. The Banamex unit also has earned a return on shareholder equity of about 15 percent, higher than the 10 percent goal that Corbat set for all of Citigroup. The New York-based financial services company said its investment will include the installation of 2,500 additional ATMs, in addition to the 7,500

it already has. Over the past years, Corbat has overseen executive changes as well as changes in controls following the discovery in 2014 of more than \$500 million in fraudulent loans that Banamex made to an oilfield services company.

## Scotiabank Files Suit Over Puerto Rico Loan Payment

Bank of Nova Scotia filed a lawsuit against Puerto Rico's government Sept. 28 seeking repayment of a multimillion-dollar loan, the Associated Press reported. Scotiabank's local unit argued in a court filing that the government's debt moratorium is unlawful. Scotiabank said it loaned the island's Metropolitan Bus Authority nearly \$38 million in 2012 and accused the state agency of not making any payments since November 2015. The lawsuit marks the first time that the U.S. territory's government has been sued over a loan as opposed to bond payments since the government last year declared its \$70 billion public debt unpayable, the



García Padilla // File Photo: Commonwealth of Puerto Rico.

AP reported. On Sept. 30, Puerto Rico turned over control of its finances to a seven-member board appointed by the U.S. federal government, Reuters reported. Four Republicans and three Democrats make up the board, which is chaired by Jose Carrión III, a Republican and one of four native Puerto Ricans on the panel. Carrión is an insurance executive and past chairman of Puerto Rico's Workers Compensation Board. The board set an Oct. 14 deadline for the island's governor, Alejandro García Padilla, to draft a fiscal turnaround plan.

## NEWS BRIEFS

## Banco de Bogotá Rolls Out New Debit Card Option

Banco de Bogotá has rolled out a new type of debit card aimed at Colombians looking to make online purchases abroad, Finance Colombia reported Sept. 23. The unit of Grupo Aval expects the new cards to be used by approximately one million customers, especially those trying to buy items online. The cards limit customers to five transactions per day with a default transaction limit of about \$70 per day, according to the report. The cap is imposed for security reasons and can be increased.

## Dominican Republic Banks Report High Solvency, Loan Growth

Banks in the Dominican Republic closed the second quarter with high solvency rates and steady growth in loan portfolios, Dominican Today reported Monday, citing the country's Commercial Banks Association, or ABA. Solvency among the Caribbean nation's banks in the first eight months of 2016 rose to 15.5 percent, according to the report, with a small proportion of nonperforming loans. The ABA added that the gross loan portfolio grew 2.4 percent during the period, from 725.5 billion pesos (\$16 billion) in December 2015 to 742.7 billion pesos in August 2016.

## Remitly Expanding in Central, South America

Mobile remittances firm Remitly announced Oct. 1 that it is expanding into seven countries located in Central and South America. The Seattle-based company, which last year entered the Mexican market, will now be serving Guatemala, Honduras, El Salvador and Nicaragua in Central America, along with Colombia, Ecuador and Peru in South America. Remitly also received \$38 million in new equity and debt financing from IFC, a member of the World Bank Group, and Silicon Valley Bank.

## Brazil's Itaú Unibanco Buys Stake in Payroll Lender

Brazilian financial services giant Itaú Unibanco Holding on Sept. 29 agreed to buy Banco BMG's 40 percent stake in a payroll credit joint venture for \$393 million, Reuters reported. According to a securities filing, the deal will give Itaú full control of the Itaú BMG Consignado SA venture. However, Itaú and BMG will remain partners through an accord to distribute payroll loans made by the venture, which had outstanding payroll loans of 29 billion reais (\$8.89 billion) at the end of August, the filing said. Over the past four years, Itaú Unibanco has sought growth in less-risky credit seg-

**The deal will give Itaú full control of the Itaú BMG Consignado SA venture.**

ments, where narrower spreads are charged to borrowers, but the probability of defaults tends to be significantly lower than in unsecured lending, a move that has helped Itaú mitigate the impact of Brazil's worst recession in eight decades and record defaults, Reuters reported. After a decade of rapid economic expansion during the commodities boom, consumer credit conditions have remained tight in Brazil this year, Goldman Sachs analyst Alberto Ramos told clients in a research note Sept 28. Lending rates have been moving up steadily, to 53 percent in August from 47.3 percent in December 2015 and from 37.3 percent in December 2014. The credit crunch is intensifying, Ramos added, with real credit growth falling by 8.8 percent in August, year-over-year. Overall, freely allocated credit and lending by private banks have been decelerating steadily since late 2013, "a reflection of heightened macroeconomic and unemployment/credit risk that dampened both the supply of, and demand for, credit," Ramos

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United States to the Philippines, plans to launch in Latin America in 2017. Banks and mobile operators in Latin America stand to benefit from the blockchain if they invest in the right partnerships—or else have their remittance business cannibalized if they fail to adapt. Mobile operators can provide the mobile wallets and cash-out networks that blockchain-based money senders need to be viable in Latin America. Banks can leverage the blockchain to provide cheap, fast, smartphone-based P2P payments for their customers. In the long term, blockchain technology could supply telecoms, banks and governments with the solution to affordably providing financial inclusion to the region's unbanked. For the moment, bitcoin and the blockchain remain woefully misunderstood by the private and public sectors in Latin America, and a lack of regulation around bitcoin frightens investors. It will be a long road before the blockchain becomes mainstream in the region—perhaps 10 years or more—but it will eventually become a global reality. Instead of bracing against the blockchain, banks and other players had best determine how to embrace it."

wrote. Looking ahead, household indebtedness will likely limit both the supply and demand for credit, Ramos said, although non-performing loans (defined as those with balances overdue for 90 or more days) on freely allocated credit remained stable at 5.7 percent in August, according to central bank data.

## Cardtronics Acquiring Canada's DirectCash Payments

Houston-based Cardtronics, which owns and operates automated-teller machines, announced Oct. 3 that it plans to acquire Canada's DirectCash Payments for approximately \$460 million, a move that will allow Cardtronics to expand its ATM presence in locations

**A** Beatrice Rangel, director of AMLA Consulting in Miami Beach: "Blockchain already is present and making a dent in diverse economic activities in Latin America. To be sure, it currently is behind the smart contract created by a major bank in Brazil to automatize part of the tasks involved in

**“Blockchain will produce an initial shock in the rigid banking structures that predominate in Latin America.”**

— Beatrice Rangel

placing a company on the exchange market. It is also behind the efforts of a Nicaraguan financial institution to develop a secure identity system based on Ricardian contracts. But this is just the tip of a huge iceberg that is about to hit worldwide financial services. Blockchain, through its unique ability to create digital assets that can travel on the

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including Mexico. Cardtronics is acquiring the Canadian company for 19 Canadian dollars per share (\$14.48), Cardtronics said in a statement. The total value of the deal includes about \$53 million in debt that DirectCash Payments had incurred last week to purchase 3,500 ATMs in Australia from First Data Corp. DirectCash Payments operates approximately 25,000 ATMs in Mexico, Canada, Australia, the United Kingdom and New Zealand. "The combination will further position us to be the preferred global provider of ATM solutions to retailers and financial institutions," Cardtronics CEO Steve Rathgaber said in a statement. "This acquisition would broaden our exposure to helping financial institutions re-evaluate their physical presence as part of the bank transformation trends we are seeing worldwide." The deal is expected to close in the first quarter of next year, Cardtronics said.

## POLITICAL NEWS

## At Least 11 Killed as Matthew Plows Through Caribbean

At least 11 deaths are attributed to powerful Hurricane Matthew, which roared toward the Bahamas the morning of Oct. 5 after leaving a trail of destruction in Haiti. Matthew, the most powerful hurricane to hit the Caribbean in nearly a decade, packed winds of up to 145 miles an hour as it slammed into Haiti's western edge on Oct. 4 and then churned past eastern Cuba before taking aim at the Bahamas, The Washington Post reported. As of 8 a.m. Eastern Time on Oct. 5, the center of the storm was located about 45 miles east-northeast of Cabo Lucretia, Cuba and 115 miles south of Long Island in the Bahamas, according to the U.S. National Hurricane Center. The hurricane was moving north-northwest at 10 miles a hour with maximum sustained winds of 115 miles an hour, the Hurricane Center added. The 11 deaths blamed on the hurricane included victims in Haiti and the Dominican Republic. The full extent of the damage and casualties was unclear, particularly in Haiti, where the storm took down communications in some areas, The Washington Post reported. "What we know is that many, many houses have been damaged," said Haitian Interior Minister François Anick Joseph, The Post reported.

## Colombia Cease-Fire Will End Oct. 31: Santos

Colombian President Juan Manuel Santos said Oct. 4 that his government's cease-fire with the Revolutionary Armed Forces, or FARC, rebels will end on Oct. 31, as the two sides struggle to determine the next steps following voters' narrow rejection of the country's peace accord on Sunday. "Time is very important. We can't prolong this process and this dialogue for a long time because we're in a gray zone, a sort

## ADVISOR Q&amp;A

## Does Peace Still Have a Chance in Colombia?

**Q** **By a narrow margin, Colombian voters on Sunday rejected their government's peace accords with the FARC rebels. The vote was a stinging defeat for President Juan Manuel Santos following nearly four years of peace talks in Havana, though Santos and FARC leader Timochenko vowed to continue seeking peace. What are the next steps forward for Colombia? Will the government and the FARC be able to renegotiate the peace deal to voters' satisfaction? If so, what changes must be made to the accord? Are the government and the FARC in danger of lapsing back into all-out war? How will international investors interpret the vote, and what does this mean for the government's economic development plans?**

**A** **Michael Shifter, president of the Inter-American Dialogue:** "The vote is a setback for the peace process and a blow for President Santos, who was already unpopular among Colombians. Fortunately, however, all key actors—including the government, the FARC and former President Álvaro Uribe, leader of the 'no' campaign—have sounded conciliatory notes and have pledged to continue working for peace. It is critical to sustain this shared commitment. At the same time, the plebiscite has transformed

of limbo, that is risky and can wash away the entire process," Santos said, the Voice of America reported. Government and FARC representatives met in Cuba on Oct. 4 to resume talks to try to save the peace deal. Santos' announcement was met with skepticism on the part of rebel leader Rodrigo Londoño, also known as Timochenko. After Santos said the cease-fire would be extended just to the end of the month, Londoño said in a posting on Twitter,

the peace process: this is no longer a negotiation between the Santos administration and the FARC, but between the entire array of political forces—with Uribe as a leading figure—and the guerrillas. The challenge will be to incorporate the 'no' camp into the talks and renegotiate the deal to address Colombians' concerns, especially about the leniency of the transitional justice system and the participation of FARC members in politics. More than four years of peace talks have also changed the calculations for FARC leaders. Their combatants have been preparing for demobilization for some time, and the guerrillas suspended all attacks more than a year ago. It is highly improbable that they would return to the jungle, but there is a limit to what they will be prepared to give up to reach a new agreement. They should also be expected to use the possibility of returning to war as a negotiating tactic. The country is no doubt sharply polarized, but the reactions to the vote have been even-tempered and without rancor, revealing the strength and stability of Colombia's democracy."

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**EDITOR'S NOTE: More commentary on this topic appears in the Oct. 4 issue of the Latin America Advisor.**

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"And after that the war continues?" Santos will also meet with former President Álvaro Uribe, who spearheaded the opposition campaign to the peace deal. Uribe said in a radio interview that he is willing to provide input into how the negotiations should move forward so that the country could reach an end to its protracted civil war. [Editor's note: See related [Q&A](#) on Colombia's peace process in the Oct. 4 issue of the Latin America Advisor.]

## NEWS BRIEFS

## Brazil's Temer Introduces Measure to Cap Public Spending

Brazilian President Michel Temer's government on Oct. 4 introduced legislation that would cap public spending to the rate of inflation for as long as 20 years, Reuters reported. The Temer administration is hoping that the measure, a constitutional amendment, will win the approval of a congressional committee this week and receive a vote next week in the Chamber of Deputies. The measure is designed to address a budget deficit that last year amounted to 10 percent of Brazil's gross domestic product.

## Bachelet Releases Budget With Lowest Spending Increase in 14 Years

Chilean President Michelle Bachelet on Sept. 29 announced her 2017 budget proposal, which includes the lowest spending increase in 14 years as the government looks to shrink the budget deficit, Bloomberg News reported. Government spending will increase by 2.7 percent next year, Bachelet said in a televised address. She did not give further details of the deficit or revenue forecasts.

## Top U.S. Diplomat Heading to Caracas: Maduro

Venezuelan President Nicolás Maduro announced Sept. 27 that a top U.S. diplomat would travel to Caracas in an attempt to ease tensions between the two countries, the Associated Press reported. The announcement came a day after Maduro met with U.S. Secretary of State John Kerry on the sidelines of the signing of the Colombian government's peace deal with the FARC rebels, which Colombian voters then rejected on Oct. 2. The visit would be Undersecretary of State for Political Affairs Thomas Shannon's second visit to the South American country this year.

## Ecuadorean Ruling Party Taps Moreno for Presidential Run

Ecuador's ruling political party, Alianza País, selected former Vice President Lenin Moreno as its presidential candidate in next year's election, The Wall Street Journal reported Oct. 3. President Rafael Correa is barred by the Constitution from running for re-election next



Moreno // File Photo: Ecuadorean Government.

year. Moreno's running mate will be current Vice President Jorge Glas. Moreno faces a tough outlook ahead of the election, as polls indicate that Ecuadoreans are looking for a political change amid low oil prices and a recession. Moreno accepted the nomination at a party convention over the weekend, where he called for party unity ahead of the first round vote in February.

## ECONOMIC NEWS

## U.S. Treasury's Lew Urges Stronger U.S.-Mexico Trade Ties

U.S. Treasury Secretary Jacob Lew on Sept. 29 said strengthened trade ties between the United States and Mexico will help both economies grow, and that the Trans-Pacific Partnership, if passed, would help keep both countries globally competitive, Reuters reported. Lew added that though popular opinion has recently turned away from globalization, the two countries' governments must continue to work to open

up foreign trade. "Rejecting change is not a solution. Isolating economies and people cannot stop technology, and slower growth cannot improve lives," Lew said. "We must win the argument, one that is supported by the facts, that fair trade will grow both of our economies." Lew lobbied for the TPP deal while visiting Mexico, saying during his speech that it would build upon lessons learned from the North American Free Trade Agreement by working to improve labor and environmental standards, adding that there was still enough time to do the work needed to have the U.S. Congress pass the TPP before President Barack Obama leaves office. U.S. Senate Majority Leader Mitch McConnell (R-Ky.) rejected the prospect of the TPP getting passed this year, saying that the trade deal is "politically toxic."

## Argentina Expects Telecom Reform to Attract \$20 Billion

Argentina's government is expecting the country's telecommunications reforms to attract \$20 billion in investments to the sector within the next four years, Reuters reported Sept 23. New rules have not yet come into force, but the changes are expected to lead to a more competitive market environment, the wire service

**The telecom reforms are expected to lead to a more competitive market environment.**

reported. Telecom Argentina and Telefónica de Argentina have made recently announcements of investments. Meantime, media conglomerate Grupo Clarín is spinning off its Cablevisión subsidiary, saying it will fare better as a stand-alone operation. Additionally, Communications Minister Oscar Aguad told Reuters that Motorola and AT&T have expressed interest in investing in the sector. "As long as we are able to dictate a norm with clear rules, I think the figure of \$5 billion a year is possible," he said.

## FEATURED Q&amp;A / Continued from page 3

network but cannot be copied, will certainly destroy today's compliance departments in every financial institution. Because the registry of these assets is unique, public and cannot be replicated, every financial activity is carried out in the realm of transparency. But perhaps the greatest contribution to be made by blockchain is that of opening the doors of financial systems to the economically active population that does not have bank accounts. Approximately two billion people in the world are being excluded from financial services because they lack banking information, which is tantamount to lacking identity. This is common in Latin America, where many people lack records to demonstrate their reliability and are denied the benefits of credit from banks. Blockchain has the ability to create databases that enable banks to have information about unbanked individuals and grant them credit. Like any time when technology has disrupted economic activities, blockchain will produce an initial shock in the rigid banking structures that predominate in Latin America. However, as inroads are made in compliance, thereby reducing operating costs, attracting customers and improving earnings, it will take over financial systems while enticing regulatory interest. But regulating blockchain will need to be a collaborative exercise between authorities, financial institutions and beneficiaries. Otherwise, by the time regulations are written, they will already be obsolete. Because in the era of semantic networks in which we live, knowledge is created by communities and so is regulation."

**A** **Juan Llanos, global compliance advisor for multiple startups:** "Whoever ignores the blockchain technology mega trend is making a huge strategic mistake. Blockchains are distributed computing systems that contain shared ledgers for the secure registration and exchange of value, whether it is the representation of a currency, a stock, a diamond, a plot of land or an original work

of art. The fact that they are shared across participants and geographies hints at the potential cost savings vis-à-vis current systems, which are siloed and redundant, and require constant reconciliation within each company. There is a groundswell of blockchain innovation happening around the world right now. Most early adopters

“There is a groundswell of blockchain innovation happening around the world right now.”

— Juan Llanos

trade speculatively with the cryptocurrency bitcoin, as a new, digital asset class. Dozens of companies utilize the Bitcoin blockchain, the first, largest and, so far, most secure blockchain, primarily as an alternative, more efficient payments network perfectly suited for cross-border payments, which benefits both consumers and businesses. One of the most fascinating aspects of this technology is its programmability, and its ability to add business logic, automate processes and build additional functionality on top of it. Bitcoin has inspired the creation of other open and closed shared ledgers and networks such as Ripple, Ethereum, Eris, R3-Corda and Hyperledger. The technology itself and most projects building around it are still experimental, but they promise to revolutionize the way assets and processes are recorded, stored, traded and transferred. Risks for users and implementers are still high but manageable. Regulators should take an enlightened approach and avoid imposing old regulation to a completely new and evolving technology that may end up self-regulating electronically."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gene.kuleta@thedialogue.org](mailto:gene.kuleta@thedialogue.org).*

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