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FEATURED Q&A

How Will Shrinking Remittance Flows Impact Latin America?

Q Remittances to Latin America and the Caribbean are expected to fall 11 percent this year, according to a study jointly released last month by the Inter-American Development Bank and the Inter-American Dialogue. The region is forecast to receive about \$62 billion this year, according to the study. Which countries will feel the most pain? How are remittance services companies dealing with the reality of smaller flows? What is the outlook for the industry in the remainder of the year and into 2010?

A Paul S. Dwyer, Jr., CEO of Viamericas Corporation in Bethesda, Md.: "The principal driver of reductions in aggregate remittance amounts sent to Latin America is a reduction in economic activity in the originating countries. Countries that saw rapid growth in incoming remittance transfers in recent years—as their workers migrated to the US and Spain to fill well-paying jobs in industries that have been hit hard by recession, such as construction—will see the largest drops in volume. Periodic drops in volume, however, are no cause for alarm for the industry. The very high growth rates seen between 2000 and 2006 were, to a large extent, driven by improvements in measurement—now that we are measuring well, we should expect the market to ebb and flow. Nothing goes up forever. However, remittance compa-

nies are being confronted by a triple challenge in this environment: first, the overall decline in remittance volume leads to greater competition for the remaining sends; second, the reduction in average send amount leads to less revenue per transaction; and third, the difficult economic environment in the United States leads to greater pressure on maintaining the quality of accounts receivable from US agents. These trends all point to continued consolidation in the industry, and a very difficult environment for potential new entrants. Companies that are able to navi-

Continued on page 4



Banco do Brasil Aims to Double Insurance-Related Earnings

Banco do Brasil wants to double the earnings it receives from insurance operations within five years, said the bank's president, Aldemir Bendine. See story on page 4.

File Photo: Agencia Brasil.

Inside This Issue

FEATURED Q&A: How Will Shrinking Remittance Flows Impact Latin America?.....1	Scotiabank Reports 7.8 Percent Profit Loss, Beating Estimates2	Banco do Brasil Seeks to Double Earnings From Insurance Operations.....4
Brazilian Anti-Trust Authorities Uphold Redecard Injunction.....2	Mexico Seeks to Expand Financial Services Use With Mobile Banking3	Brazil's Itau Unibanco, Porto Seguro Agree to Insurance Units Merger4
Argentina's Banco Patagonia Buys Local GMAC Unit.....2	Research Alert: Moody's Lowers Currency Deposit Ratings of Two Chilean Banks.....3	Economic and Political News: Venezuela, Colombia and More4-5

FINANCIAL SERVICES BRIEFS

Citibank Costa Rica Ends Brokerage Services

Citibank's Costa Rican unit closed its stock brokerage service on Aug. 31, local daily *La Nación* reported. The company, which offered services through broker **Citi Valores Accival**, advised clients to open an account with another broker and transfer the relevant titles and operations. Citibank Costa Rica is in the process of phasing out its brokerage and pension fund management businesses, according to weekly *El Financiero*.

US Authorities Investigating Account Linked to Daniel Dantas

US authorities are investigating whether an employee of US bank **Brown Brothers Harriman** helped Brazilian clients launder money and evade taxes, the *Financial Times* reported Aug. 28. The Department of Justice made the allegations in a request to freeze \$450 million in a BBH account allegedly linked to disgraced Brazilian banker Daniel Dantas. Dantas was detained twice last year and later sentenced to 10 years for bribing a police official.

Brazilian State-Controlled Banks Opening Joint Office in Uruguay

Two banks controlled by Brazil's government announced Aug. 27 that they are opening a joint office in Uruguay, Dow Jones reported. **Banco do Brasil** and national development bank BNDES said they would open the office mainly to serve Brazilian clients in the neighboring country. The joint office is opening as trade between the two countries is growing. In 2001, Brazil had a \$140 million trade surplus with Uruguay. The current surplus is approximately \$625 million, according to Banco do Brasil.

Financial Services News**Brazilian Anti-Trust Authorities Uphold Redecard Injunction**

Brazil's Anti-Trust Commission on Aug. 26 upheld an injunction against **Redecard**, Dow Jones reported. The injunction blocks the credit card services company from canceling service contracts that it has with its providers. Brazilian anti-trust authorities opened the case when independent card service providers argued Redecard was attempting to block access to the credit card processing infrastructure through cancellation of service contracts. In a statement Thursday, Redecard said the order from the Anti-Trust Commission, or Cade, does not involve the merits of the complaints against the company. "There was no ruling on the legality of Redecard's conduct. Such a ruling will only take place at the conclusion of the suit," Redecard said in a statement. "Redecard affirms its conviction that, when legal arguments are presented, the charges against it will be dismissed." In related news, a local newspaper reported Aug. 26 that Redecard and **VisaNet** are expected to face tougher competition from state-run lenders, Bloomberg News reported. State-controlled banks including **Banco do Brasil** and **Caixa Economica Federal** are "soon" expected to begin issuing credit cards under their own names in order to boost competition, according to the report from *Correio Braziliense*. Earlier this year, Brazil's government released a report saying the country's credit card payment industry can improve its efficiency.

Argentina's Banco Patagonia Buys Local GMAC Unit

Banco Patagonia has agreed to pay \$23 million to buy the local unit of US-based **GMAC**, Dow Jones reported Aug. 28. The Argentine bank's board approved the deal Thursday. It still must be approved by Argentina's central bank. **GMAC Compania Financiera** as of June 30 had 548 million pesos (\$US 142 million) in assets in addition to 378 million pesos of loans, according to a statement Banco

Patagonia filed with the Buenos Aires stock exchange. The GMAC unit has 34,000 retail clients as well as 50 sales points and approximately 50 employees in Argentina. As of June 30, Banco Patagonia had 8.6 billion pesos in assets as well as 5.48 billion pesos in total deposits. The bank also has 760,000 clients, 154 sales points and more than 2,600 employees.

Scotiabank Reports 7.8 Percent Profit Loss, Beating Estimates

Canada's **Bank of Nova Scotia** on Aug. 28 reported a 7.8 percent decline in net income for the fiscal third quarter, which ended July 31, Bloomberg News reported. The company, also known as Scotiabank, reported net income of 931 Canadian dollars (\$US 861 million), or 87 cents a share, for the quarter. The bank's net income for the same quarter a year ago was 1.01 billion Canadian dollars, or 98 cents a share. Scotiabank has operations in approximately 50 countries, including Mexico, Peru and Jamaica. It said international banking profit slid 6.9 percent to 312 million Canadian dollars. A rise in the Canadian currency took a toll on foreign profits, the bank said. Investment-banking profit increased 58 percent to 470 million Canadian dollars. "Economic conditions in the second half of 2009 are improving," said Richard Waugh, the bank's CEO. Scotiabank is examining possible acquisitions that could boost the bank's current business operations, including domestic asset management, Waugh said in a conference call. Since 2007, the bank has invested more than 5 billion Canadian dollars on acquisitions. "Repricing has taken place, and sellers' expectations and buyers expectations may be starting to narrow in," Waugh said. "That may create some opportunities." For the sixth consecutive quarter, Scotiabank also kept its dividend unchanged, at 49 cents a share.



Waugh
File Photo: Scotiabank.

Technology News

Mexico Seeks to Expand Financial Services Use With Mobile Banking

In an effort to get more residents to use financial services companies, Mexico is putting regulations in place that would allow customers to use their mobile phones to make financial transactions, Dow Jones reported Aug. 27. Mexican officials have tried to bring more people out of the informal cash economy with methods that include encouraging the use of bank correspondents, such as retail stores that execute transactions for lenders' clients. [Editor's note: See related Q&A in the June 11-24 [issue](#) of the *Financial Services Advisor*.] officials hope allowing Mexicans to conduct basic transactions with cell phones will also encourage the use of traditional financial services companies. "We are creating a regulatory framework to allow mobile phones to be used like a debit card," Carlos Marmolejo, director of technology and risk management supervision at the

“We are creating a regulatory framework to allow mobile phones to be used like a debit card.”

— Carlos Marmolejo

National Banking and Securities Commission, or CNBV, told Dow Jones. The government and financial services companies see room for growth. At the end of June, the country's four mobile phone companies had 80.4 million subscribers, according to the Bank of Mexico. Mexicans held 58.4 million debit cards at the end of March, the bank said. In July, the bank established regulations for "mobile bank accounts," allowing them to receive the equivalent of approximately 8,500 pesos (\$US 646) monthly. With the accounts, customers can use their cell phones to make purchases and also make

Research Alert

Moody's Lowers Currency Deposit Ratings of Two Chilean Banks

Moody's Investors Service on Aug. 28 downgraded local currency deposit ratings of two major Chilean banks on a re-evaluation of the Chilean government's systemic support for the banking system. The ratings agency lowered the long-term local currency deposit rating for **Banco del Estado de Chile** (Banco Estado) and **Banco de Chile** to Aa2 and Aa3, respectively, both down one notch from the previous rating. Despite the change, the company said it has "not changed its fundamental view of the government's ability or willingness to support its banking system," according to a statement.

In addition, Moody's affirmed both banks' short-term local and foreign currency deposit ratings, as well as those relating to long-term foreign currency deposits.

"The rating actions were prompted by [Moody's] ongoing global reassessment of the systemic support available to banking systems in all countries in the event of a prolonged financial crisis," the agency said. Moody's is adjusting its ratings methodology to reflect its view that the willingness of governments and central banks to support their banking system is "more closely aligned with the government's own creditworthiness."

The Chilean government's local currency bond rating currently is A1, which, according to Moody's, still reflects "a very strong capacity to support its banking system." The ratings agency also lauded the Chilean government for its actions during the current and past crises, which "demonstrate the high priority it places on the health and stability of the banking system."

Moody's said the ratings action was based purely on the new measure of systemic support and not on the banks' operating performance. "Although bank performance has come under some pressure due to Chile's economic downturn, the major banks continue to perform profitably, with manageable asset quality, good liquidity and solid capitalization and reserve levels," Moody's said. It added that Chilean banks had been "less adversely affected by the global financial crisis than many other banking systems."

Chile's banking sector posted a net profit of 643 billion pesos (\$US 1.2 billion) between January and July, Chile's Banking and Financial Institutions Superintendency said Friday, local daily *La Nacion* reported. The Chilean unit of Spain's **Banco Santander** came in first among its peers, recording a net profit of 223 billion pesos in the seven-month period. Trailing the frontrunner were **Banco de Chile**, **Banco de Credito e Inversiones** and **Banco BBVA Chile**. State-controlled Banco Estado had a net profit of 40.2 billion pesos.

mobile payments by transferring funds between accounts. Later this year, the CNVB plans to issue rules to allow mobile carriers to serve as bank agents. Mobile phone companies would see benefits by raising average revenue per user and also reducing customer turnover, Serge Elkiner, president of **YellowPepper**, which provides mobile payment services

in Latin America, told Dow Jones. **America Movil** unit **Telcel** has a market share of 72 percent in Latin America. The Mexican unit of Spain's **Telefonica** is next with almost 20 percent. **Banamex**, the second-largest bank in Mexico expects to offer customers mobile payment options next year, a company representative told Dow Jones.

Insurance News

Banco do Brasil Seeks to Double Earnings From Insurance Operations

Banco do Brasil is aiming to double the earnings it receives from insurance operations within the next five years, the bank's president, Aldemir Bendine, said Aug. 19, Bloomberg News reported. The bank, which is Latin America's largest by assets, wants insurance operations to contribute 25 percent of earnings, he added. "Banco do Brasil doesn't earn as much from insurance as rivals," said Bendine. "We're seeking to increase the capital the bank has in these companies." Banco do Brasil last week reported a 43 percent year-on-year profit increase for the second quarter. Competitor **Banco Bradesco**, the second-largest non-government bank in Brazil, is the country's leading bank in insurance operations. Bradesco derived 36 percent of its second-quarter earnings from its insurance business. [Editor's note: See related Q&A on Brazil's insurance sector in the July 9-22 [issue](#) of the *Financial Services Advisor*.]

Brazil's Itau Unibanco, Porto Seguro Agree to Insurance Units Merger

Brazil's **Itau Unibanco**, Latin America's largest non-state financial services company, has agreed to merge its residential and automobile insurance units with local insurer **Porto Seguro**, Itau Unibanco said in a statement Aug. 24. The agreement gives Porto Seguro, Brazil's largest automobile insurance company, access to more than 50 million of Itau Unibanco's clients, Reuters reported. Itau Unibanco will gain expertise in quickly expanding parts of the insurance market. "This was at the top of our wish list," Itau Unibanco CEO Roberto Setubal told reporters Monday in Sao Paulo. He said Itau Unibanco's stake in Porto Seguro was worth 1.7 billion reais (\$US 930 million). The bank announced the deal three days after Porto Seguro dropped negotiations for a similar deal with **Banco Bradesco**, a main Itau Unibanco competitor. The talks broke down due to dissent over who would control the joint venture. "We

Featured Q&A

Continued from page 1

gate these challenges, however, should be poised to benefit as the economy recovers and remittance volumes rebound."

A **Earl Jarrett, member of the Financial Services Advisor board and general manager of the Jamaica National Building Society in Kingston:** "Predictions of remittance declines to Latin America and the Caribbean are now evident, reflecting a global downturn in the industry, expected to fall to \$290 billion this year, from \$397 billion in 2008. Remittance flows to Mexico, the largest recipient in Latin America, declined by 11 percent since the start of the year. A similar fall off is also apparent in Caribbean countries and it is likely that large recipient countries such as Jamaica, Haiti and the Dominican Republic will be hardest hit. The Jamaican forecast is that remittances

will decline by some \$300 million or 15 percent for 2009. However, the country has already recorded a 17 percent drop for the first half the year. For Jamaica and

“Now that we are measuring well, we should expect the market to ebb and flow.”

— Paul S. Dwyer, Jr.

other Caribbean countries, the decline will significantly impact foreign exchange earnings, already lower this year due to reduced tourist arrivals and lower exports of primary products, such as bauxite and aluminum. The Jamaican

Continued on page 6

wanted to retain control of the basic insurance operations and Bradesco saw things different," said Porto Seguro chief executive Jayme Garfinkel, Reuters reported. In the agreement, Itau Unibanco will transfer its residential and vehicle insurance businesses to Porto Seguro. The insurer will issue the bank new shares equivalent to 30 percent of the company. The companies will transfer Porto Seguro shares to a new holding company that will be 57 percent owned by Porto Seguro shareholders and 43 percent owned by Itau Unibanco. Combined, Itau Unibanco and Porto Seguro collected 2.32 billion reais in vehicle insurance premiums in the first six months of this year.

Economic News

Chavez: Venezuela to Study Stimulus Measures in September

Venezuelan President Hugo Chavez told reporters Aug. 30 that his government would examine possible stimulus measures in September, Reuters reported. "We are going to extend the evaluation and

keep examining scenarios to incorporate what happens in September and if there are any adjustments or changes needed they will occur in September," Chavez said. It is unclear what type of stimulus measures the government may propose, but officials have said they would like to increase public spending and narrow the difference between the country's official and black market exchange rates.



Chavez

File Photo: Venezuelan Gov't.

WTO Allows Brazil to Impose Nearly \$295 Million in Sanctions Against US

The World Trade Organization ruled Aug. 31 that Brazil can impose \$294.7 million in sanctions against the United States because US subsidies to cotton farmers broke trade rules, Bloomberg News reported. The penalties are the second-largest that the WTO has ever awarded, but far below the amount Brazil had

requested. The sanctions stem from a September 2004 WTO ruling that the United States violated global trade rules by paying up to \$4 billion in subsidies to cotton farmers. The subsidies drove down global cotton prices by spurring excess production. The United States is the second-largest cotton producer behind China. Brazil is the fifth-largest. In March, Brazil asked the WTO to approve as much as \$2.68 billion in sanctions on US products in addition to revoking intellectual property rights on items such as drug patents. US officials argued that sanctions should be in the range of \$20 million to \$30 million. "While we remain disappointed with the outcome of this dispute, we are pleased that the arbitrators awarded Brazil far below the amount of countermeasures it asked for," Carol Guthrie, a spokeswoman for the office of the US trade representative, said in a statement. Brazil has also threatened to retaliate by putting on hold market-access concessions for US companies in industries including finance, construction and communications. Brazil will not be allowed to break patents on US pharmaceuticals unless the United States substantially increases cotton subsidies above 2006 levels, the *Financial Times* reported. [Editor's note: See related Q&A in the Jan. 14 [issue](#) of the Dialogue's daily *Advisor*.]

Political News

Uribe Defends US Military Agreement at Unasur Meeting

At a meeting of the Union of South American Nations (Unasur) on Aug. 28, Colombian President Alvaro Uribe defended his country's deal to allow US troops greater access to Colombian military bases, the Associated Press reported. Presidents of other countries, including Venezuela's Hugo Chavez and Brazil's Luiz Inacio Lula da Silva have voiced concerns over the agreement, but Uribe said the United States is the only country that has assisted Colombia in its fight against drug traffickers. "We are not playing some political game," Uribe said at the meeting in Bariloche, Argentina, after other leaders accused him of harming stability in

South America with the agreement. During the meeting, Chavez accused the US military of planning to use the Colombian bases for "expeditionary"



Uribe at the Unasur meeting Aug. 28.

Photo: Colombian Government.

forces to launch invasions on the continent. "They're mobilizing for war," said Chavez. The Unasur gathering ended with a declaration, which was still being drafted as the presidents left the meeting, that foreign military forces cannot threaten any South American countries. Presidents also said their defense and foreign ministers would meet next month to discuss a new agreement to allow Unasur members to inspect each other's military installations. Uribe did not voice opposition to the plan. Other leaders said inspections could be a good move. "We hope it works, that this Unasur defense council will be able to supervise the bases," said Ecuadorean President Rafael Correa, the current president of Unasur. "What more can we do?"

OAS' Insulza Maintains Hope for Breaking Honduras Impasse

Organization of American States Secretary General Jose Miguel Insulza said Aug. 26 that he maintains hope for solving Honduras' political crisis, even after an OAS delegation left the Central American country without breaking the impasse, the Associated Press reported. Insulza and the foreign ministers of seven countries held two days of meetings in Tegucigalpa with de facto President Roberto Micheletti and other members of his government, but did not succeed in convincing them to allow deposed President Manuel Zelaya to return to office. "There's still a climate for making one final effort," Insulza said after returning to Washington.

POLITICAL & ECONOMIC BRIEFS

Mexico to Receive IMF Boost

Mexico's central bank said Aug. 27 it will receive \$4 billion from the International Monetary Fund over the next week to boost its foreign reserves. The funds are denominated in special drawing rights, an international currency established by the IMF in 1969, and constitute a portion of the \$283 billion G-20 countries agreed to disburse in an effort to shore up the global economy. Brazil's central bank said Wednesday it will receive \$3.9 billion worth of SDRs.

Peru to Start FTA Negotiations With Central America in 2010

Peru hopes to begin negotiations on a free trade agreement with Central America by the middle of 2010, the country's trade minister said Aug. 25. Following a meeting with his Costa Rican counterpart, Martin Perez said the negotiations were likely to occur after Peru has finished negotiating FTAs with the European Union, Japan and South Korea, according to a ministry press release. Perez said Peruvian exports to Costa Rica grew 31 percent in the year's first half.

New Mexico Governor Calls for End to US Ban on Cuba Travel

During a trade mission to Cuba, New Mexico Gov. Bill Richardson said Aug. 26 that the US ban on travel to the communist island should end, the Associated Press reported. "I'm for enhanced tourism travel for Americans," Richardson told the AP. "I think enhancing cultural and artistic and educational ties is a prelude to diplomatic and commercial ties." Richardson, who previously held posts including US ambassador to the UN, said he was not carrying any message from the Obama administration.

Featured Q&A*Continued from page 4*

government has begun negotiations with the International Monetary Fund and other countries may follow suit. The

“It is likely that large recipient countries such as Jamaica, Haiti and the Dominican Republic will be hardest hit.”

— *Earl Jarrett*

decline to the region has also reduced revenues to remittance companies, and some have embarked on programs to improve efficiency and cut costs. It is likely that the price competition that kept rates low may force an upward revision as companies struggle with regulatory compliance and increasing costs to operate in the United States. Within this environment, the opportunity may well emerge for greater consolidation in the industry. Also, policymakers should look closely at initiatives to keep the cost of remittances affordable for migrant workers from the region. The outlook for remittances in 2010 is directly correlated to an upturn in the global economy; therefore, a slow recovery is expected in the latter half of 2009.”

A **Oscar A. Chacón, executive director of the National Alliance of Latin American and Caribbean Communities in Chicago:** “The reduction in the amount of remittances sent recently to Latin America is actually minor in comparison to the contraction in labor markets, particularly in areas of high employment by foreign born workers such as construction and all the support services that revolve around it. The US unemployment rate by the end of July was 9.4 per-

cent. In the case of foreign-born workers, that rate is close to 15 percent, particularly within Latin American workers in the United States. More importantly than how will these changes impact the money transfer industry, we need to ask what the impact of remittances reduction will be on poverty in Latin America and the Caribbean, where remittances have been instrumental in short-term poverty reduction patterns. Furthermore, what will the impact be in the short to medium term on north-bound migratory flows? While in the short to medium term (six to 18 months), US labor markets will probably continue to contract, it is predictable that once the US economy begins to generate new job openings, migratory flows will gain strength. Focusing on designing and implementing effective development

“It is predictable that once the US economy begins to generate new job openings, migratory flows will gain strength.”

— *Oscar A. Chacón*

policies in order to benefit the majority of people in Latin America and the Caribbean, while also pressing for migratory policy changes driven by common sense and humanity, represents perhaps the best way to advance the interests of everyone involved in the reality of international migration and its multiple implications.”

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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