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FEATURED Q&A

Are Banks in the Region Increasing Their Lending to SMEs?

Q Scotiabank Jamaica reduced its lending rates to small- and medium-sized enterprises by 100 basis points on May 1. Is the bank's decision part of a trend to increase lending to SMEs throughout Latin America and the Caribbean? How significant a part of banks' portfolios is lending to SMEs? What vulnerabilities characterize SMEs in Latin America and the Caribbean in the current climate of rising inflation and, in some places, overheating economies?

A Robert H. Scarlett, president of Medical Equipment Exporters, Inc. in Minneapolis: "Scotiabank Jamaica's decision to better serve SMEs by lowering interest rates reflects increasing awareness that there are untapped commercial banking opportunities in this largest of all business sectors in Latin America. Globally, 99.8 percent of all business units are SMEs. In Latin America, they contribute between 45 percent and 60 percent of the jobs in a local economy and about 25 percent to 35 percent of a country's GDP. Yet loans to SMEs are a disproportionately small part of the lending portfolios of both banks in most countries in Latin America. The high cost and unavailability of capital for SME growth and modernization continues to be a drag on the economies in Latin America and on the formation of a larger middle class. If lending is to be increased to Latin American SMEs, the banks will

have to find ways to regain the confidence of SME owners in each country. Research has shown that SMEs decline to seek capital from banks—even when they are creditworthy. This is due to the lack of trust in local banks. Also, because domestic banks often lack the expertise required to analyze SME commercial lending opportunities, they are not in a position to profit from the business opportunities that may be present in their local markets. Ironically, international nongovernmental organizations and locally established

Continued on page 6



Correa Wins Sweeping Victory in Referendum Vote

Ecuadorian President Rafael Correa, pictured after polls closed following the country's May 7 referendum vote, won a sweeping victory in the balloting. One of the ballot measures would bar banks from holdings outside their industry. See story on page 2.

Photo: Ecuadorean Government.

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FINANCIAL SERVICES BRIEFS

Grupo Aval Expects 60 Percent Increase in Profits This Year

Colombia's **Grupo Aval**, the country's largest banking conglomerate, is expecting its profits to soar more than 60 percent this year as it examines possible acquisition targets, the president of its board told reporters May 12, Reuters reported. Grupo Aval is likely to see its profits increase to 1.5 trillion pesos (\$834 million) this year from \$517 million last year, said Luis Carlos Sarmiento Angulo. Last year, Grupo Aval purchased BAC-Credomatic for \$1.9 billion. Grupo Aval has assets of approximately \$32 billion, with a 30 percent share of Colombia's financial market.

Chile's Banco Falabella Gets License to Operate in Colombia

Chile's **Banco Falabella**, a unit of retailer **SACI Falabella**, received a license to operate banks in Colombia, Dow Jones reported May 13, citing a company statement. According to the bank, it will be the first Chilean banking institution in Colombia and it plans to open 33 branches in 10 cities. Banco Falabella also has operations in Peru, with more than 1 million clients and 45 branches.

Court Orders Itaú to Pay Damages Related to Madoff Case

A state court in São Paulo has ordered **Itaú Unibanco Holding** to pay 167,700 reais (\$103,000) to an unidentified investor who lost money due to the Ponzi scheme perpetrated by Bernard Madoff, Bloomberg News reported Saturday, citing *Folha de S. Paulo*. A representative of the **BankBoston** unit of Itaú advised the investor to put money into a fund connected to Madoff.

Financial Services News**Correa Wins Sweeping Victory in Referendum Vote**

Ecuadorian President Rafael Correa won a sweeping victory in the country's 10-question referendum vote earlier this month, according to a tally of votes published by local daily newspaper *El Comercio* on May 17. Among the questions posed to voters was a measure to strip banks from holdings outside of their industry. Counting of ballots has moved slowly since the May 7 vote, but as of May 17, officials have counted 96.73 percent of the ballots. The tally shows all of the questions being approved, with the "yes" votes ranging between 44.88 percent and 50.38



Electoral officials counting votes May 12

Photo: Ecuadorean Government.

percent while the "no" votes range from 38.97 percent to 42.66 percent. In addition to barring banking companies outside the financial services industry, referendum questions would also prohibit media companies from having stakes outside that industry. Another measure would create a government panel to regulate the content of newspapers and television stations, a measure that human rights and press groups have criticized as stifling to freedom of speech. Also, a new three-person panel would be created to appoint judges, a change that Correa's opponents have criticized as a power grab. Correa would have the power to appoint one of the panel members while Congress, which Correa's party controls, would select the second. Civil society would choose the third member. "Today, we made an important step toward peace,

democracy and a new motherland," Correa said shortly after polls closed May 7, BBC News reported. "The truth and the Ecuadorean people have been the winners in this." Some of the changes would require legislative action while others would require constitutional amendments.

BBVA Banco Frances Reports 22.4 Percent Increase in Profit

Argentina's **BBVA Banco Frances** said May 11 that its profit for the year's first quarter increased 22.4 percent year-on-year as a result of the strong performance of its insurance subsidiary, Dow Jones reported. The bank's net profit was 195.5 million pesos (\$47.9 million), or 36 centavos per share. Net profit for last year's first quarter was 159.7 million, or 30 centavos per share. The bank's net financial margin increased 5.6 percent on the year to 503.1 million pesos in the first quarter and its net fee income rose 15.3 percent to 303.8 million, Banco Frances said in a filing with the Buenos Aires Stock Exchange. The bank added that its loan loss provisions increased 35.4 percent to 41.6 million pesos and administrative expenses increased 15.5 percent to 531.2 million. Banco Frances said its insurance subsidiary contributed 38.8 million pesos to the bank's bottom line. The bank said its private sector loans, which comprise the majority of its credit portfolio, grew 57.3 percent on the year to 16.35 billion at the end of the first quarter. Vehicle, personal and credit card loans led the gains.

Experian Agrees to Buy Majority Stake in Colombia's Computec

Global credit information group **Experian** has agreed to purchase a majority stake in Colombia-based credit services group **Computec**, Experian announced May 3. Experian, which already has significant operations in Brazil, said it offered 10,419 Colombian pesos for each share of Computec in a deal that values the Colombian company at about 736 billion pesos (\$416.1 million). Computec oper-

ates the largest consumer credit database in Colombia and also provides credit reports and fraud prevention, Reuters reported. Computec also owns the only credit bureau in Venezuela and has early operations in Peru. "In assessing the opportunities for Computec and the growth prospects of the Colombian credit market, Experian has found many similarities to the assessment it made at the time of the acquisition of a majority stake in Serasa in Brazil in 2007," Experian said in a statement.

Insurance News

Brazil Helps Boost Mapfre to 14 Percent Rise in Profit

Spanish insurer **Mapfre**, the country's largest insurance company by market value, on May 4 reported a 14 percent increase in net profit for the first quarter, fueled in part by the company's activities in Brazil, EFE Dow Jones reported. Mapfre's profit from its international direct insurance operations grew to 134.7 million euros (\$199.7 million) in this year's first quarter as compared to 53 million a year earlier. A capital gain related to Mapfre's joint venture with Brazilian lender **Nossa Caixa** boosted the insurer's first-quarter earnings. Profit from direct insurance in Spain contributed 204.7 million euros in the first quarter, a decline from 230.6 million a year ago. Mapfre's

A capital gain related to Mapfre's joint venture with Brazilian lender Nossa Caixa boosted the insurer's first-quarter earnings.

international business will soon see a boost from a agreement with **Banco do Brasil**, through which the Spanish company will distribute insurance products in the South American country, said Esteban Tejera, Mapfre's general director.

Research Alert

Mobile Banking Expected to See 65 Percent Annual Growth

The number of financial institution customers in Latin America using mobile devices to do their banking is expected to grow 65 percent annually between 2010 and 2015, according to a report released May 11 by **Pyramid Research**. The region is forecast to have 140 million mobile banking users by 2015, an increase from 18 million last year, according to Pyramid, based in Cambridge, Mass.

Latin America has achieved conditions that will allow for significant growth in mobile banking, including banking and payments, said the report, entitled "Operators Take Mobile Banking to the Masses, With 65 Percent Annual Growth Expected Until 2015." Mobile operators, such as **Claro** and **Movistar** are expected to develop more commercial offerings over the next months in order to deepen participation in the market, the report said.

Banking penetration is low in the region, but 85 percent of the population in Latin America will actively use a mobile device by 2015, the report said, adding that the widespread use of mobile devices will allow for their greater use for services including banking, payments and remittances.

"Technological advances are making the fulfillment of the promise of a broad mobile banking and payment service a real possibility," José Magana, a senior analyst at Pyramid, said in a statement. "Also, all larger markets in Latin America have more than 35 percent of their population under the age of 24, making this the perfect time for operators to focus on mobile banking services.

In addition, Magana added wider use of mobile banking will aid wireless carriers in several ways. "Mobile operators will benefit from mobile banking in multiple ways—from more airtime purchases, more billable network traffic, such as data and SMS, and an increase in customer loyalty, thus improving the churn rate," he said. "They can help the system to be faster providing back-end services through their network, handling large amounts of data smoothly and bringing to their network handsets that are payment friendly by partnering with payment vendors, such as Visa or MasterCard."

Operations outside of Spain contributed 40 percent of the company's earnings last year, he added. Mapfre suffered a 64.1 million euro loss related to this year's earthquakes in Japan and New Zealand. In last year's first quarter, Mapfre took an 80.8 million loss due to the earthquake in Chile. The company's total revenue increased 4 percent in the quarter to 6.13 billion.

SulAmérica Has \$500 Million Ready for Acquisitions

Brazilian insurer **SulAmérica** has 800 million reais (\$500 million) on hand to take advantage of acquisition opportunities, two top executives said May 9 in São

Paulo, Bloomberg News reported. "The company keeps a certain amount of cash to take advantage of opportunities that may arise," the company's chief financial officer, Arthur Farme d'Amoed Neto, told the news service in an interview. "We want to grow through acquisitions." Brazil's rapid economic growth and growing salaries are resulting in increased demand for vehicle insurance, health insurance, pension fund services and asset management in Brazil, said SulAmérica's chairman, Patrick de Larragoiti Lucas. He added that Brazil's health insurance industry, which accounts for approximately 65 percent of SulAmérica's revenue, could see growth of 18 percent this year. Brazil, Latin

America's largest economy, experienced 7.5 percent economic growth last year. That was its sharpest growth since 1986.



Farne

File Photo:
SulAmérica.

Farne did not name any possible acquisition targets, but he said SulAmérica might buy companies, portfolios or agree to deals to distribute its products. The insurer is not close to signing any agreements, he said. In December, SulAmérica agreed to

purchase **Dental Plan Ltda.** in order to expand its customer base in northern and northeastern Brazil. The company also has agreed to purchase a stake in health insurer **Brasilsaúde** in May from **Banco do Brasil**.

Political News

Martelly Inaugurated, Vows to Bring Haiti 'Out of its Misery'

Michel Martelly, who gained fame as a popular singer nicknamed "Sweet Micky," took the oath of office May 14 as Haiti's president, vowing to bring change to the challenged Caribbean country. "Hand in hand, shoulder to shoulder, we're going to change Haiti," Martelly, 50, told the crowd at his inauguration ceremony, the Associated Press reported. "We want to re-establish order and discipline in the country." Martelly spoke on the lawn of the National Palace, which still lies in ruins after the country's devastating January 2010 earthquake. He now leads a country that is still struggling to move past the earthquake, which killed more than 300,000 people, as well as a cholera epidemic that has killed more than 4,000. Martelly was inaugurated inside a building specially constructed for the occasion, but the power went out during the ceremony, forcing Martelly to take office in darkness. Martelly also said during his inaugural address that he would work to rebuild Port-au-Prince, revive economically depressed rural areas and improve security. Universal education will be free and mandatory, he said.

"This is how Haiti is going to get out of its misery," said Martelly. "Haiti was asleep—now it's going to stand up." Martelly invited to the ceremony two polarizing former presidents who returned to the impoverished country this year, Jean Claude "Baby Doc" Duvalier and Jean-Bertrand Aristide. However, neither attended the inauguration. Martelly won a March 20 runoff election against former First Lady Mirlande Manigat. However, turnout was low and many Haitians have reservations about Martelly's ability to lead as he has never before held a political office.

Top U.S. Diplomat for Latin America Stepping Down

Arturo Valenzuela, the United States' top diplomat for Latin America is stepping down this summer, the State Department said May 6, the Associated Press reported. Valenzuela, who has been assistant secretary of state for Western Hemisphere affairs since 2009, will return to a teaching position at Georgetown University. "As you may know the University gave me a two year leave of absence to serve in the Administration—and those two years have come to an end this spring," Valenzuela wrote in an email to staff members late Thursday, *The Miami Herald* reported. "Although the exact date of my departure has not been set, it will take place sometime later this summer." The announcement of Valenzuela's departure comes after the U.S. ambassador to Mexico stepped down and the ambassador to Ecuador was expelled amid controversy surrounding their comments in leaked diplomatic cables. Also, the United States has been without ambassadors to Venezuela and Bolivia since 2008 after those governments accused the envoys of conspiring with political opponents. [Editor's note: see related Q&A in the May 17 [issue](#) of the Dialogue's daily *Advisor*.]



Valenzuela

File Photo: U.S. State
Department.

Guatemalan President Declares State of Siege After Massacre

Guatemalan President Álvaro Colom has declared a "state of siege" in the country's northernmost Petén province following a weekend massacre there that left 27 people dead, Agence France-Presse reported May 17. The order allows police to conduct raids at night in an effort to track down the killers. The state of emergency also allow authorities to restrict demonstrations, among other measures. "Guatemala must confront this aggression, which is not only in this country, but in the entire region," Colom said late Monday in a televised speech. Colom had declared a simi-

“Guatemala must confront this aggression, which is not only in this country, but in the entire region.”

— Álvaro Colom

lar state of siege in Alta Verapaz province from last December to February after a spike in violence there. After the massacre in Petén, police have captured one suspect and killed two others in an operation that also left two police officers wounded. The killings of the migrant farm workers, many of whom were beheaded, happened at "Los Cocos" farm in La Libertad, about 370 miles north of Guatemala City. Authorities have identified 15 of the victims of the massacre, which they said was perpetrated by Mexico's Zetas drug cartel. Two women and three children were among the victims. The youngest victim was 13 years old. The Zetas have already terrorized parts of Mexico for allegedly carrying out massacres, beheadings and kidnappings. Former elite members of the Mexican military who became enforcers for the Gulf drug cartel formed the Zetas in the 1990s. The two gangs are now enmeshed in turf battles in Mexico. Also, the Zetas are believed to be seeking to wrest control of the drug trafficking route through northern Guatemala away from local groups and have seized farms to use for the storage of drugs and weapons.

Obama Calls for Immigration Reform in Speech at Border

In his first visit to the U.S.-Mexico border as president, President Barack Obama called May 10 for comprehensive immigration reform and mocked his political opponents for blocking immigration reform efforts solely over border security, saying Republicans will not be satisfied until there is a moat with alligators separating the United States and Mexico. During his speech in El Paso, Texas, Obama said the border is more secure than ever with more than 20,000 Border Patrol agents, more than twice the level at the border in 2004. "We tripled the number of intelligence analysts working at the border. I've deployed unmanned aerial vehicles to patrol the skies from Texas to California. We have forged a partnership with Mexico to fight the transnational criminal organizations that have affected both of our countries," said Obama, adding that his administration has "gone above and beyond what was requested by the very Republicans who said they supported broader reform as long as we got serious about enforcement." Obama, who did not propose any new immigration policies during his speech, said Republicans continue to be unsatisfied with border security efforts. "Maybe they'll need a moat. Maybe they want alligators in the moat. They'll never be satisfied." In a statement Monday, Republican Senators John McCain and Jon Kyl of Arizona said they hope the visit to the border allows him to "finally see firsthand the continued security challenges facing all of those who live along our southwest border." They urged Obama to support the Border Security Enforcement Act, which they said "will provide the much needed personnel, infrastructure, and technology to gain control of our southern border."

Economic News

Cuba Allows All Small Businesses to Hire Workers

In another move to loosen its grip on the economy, Cuba's government announced

May 16 that all small businesses will be allowed to hire workers, Reuters reported. "The Council of Ministers agreed to extend to all non-state activities authorization to contract workers and continue the process of making more flexible regulations on self employment," the government said in a statement. Last year, the government of Raúl Castro allowed some family businesses and skilled trades to contract labor. The government, which provided few details of the change, dominates the economy. Through 2009, it employed about 85 percent of the labor force. However, last year, the government announced that it would lay off hundreds of thousands of workers as an effort to boost the country's battered economy. Private business, which the government often calls "self-employment," was first allowed in 1993 after the collapse of the Soviet Union dragged Cuba into an economic crisis. Since October, Cuba has issued more than 200,000 new licenses to allow businesses to conduct activities such as renting space, hiring workers and seeking bank credits.



Castro

File Photo: Juventud Rebelde.

Argentina Accuses Brazil of Applying Trade Barriers

Argentina on May 13 accused Brazil of needlessly slowing down auto imports, deepening a trade dispute between the two countries, Reuters reported. Argentine Industry Minister Debora Giorgi sent a letter to her Brazilian counterpart, Fernando Pimentel, asking him to reconsider a decision to delay the granting of vehicle import licenses. The delay will slow trade and Giorgi urged Pimentel to resolve the matter "in the shortest time possible." The delay also affects imports from countries including the United States, Mexico, Japan and South Korea, but an unnamed Brazilian official told Reuters that it is largely intended as retaliation against Argentina for delaying imports of farm equipment and other goods from Brazil.

POLITICAL & ECONOMIC BRIEFS

Peru's Keiko Fujimori Hires Giuliani as Advisor

Peruvian presidential candidate Keiko Fujimori has hired former New York City Mayor Rudolph Giuliani as an advisor as she works to burnish her security credentials ahead of the country's June 5 runoff election, Reuters reported May 16. Giuliani, who cast himself as an expert on terrorism after the September 11 attacks, will help create public safety programs for Fujimori's campaign. Fujimori, the daughter of jailed former President Alberto Fujimori, has pulled ahead of her rival, Ollanta Humala, in the latest polls.

Honduras' Zelaya to Return Within a Month: Aide

Former Honduran President Manuel Zelaya, who was ousted in the country's June 2009 coup, will return to his country after nearly a year and a half in exile, an aide told the Associated Press May 11. "He has the will and desire to return to his homeland," Rasel Tome said of the former president, who has been living in the Dominican Republic. Honduras' Supreme Court last week dropped the last remaining charges against Zelaya, paving the way for his return and Honduras' possible readmission to the Organization of American States.

Chile, Peru Raise Interest Rates to Two-Year High

The Chilean central bank raised its benchmark interest rates from 4.5 percent to 5 percent and Peru implemented a quarter-point increase to 4.25 percent May 12, hitting two-year records, Bloomberg News reported. Peru's economy is expected to expand by 7.5 percent this year, while Chile is projected to grow by 5.9 percent.

Featured Q&A*Continued from page 1*

microfinance institutions have learned how to provide micro-enterprises with access to capital; and, of course, the very large corporations have ample access to reasonably priced capital; but the capital needs of SMEs often remain unmet."

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** "SMEs have been engines of growth in most countries around the world. Latin America is no exception. Yet, we find that in the region, there is a great deal of reluctance by the banks to lend them money—especially during economic downturns. What are the reasons behind that? A recent survey by the

rent situation in the region is precisely that of bigger uncertainty with the highly volatile commodity prices that are a lifeline for the region. The second reason is legal problems. In the absence of clearly defined property rights, many SMEs have difficulties in demonstrating clearly defined collateral. Some central banks in the region have tried to help in some special sectors as guarantors. This in turn has created a problem of moral hazard."

A **Silvia Torres Carbonell, director of the Center for Entrepreneurship at IAE Business School in Buenos Aires:** "I still don't see a regional trend to increase the access to commercial loans to SMEs in Latin America, even

“Banks find the operation of the SMEs to be very opaque.”

— *Tapen Sinha*

World Bank finds that the reasons behind this reluctance are many. First, the banks find the operation of the SMEs to be very opaque. They do not have transparent operations. They do not have long histories of activities either. The reason is simple: Most SMEs in the region operate in the gray zone. Some are outright illegal. Others are dubious. Moreover, most of them do not live long, hence the banks do not get a good sense of their operations to have enough confidence to lend them money. Relational banking has been touted as a possible solution. Banks also cite two critical reasons for lending money to the SMEs: First, the bad macroeconomic conditions tend to hit the SMEs harder. Thus, in periods of downturns and uncertainties, banks tend to lend less to the SMEs. The cur-

though it is generally accepted that the creation, consolidation and expansion of SMEs with entrepreneurial spirit is a key driver for economic and social development. Of course, it depends on the country and the type of SMEs. Funding a start-up or a young SME in a country with increasing inflation, overheating economies, weak institutions and political conflicts is a risky decision for a bank. The financial sector should find innovative ways to lend money at reasonable rates to SMEs in Latin America, as a way to take advantage of the huge opportunities of the region."

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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Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Rachel Sadon

Reporter, Assistant Editor
rsadon@thedialogue.org

Inter-American Dialogue

Michael Shifter, President

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Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org

Subscription Inquiries are welcomed at freetrial@thedialogue.org

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