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FEATURED Q&A

Will Cuba Mean Opportunity or Risk for U.S. Banks?



Cubans gathered last month in front of the newly reopened U.S. Embassy in Havana. // File Photo: U.S. Government.

Q Florida-based Stonegate Bank on July 21 signed a deal with Cuba's Banco Internacional de Comercio, making Stonegate the first U.S. bank to have a correspondent account on the island. What opportunities and risks lie in Cuba for U.S. financial firms? What are the main challenges U.S. banks must overcome in order to do business in Cuba? Is the ability of Americans to use credit cards in Cuba just around the corner, and how would that change the financial landscape in Cuba? What is the status of secured transaction laws in Cuba, and do such protections for lenders need to be improved on the island?

A Boris Kozolchyk, executive director and founder of the National Law Center for Inter-American Free Trade: "The challenges that U.S. banks must overcome in correspondent banking with Cuba involve, among others, letters of credit (LOC), credit cards and secured lending. Correspondent banks' duty of good faith is not only to their own customers, but also to their correspondents and their customers. Consider the correspondent relationship between Banco Internacional de Comercio (BIC) and Stonegate. Assume Stonegate issues a LOC for an importer customer, with a Cuban tobacco exporter as the beneficiary, and promises to pay the exporter for a large quantity of tobacco. Stonegate asks BIC to pay the tobacco company if the shipping documents comply strictly with the LOC. If the submitted documents do not comply, legally, BIC must reject those documents. Yet, BIC's failure to pay the Cuban company would have serious economic and political consequences for the company and its employees, and this is

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TOP NEWS

BANKING

HSBC Selling Brazil Business to Bradesco

The London-based bank is selling its entire business in Brazil to Bradesco for \$5.2 billion in cash. The price is equivalent to 1.8 times book value, well over the amount analysts had been expecting.

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CREDIT CARDS

Visa Names Coello Group Executive for Region

Eduardo Coello will begin the new position Sept. 1. He is replacing Eduardo Eraña, who is retiring after a 31-year career with Visa.

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BANKING

BTG Pactual Bracing for Prolonged Downturn

The Brazilian investment bank is preparing for the possibility that the country's economic downturn could last an additional 18 months, said Chief Executive Officer André Esteves.

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Esteves // File Photo: BTG Pactual.

BANKING NEWS

HSBC Selling Brazil Business to Bradesco

Britain's HSBC announced Aug. 3 that it is selling its entire business in Brazil for \$5.2 billion in cash. The transaction, which is subject to regulatory approval, includes HSBC Bank Brasil S.A. - Banco Multiplo and HSBC Serviços e Participações Ltda. The price is equivalent to 1.8 times book value, well over what analysts had been expecting. "We announced at our investor update on 9 June that we were target-



Gulliver // File Photo: HSBC.

ing a series of actions to generate increased value for shareholders," HSBC's chief executive officer, Stuart Gulliver, said in a statement. "I am pleased to be able to announce today a transaction which achieves both a solid financial outcome and swift delivery of one of our stated actions." In June, the London-based bank said it would pivot back to Asia, where its Hongkong and Shanghai Bank has operated for 150 years, The Wall Street Journal reported. HSBC began operations in Brazil in the 1990s, but it never achieved a size large enough to pose a serious threat to banking giants Itaú, Bradesco or Banco do Brasil, Reuters reported. HSBC currently has 854 branches in Brazil, along with 21,000 employees and 170 billion reais in assets. That represents 2.3 percent of the total banking system assets in Brazil, the wire service reported. HSBC was hindered from gaining market share in Brazil in part due to slow asset growth. Return on equity amounted to negative 4.2 percent last year. "HSBC plans to maintain a presence in Brazil to serve large corporate clients with respect to their international needs," the bank said in a statement. HSBC also reported a 4 percent year-on-year

decline in net profit for the second quarter, to \$4.36 billion, as compared to \$4.54 billion in the same quarter a year ago, The Wall Street Journal reported. However, the bank said an increase in revenue and a lower amount of bad loans boosted its pretax profit in the second quarter to \$6.57 billion from \$5.56 billion. Berenberg Bank analyst James Chappell told the newspaper that the results are "a reassuring starting point for the revised strategy with results slightly better than consensus."

Brazil's BTG Pactual Bracing for Prolonged Downturn

São Paulo-based investment bank BTG Pactual is preparing for the possibility that a downturn in Brazil's economy could last another 18 months by trimming assets and increasing regulatory capital ratios to protect itself, CEO André Esteves said Aug. 6, Reuters reported. In the last quarter, the bank cut total assets and its loan book by 6.7 percent and 0.6 percent, respectively, and also took extra provisions for problem loans and proprietary oil and gas investments. Executives said they may take the same measures again if conditions in Brazil,

Brazil is facing its sharpest economic decline in 25 years.

which is facing its sharpest economic decline in 25 years, continue to deteriorate. BTG Pactual's net income hit a three and half-year high last quarter due to unusually low taxes and proprietary investments. Profit in the quarter reached 1.02 billion reais (\$291 million). The bank will increase taking risks only when economic conditions improve, and while a weak economy may lead to deterioration in the bank's credit portfolio, it will not significantly

NEWS BRIEFS

Itaú Sees Increase in Loan Delinquencies in Q2

Brazil's Itaú Unibanco Holding on Aug. 4 reported a 23 percent increase in profit for the second quarter, but said its level of loan delinquencies increased for the first time in 11 quarters, Bloomberg News reported. Debts that were more than 90 days overdue increased for the first time since the third quarter of 2012, said Itaú, Latin America's largest bank by market value.

Fraud Experts Discover ATM 'Shimmer' in Mexico

Experts have found an unusual fraud device known as a "shimmer" attached to an automated teller machine in Mexico, online news site Krebs on Security reported Aug. 11. The device was discovered on a Diebold Opteva 520 ATM, according to security firm 3VR. The device was inserted into the machine's card acceptance slot and can read data off of chip-enabled credit or debit cards, the news site reported. The device sits between the chip on any card that is inserted and the ATM's chip reader. 3VR did not say whether the device was paired with another component to read PIN numbers such as a PIN pad overlay or a hidden camera.

Coello Named Group Exec for Region at Visa

Global payments firm Visa Inc. announced July 31 that Eduardo Coello has been appointed group executive for Latin America and the Caribbean, effective Sept. 1. A 15-year veteran of Visa, Coello will replace Eduardo Eraña, who is retiring at the end of the year after a 31-year career with Visa. Coello has held several leadership positions, including country manager for Visa's Mexico operations. He will be responsible for all of Visa's operations across 44 countries in the region and report to Ryan McLnerney, president of Visa Inc.

affect future earnings, Esteves told investors recently. Despite economic headwinds in Brazil, which is also struggling with the political fallout of a corruption crisis at state oil company Petrobras, BTG can deliver annual returns on equity of around 20 percent, Esteves said. The bank added that Brazil will remain a key market, but that when its acquisition of Switzerland-based BSI Group is finalized, non-Brazilian operations will make up most of its income and staff.

REMITTANCES NEWS

Mexico's Remittances Grow 6.1% in June

The amount of money Mexican workers abroad sent home in June grew 6.1 percent as compared to the same month in 2014, the Associated Press reported Aug. 3. According to central bank data, remittances grew by 4 percent in dollar terms during the first half of 2015. Measured in local currency, however, remittances grew a "solid" 26.3 percent in the first half compared to the same period last year, Goldman Sachs analyst Alberto Ramos said in a research note. "A weaker [Mexican peso] and low domestic inflation boost the local currency real purchasing power of the remittances' flows," Ramos said, noting that is good news for low-income families, which have a high propensity to consume and which receive most of the money transfers. In absolute terms, remittances flows this year have not fully recovered from the effects of the Great Recession more than five years ago and remained relatively low at \$24.1 billion in June on a 12-month basis, down from \$26.1 billion at year-end 2007. With low oil prices, remittances now give Mexico more foreign currency than it makes selling oil abroad, GlobalPost reported last month. From January through May, national oil company Pemex exported \$8.6 billion worth of petroleum, as compared to the almost \$10 billion Mexicans got from their relatives and friends working abroad, mostly in the United States.

INSURANCE NEWS

QBE Completes Sale of Argentine Workers' Comp Business

Australia-based QBE Insurance Group has completed the process of selling its workers' compensation business in Argentina, The Sydney Morning Herald reported Aug. 11. QBE sold the unit to Argentina-based La Caja Aseguradora de Riesgos de Trabajo ART SA. The sale's proceeds are approximately \$55 million following the settlement of a pre-disposal dividend, the newspaper reported. The sale will result in an overall loss of \$73 million for the insurer, which is headquartered in Sydney, due to the depreciation of Argentina's currency and the method of listing the sale on QBE's balance sheet. QBE has faced numerous problems in the workers' compensation market in Argentina. New laws in the South American country in 2012 and 2013 made it easier for Argentine

workers to file workers' compensation claims, according to the Australian Financial Review. The legislative changes led QBE to reprice their policies monthly in order to keep up with rising inflation in Argentina and also because of a sharp increase in lawsuits related to workers' compensation claims, The Sydney Morning Herald reported. Approximately one third of such compensation claims were litigated in Argentina last year, some six times the rate in North America. In 2013, there were 75,000 workers' compensation lawsuits filed in Argentina, as compared to 5,000 in 2005. QBE, which announced the sale of the Argentine business in February, has been shedding assets in an effort to simplify its business. In July, it announced that it was selling its North American mortgage and lender-services unit to National General Holdings for 90 million Australian dollars (\$65.6 million). Longtime former CEO Frank O'Halloran had expanded QBE's business aggressively around the world, but current Chief Executive John Neal has focused on selling underperforming assets. QBE is scheduled to announce earnings Aug. 18.

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why I cannot envision a governmental entity such as BIC rejecting documents submitted by the tobacco company, another governmental entity. On the other hand, once BIC pays the Cuban company and debits Stonegate's account, Stonegate will have to either try to recover money from BIC or reimburse its customer for the losses attributable to the discrepancies and absorb the loss. This situation was not uncommon during the first year of Cuba's revolutionary takeover of private banks. The same would be true with credit cards: Assume that BIC will be the Cuban processor of Visa cards issued by U.S. banks. Assume further that the Cuban issuing banks will be state entities and that most of their merchant customers will also be such entities. Is there any question that they will receive preferential treatment and the lion's share of the severely scarce dollar-denominated or supported credit-card business? The key to successful correspon-

dent banking in Cuba lies with asset-based lending. The sooner Cuba adopts a secured lending law in which business and credit decisions are made not on the basis of who is the customer or beneficiary but rather on the liquidity of the business assets they bring to the table, as was done by Colombia, Costa Rica, Guatemala, Honduras and Mexico, and is being considered by Chile, El Salvador and Peru, the sooner trust will be established in correspondent banking and beyond."

A Peter Hakim, president emeritus of the Inter-American Dialogue: "For Cuba, the new relationship with the United States could help to avert a humanitarian crisis in the short run, and over time, offer the county a more hopeful economic future. U.S. ties can contribute to a more robust and sustainable pattern of growth, and perhaps even bring the island a measure of prosper-

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POLITICAL NEWS

Peru Captures Two Reputed Shining Path Leaders

Peruvian authorities have captured two leaders of the Shining Path, dismantling a column of the Maoist rebel group, the government said Aug. 10, Agence France-Presse reported. The two suspected leaders, Dionisio Ramos and Alexander Alarcón Soto, are accused of killing police officers and soldiers in southeastern Cusco province, said Deputy Defense Minister



With this operation, the southern wing of Shining Path is dismantled.”

— Iván Vega

Iván Vega. The men also are accused of attacking a police station and shooting down a helicopter, Vega added. “With this operation, the southern wing of Shining Path is dismantled. An energy and tourism hub is secured. It is possible they will send another column to take over the zone, but we will be watching,” he said, AFP reported. In capturing the alleged rebels, soldiers also seized explosives and weapons that were hidden near a gas pipeline that connects Lima to Camisea, one of the region’s largest gas reserves. Ramos and Alarcón were captured in a remote Amazon valley and were transported by air to Lima, BBC News reported. The men’s capture followed last month’s rescue of dozens of captives, mainly women and children, who had been enslaved by the guerrilla group. Some of the captives had been held for decades. Peru’s government estimates that the Shining Path has approximately 350 members, including 80 armed fighters, AFP reported. The

column reputedly led by Ramos and Alarcón had been operating in the area of the Peruvian Amazon known as the VRAEM, or the Valley of the Apurimac, Ene and Mantaro rivers, BBC News reported. The region is Peru’s largest cocaine-producing area. Authorities in 1992 captured the Shining Path’s leader, Abimael Guzmán, and largely dismantled the guerrilla group. However, it has been difficult for the government to completely get rid of the rebels in the Amazon jungle.

Chile Declares State of Emergency Due to Strong Storms

Chile’s government has declared a state of emergency in the northern cities of Antofagasta and Tocopilla because of damage caused by strong storms in the region, Merco-Press reported Aug. 11. Strong winds, heavy rains, flash floods and mudslides from the storms, which began four days earlier, have left at least six people dead nationwide and have forced hundreds of others to evacuate their homes. Chilean President Michelle Bachelet visited the region on Monday and met with



Bachelet on Aug. 10 visited victims of the flooding in Tocopilla. // File Photo: Chilean Government.

emergency committee officials, after which she stated her commitment to strengthening security and ensuring the arrival of supplies for people in Tocopilla, where 500 soldiers are working to clear mud and rubble. “Some people lost all their belongings, others have been left in very complex situations,” the president said. During a press conference at the National Emergency Management Office (Onemi), Interior Minister Jorge Burgos announced that a state of

exception had been declared and that Brigadier General Claudio Hernández Muñoz has been put in charge of coordinating the response. In Tocopilla, in Chile’s arid north, as much rain fell in the span of a few hours as has fallen there over the past seven years. Five floods affected the city and the highway connecting Tocopilla to Antofagasta, on which nearly 200 people were trapped until being rescued by helicopter. “It was an incredible sight the way the water came down so powerfully from a ravine that it carried away houses and totally destroyed them,” Housing Minister Paulina Saball told a local radio station.

Construction Execs Sentenced in Petrobras Scandal

A Brazilian judge on Aug. 5 sentenced five construction-industry executives to as many as 16 years in jail for their roles in a massive corruption scandal linked to state oil company Petrobras, The Wall Street Journal reported. José Aldemario Pinheiro Filho, the former president of São Paulo-based builder OAS, was sentenced to 16 years and four months in prison for his role in the corruption scheme, in which prosecutors allege that construction companies formed a cartel to inflate the value of contracts with Petrobras and then siphon off money for bribes and kickbacks. Four other OAS executives also received equal or lesser sentences for their involvement. A lawyer for the executives said late Wednesday that his clients are innocent and that he will appeal the decision to a higher court. Wednesday’s sentences were the second wave of rulings against construction executives after the judge heading the probe in late July sentenced three former executives of construction company Camargo Corrêa who were convicted of corruption, money laundering and participation in a criminal conspiracy. Investigators have said that more than 12 construction companies paid bribes to secure Petrobras contracts, BBC News reported. The scandal, which has been unraveling for more than a year, has rocked Brazil’s political and business class. On Aug. 3,

NEWS BRIEFS

Nearly Complete Results Show Scioli With 38.4% of Vote in Argentina

With nearly all the ballots counted from the Aug. 9 presidential primary in Argentina, ruling party candidate Daniel Scioli emerged in the strongest position to succeed current President Cristina Fernández de Kirchner, Agence France-Presse reported. With 97.8 percent of ballots counted, the governor of Buenos Aires province had 38.4 percent of the vote as compared to 30.1 percent for conservative Buenos Aires Mayor Mauricio Macri and 20.6 percent for ruling party dissident Sergio Massa.

Violence, Long Delays Mar Haiti Legislative Elections

Haiti's legislative elections on Aug. 9 were marred by fistfights that resulted in the closure of at least three polling places as partisans tried to visibly stuff ballot boxes, the Associated Press reported. The balloting was also marked by arrests of people attempting to vote multiple times and delays at polling stations because ballots had not arrived. The election aims to fill the Parliament, which was dissolved in January because of nearly four years of delays in holding elections.

Cuban Government Arrests 90 Dissidents

Cuba on Aug. 9 arrested about 90 activists, around 50 linked to the Ladies in White activist group as well as another 40, some of whom were wearing masks with the image of U.S. President Barack Obama, Agence France-Presse reported. Some protesters criticized the thaw in U.S.-Cuba relations and said the Cuban government had grown bolder since diplomatic relations between the nations have improved. The arrests came just days before U.S. Secretary of State John Kerry is scheduled to arrive in Havana for the inauguration of the reopened U.S. embassy.

José Dirceu, a former chief of staff for ex-President Luiz Inácio Lula da Silva and a founder of the governing Workers' Party, was arrested on allegations that he took bribes from Petrobras executives.

State Department Urges Venezuela to Allow Opposition Candidates to Run

The U.S. State Department on Aug. 4 called on Venezuela to reverse a ban on some opposition members holding office and running in the Dec. 6 parliamentary elections, Reuters reported. "The United States views with concern reports of recent decisions by the Venezuelan National Electoral Council and Comptroller General banning certain members of the political oppo-



Maduro // File Photo: Venezuelan Government.

sition from running for or holding public office," Mark Toner, a deputy spokesperson, said in a statement. On Aug. 3, opposition leader Maria Machado said she had tried to register as a candidate but her application was rejected. The ruling party stripped Machado of her National Assembly seat for her support of protests against the government last year and barred her from office. The state prosecutor's office has accused her of conspiring to assassinate President Nicolás Maduro, a charge she denies as ridiculous, the Associated Press reported. "These decisions clearly have the intention of complicating the ability of the opposition to run candidates for the legislative elections, and limiting the range of candidates that can be presented to the Venezuelan people," the statement continued. Washington has also pressed

Caracas to release political prisoners and allow outside observers to monitor the election. Two political prisoners, Alexander Tirado and Raul Emilio Baduel, were given congressional ballot spots last week by the leading Voluntad Popular Party, but their applications were also rejected by officials. Inmates are allowed to run for political office in Venezuela as long as their sentences are still under appeal, as is the case with Tirado and Baduel, Fusion reported.

ECONOMIC NEWS

Argentina Wins a Battle Against Bond Holdouts

Argentina on Aug. 10 won a battle in its longstanding conflict with hedge funds holding sovereign bonds when a U.S. appeals court overturned a previous ruling that had expanded the definition of those allowed to sue the nation, MercoPress reported. The 2nd U.S. Circuit Court of Appeals in New York ruled unanimously that District Judge Thomas Griesa had improperly expanded the class of bondholders seeking repayment on bonds that the country defaulted on in 2002, the third time the court has overturned a ruling by Griesa in the matter. The three-judge panel said Griesa must redefine the class more narrowly to those that have held the eight series of bonds in question continuously and must also hold a hearing to determine the proper amount of damages. Griesa granted class action status to creditors seeking damages as a group in 2005, but only to those who had continuously held the bonds, and gave a \$2.2 billion judgment against Argentina. The 2nd Court reversed that decision in 2010 after an appeal from Argentina, saying the judgment was inflated. Griesa then awarded creditors \$700 million in damages, which the appeals court again overturned, ordering damages to be assessed on an individualized basis if determining as a group was not possible. Then in 2014, Griesa expanded the class definition to include all holders of outstanding bonds.

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ity. Ending the embargo would give Cuba, after a half century of Washington's economic quarantine, access to the United States' immense markets, investment capital and tourist flows. A normal economic relationship with the United States would increase Cuba's attraction for private investors across the globe and open the way for multilateral bank loans. And even if the embargo is kept in place, many of its restrictions will erode

“As more U.S. banks develop relations with counterparts in Cuba, controls on credit transactions may be loosened.”

— Peter Hakim

in the coming period. Limits on remittance transfers are likely to recede in the face of demands from Cuban-Americans seeking to assist their relatives. Curbs on U.S. travel will be increasingly viewed as constitutional violations and will continue to fade. Lobbying by the U.S. business community should steadily, even if gradually, expand access to Cuban markets for U.S. goods and services. As more U.S. banks develop relations with counterparts in Cuba, controls on credit transactions may be loosened. The greatest uncertainty is whether the Cuban government will take advantage of the new opportunities offered by the U.S. policy changes. The future of the Cuban economy will mostly depend on Cuba's ability and willingness to undertake a serious agenda of economic reform. On this score, recent history is not reassuring. The snail's pace of the reform since Raúl Castro took charge is not an encouraging signal that the Cuban leadership intends to reshape the economy or yield its centralized control over it. Indeed,

President Castro has repeatedly stated that, while Cuba's political and economic systems need to be brought up-to-date, they will not be altered in any fundamental way. Expectations for change in Cuba should be kept modest for the time.”

A José Manuel Palli, president of World Wide Title in Coral Gables, Fla.: “As things stand today, the risks U.S. banks may run into from interacting with Cuba are mostly to be found in the United States. Infringing U.S. laws and incurring heavy fines as a result should still be their main concern. And this may not change for as long as the ‘embargo laws’ remain in place. The amendments last January to the ‘OFAC – BIS’ rules do not amount to any breakthrough for U.S. banks willing to set shop in Cuba. And anything the Treasury and Commerce departments can do to further amend their rules to make them ‘clearer’ is bound to run into incompatibilities with the ‘embargo laws’ and additional confusion. I gave up long ago on trying to make any sense of this joust between Helms-Burton and the more sensible side of our American legal system. All Stonegate Bank did by establishing a link with Cuba's Banco Internacional de Comercio (which has such links with many banks all over the world) as correspondent banks was avail itself of the privileged gate assignment it has in the financial services race to Cuba as the new U.S. bank now in care of Cuba's consular services’ banking needs in the United States (the Cuban Interests Section in Washington went several months without a bank). So it got into the elevator of U.S.-Cuba financial interaction on the very ground floor. But even if this may mean a slight benefit for Americans traveling in Cuba, that elevator is still stuck on the ground floor, and it is likely to remain there until the embargo is lifted or craftily dismantled, stone by stone. Beyond that, banking in Cuba should prove no harder or riskier for U.S. banks than what they face in other infidel lands.”

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