INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Aimara Capital LLC

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Brazil

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris Int'l

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

Craig A. Kelly
Director, Americas International Gov't Relations,
Exxon Mobil

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.

FEATURED Q&A

Does the Money Transfer Industry Have a Bright Future?

Q Following relatively flat growth in the wake of the Great Recession, remittance flows to Latin America and the Caribbean are again on the rise, according to World Bank research released this month. The region's growth in remittances is expected to increase 5 percent to $64 billion this year and 4.3 percent in 2015, the Bank said. What trends are driving remittances flows in the Americas, and how do those compare to other parts of the world? Does the money transfer industry have a bright future beyond next year, or are its best days in the past? To what extent are changing levels of competition among money-transfer companies and advances in technology changing the game for remittance senders and recipients?

A Mario Trujillo, president and CEO of DolEx Dollar Express: "Remittances have always been driven by immigrants' migration in search of economic opportunities to achieve a better life for themselves and their families. Immigrants from underdeveloped and developing countries leave for developed economies looking for work. Recent improvements in remittances to Latin America reflect the 'slowly' improving U.S. economy, and while U.S. unemployment levels remain high, relative to Latin America and the rest of the world (especially Europe, Spain and Italy, in particular) the United States is an attractive place for Latin Americans to migrate. The money transfer, family remittance industry is, and will continue to be, a growing and global phenomenon driven by these imbalances in wages, labor and economic disparities worldwide. Having said this, the much bigger payments industry (including and especially the technologically and educationally affluent, the highly banked and generally the higher end of the economic pyramid) is undergoing a transformational phase, where the mobile phone is an amazingly popular and widespread social tool worldwide (more than 5 billion mobile

Continued on page 3

Mexico's Federal Police Takes Control of 13 Municipalities

Mexico's federal police force has seized control of towns where local officers are suspected of links to the disappearance of 43 students last month. National Security Commissioner Alejandro Rubido said investigators suspect local officers have ties to gangs. See story on page 2.

Photo: Mexican Government.

Inside This Issue

FEATURED Q&A: Does the Money Transfer Industry Have a Bright Future? 1

Federal Police Take Control of 13 Mexican Municipalities 2

Days of Heavy Rains Kill 22 in Nicaragua 2

Bermuda Cleaning Up After Being 'Bruised' by Hurricane Gonzalo 2

Rousseff Acknowledges Money Was Diverted From Petrobras 2

Scotiabank Eyeing Sale of Puerto Rico Unit 3

Copyright © 2014, Inter-American Dialogue

NEWS BRIEFS

Bermuda Cleaning Up After Being 'Bruised' by Hurricane Gonzalo

Bermuda is cleaning up and repairing damage after Hurricane Gonzalo hit the island on Friday with rain and 175 kilometer per hour winds (110 mph), knocking down power lines and damaging buildings, BBC News reported. Premier Michael Dunkley said the storm "bruised" the island, but infrastructure came out better than expected. Gonzalo, which was the second storm in a week to hit the island and the strongest in a decade, cut power to more than 30,000 homes and caused damage and flooding, but only minor injuries were reported.

Rousseff Acknowledges Money Was Diverted From Petrobras

Money was illegally diverted from state-owned oil company **Petrobras**, President Dilma Rousseff acknowledged publicly over the weekend for the first time, first to journalists in Brasília on Saturday and then in a televised public debate against challenger Aécio Neves on Sunday, Bloomberg News reported. Rousseff said officials did not have a figure of how much was embezzled from the company, but said the government will seek reimbursement for all funds.

Argentina Planning Sale of $1 Billion of Bonds

Argentina's government is planning to sell as much as $1 billion of bonds denominated in dollars, Bloomberg News reported Sunday, citing the Economy Ministry. The debt sale would be the South American country's first since its massive default 13 years ago. The government plans to accept offers on the two-year notes starting Oct. 23.

Political News

Federal Police Take Control of 13 Mexican Municipalities

Mexico's federal police force has taken control of 13 municipalities in the southern part of the country, where local police officers have been suspected of having connections to organized crime and potentially to the disappearance of 43 students last month, the Associated Press reported today. The municipalities are all within about 125 miles of Iguala, from which the students disappeared after clashing with police. One of the municipalities is in Mexico state and the others are in Guerrero state. The tourist destinations of Taxco and Ixtapan de la Sal are among the towns that federal police have taken over. On Sunday night, Mexico's national security commissioner, Alejandro Rubido, said that investigators who have been probing the students' disappearance have discovered "irregularities" in addition to "presumed links to organized crime" in the police forces of the 13 municipalities. Police chiefs in those locations are having their guns tested and were sent to a center for "certification," the AP reported. Federal police forces have already disarmed police officers in Iguala and Cocula and have detained 36 officers. The mayor and the police chief of Iguala are wanted and are considered fugitives. They stand accused of having connections to the local Guerreros Unidos drug cartel, which is suspected of links to local police officers potentially involved in the students' disappearance. On Friday, Mexican officials announced the arrest of Sidronio Casarrubias Salgado, the purported leader of Guerreros Unidos, BBC News reported. Attorney General Jesús Murillo Karam said the arrest would aid the investigation into the students' abduction. Salgado was arrested late Thursday on a highway heading out of Mexico City, said federal prosecutor Tomás Zeron, the AP reported. Rubido added late Sunday that authorities are searching for the students via land, sea and air and that family members of the missing students and the International Red Cross are assisting in the search.

Murillo Karam

File Photo: Mexican Government.

Days of Heavy Rains Kill 22 in Nicaragua

Several days of heavy rains in Nicaragua have left 22 people dead, BBC News reported Saturday. Nine of the victims lost their lives when a wall collapsed during a downpour in Managua. In other parts of the capital, emergency crews evacuated residents from areas at risk from mudslides. In all, 32,000 people have been made homeless across Nicaragua because of the heavy rains, Agence France-Presse reported. People evacuated would join thousands of others who have been sent to temporary shelters since last month, according to government spokeswoman Rosario Murillo, BBC News reported. She added that authorities had made the decision to evacuate everyone from parts of Managua prone to mudslides and flooding. "We have to evacuate these people and use the police to guarantee that these spaces are not re-occupied," said Murillo. She also said that 5,630 people are receiving food aid and are in temporary shelters, AFP reported. Several people have defied authorities' orders and returned to their homes because shelters are far from their workplaces, BBC News reported. More than 300,000 people in Nicaragua have been affected by the heavy rains, and residents in Guatemala, El Salvador and Honduras have also been affected.

> "We have to evacuate these people and use the police to guarantee that these spaces are not re-occupied."
>
> — ***Rosario Murillo***

Copyright © 2014, Inter-American Dialogue

Company News

Scotiabank Eyeing Sale of Puerto Rico Unit

Bank of Nova Scotia is considering the possible sale of its unit in Puerto Rico, Bloomberg News reported Thursday. The unit in the U.S. territory is valued at approximately $600 million, people familiar with the matter told the news service. Scotiabank, as the lender is known, is in the early stages of examining options for the unit, **Scotiabank de Puerto Rico**, which could include its sale to a private-equity firm or other lender, said the sources, who requested anonymity because the matter has not been made public. The volatile economy in Puerto Rico could complicate the possible sale of the unit, and Scotiabank still could decide to keep the operation, the sources added. The Toronto-based bank, which is Canada's third-largest lender by assets, has been considering better growth opportunities in Latin America. Executives of Scotiabank also are concerned about potential turmoil in Puerto Rico's banking sector in case the flagging **Doral Financial Corp.** is merged into another lender on the island, the sources told Bloomberg News. U.S. regulators have said Doral, which is based in San Juan, must boost its capital levels or break up its assets and sell, the company said Oct. 1. Scotiabank has had a unit in Puerto Rico for more than 100 years and more than doubled its assets in the U.S. territory after its acquisition of the failed **R-G Premier Bank of Puerto Rico** in 2010. Bank of Nova Scotia's Puerto Rico unit maintained 35 branches and had $5.1 billion in assets as of the end of June, according to the Federal Deposit Insurance Corp. Scotiabank de Puerto Rico also earned $11 million in the year's first half after incurring a $6.7 million loss in the first half of last year. Scotiabank said in August that its international banking profit declined 16 percent to 452 million Canadian dollars in the three-month period ending July 31. It blamed "continuing softness" in markets including Puerto Rico.

Featured Q&A

Continued from page 1

devices, while only about 2 billion bank accounts out of about 7 billion people). These innovations will provide new and efficient ways to move money for consumers. The traditional cash-to-cash business is not going away, and there will be new opportunities for those who adapt. Today, the regulatory and compliance efforts, especially in the United States, need to catch up and become efficient and better organized to allow the business to be conducted safely, while protecting the consumers in a new and exciting tech-driven world."

> "The regulatory and compliance efforts, especially in the United States, need to catch up."
>
> — *Mario Trujillo*

A Allan Ramlall, director of global outreach at the National Money Transmitters Association: "Remittances to Latin America and the Caribbean originate from the continuing financial needs of families living in receiving countries. For the United States, which in essence is currently experiencing economic growth, we see the rapidly rising flow of undocumented persons crossing the borders to not only find employment, but to be able to send desperately-needed funds home. Thus, we see that depending on the economic conditions in the developed world, it results in the ability of the relevant diaspora to transmit funds abroad for their families. This principle exists for the other less-developed parts of the world, whether it is Asia or Africa. With a need for remittances, which for 2014 the World Bank estimates at $582 billion globally, the money transfer industry does have a future. However, due to compliance costs, fraud and high-cost technology development, the mid-sized and definitely the smaller remittance companies will face challenges in surviving. And should this sector be eliminated in the future, it will be missed because of its affordability to its remittance customers as compared to the banks and the larger, more well-known global remittance firms."

A Hugo Cuevas-Mohr, director of Mohr World Consulting and IMTC Conferences: "In a mature market like the Americas, the remittance volumes have to be analyzed on a country-by-country basis although we can generalize certain facts. The U.S. economy is doing better, and Central American migrants are sending more money home, plus it is our understanding that they have taken jobs that Mexicans were doing before. Mexican migrants have not returned in the numbers that were present before the crisis. Also, a number of restrictions in southwest United States for remittances to Mexico might be also impacting the volumes. There is another factor that is important to consider: internal migrations in Latin America are beginning to impact the volumes. Hondurans and Nicaraguans are heading to Panama in Central America, and a large number of South American migrants are moving to Brazil and Chile. Bolivians, Peruvians and others are finding employment in São Paulo and other Brazilian cities. It is important to note that Africans and Haitians are also sending money home from this country. The remittance crisis in Venezuela—where the government is preventing the formal outward flow of remittances—has impacted Colombia severely, closing down companies on both sides of the border. Informal flows have been detected across the border with no solution coming soon."

Continued on page 4

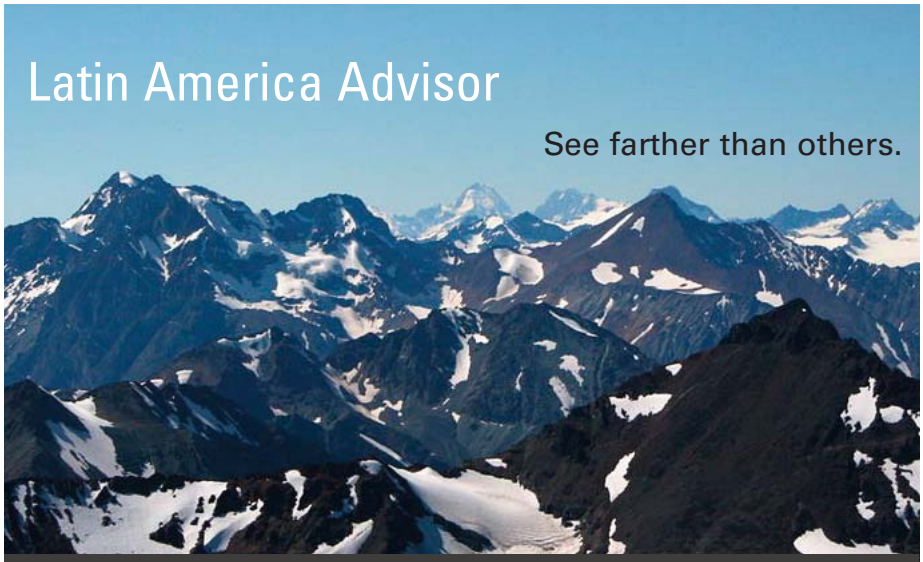
Copyright © 2014, Inter-American Dialogue

Featured Q&A

Continued from page 3

Manuel Orozco, senior fellow at the Inter-American Dialogue and fellow at the Center for International Development at Harvard University: "Remittances to Latin America will grow above 5 percent in 2014 for the first time in more than five years. This growth is attributed to a few important developments and changes in several Latin American countries. First, most of this growth is not occurring evenly, but rather comes from Mexico and Central America. The continued economic sluggishness in the region, crime and improvements in the U.S. economy explain Mexican and Central American growth at 6 percent for 2014. These countries together represent 60 percent of all flows to the Latin American and Caribbean region. Competition in the marketplace has motivated migrants to send money more regularly, at frequencies above 12 times a year, in turn helping increase the total volume remitted to families. Also, increased skilled labor migration leads to higher principal amounts being sent to Latin America. While these trends explain growth, there are still some realities that make it difficult for family transfers to continue. Operating costs in the business segment have not dropped even though technology payments offer new ways to remit at lower costs. However, regulations on compliance continue to keep operating costs expensive. Moreover, several South American countries continue to experience low transfers of remittances due to economic performance in Europe, a problem affecting mostly Colombia and Ecuador. For the most part and in balance, as the economies of Latin America and the Caribbean slow down, migration keeps shifting toward higher skilled migrants and deportations continue on the rise in part due to increases in undocumented low skilled migration from Central America, flows may continue to sustain decent growth. In other words, as long as the demand for skilled and unskilled labor—particularly in the hospitality and construction industries—continues, newer migrants will continue to come as a way to remit back home and thus sustain growth above 5 percent."

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



The **Latin America Advisor**'s daily **Q&A** section helps readers plan ahead. What do you need to know? E-mail to freetrial@thedialogue.org for access.

Photo: Kevin Teague

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2014

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Ariel Fiszbein, Director, Education Program
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Jeffrey Puryear, Senior Fellow
Lisa Viscidi, Director, Energy Program

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.