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## FEATURED Q&amp;A

# Is Correspondent Banking Facing a Crisis in the Region?



New financial regulations have meant the ending of correspondent banking relationships in the region. // File Photo: JamesAlan1986 via Creative Commons.

**Q** Correspondent banking faces an “existential crisis,” PricewaterhouseCoopers said in recent report, as banks scramble to “de-risk” in the face of tough new financial regulations and cancel correspondent relationships out of compliance concerns. Banks operating in the Caribbean and money transfer businesses have been particularly affected by the trend. Are banks sacrificing long-term gain for short-term concerns by ending correspondent banking relationships in Latin America and the Caribbean? What strategies can banks with correspondent relationships use in order to bolster their anti-money laundering controls and compliance? Have risks to banks and related companies become so high as to undermine the basic functioning of the global financial system?

**A** Ana Maria de Alba, founder and President of CSMB International in Miami Beach: “Banks are absolutely sacrificing long-term gain for short-term concerns. By eliminating an entire class of client and business lines, such as correspondent banking services to banks and other financial services business, banks are not effectively implementing a ‘risk-based approach’ to AML/CFT. Let’s just say that when a door closes, 10 others will open, and the saying it is ‘best to keep your enemies close’ fully applies here. Finding methods to maintain a healthy financial system is a much better approach. For instance, new technologies in payment systems (such as electronic payments, electronic money and certain virtual currencies) allow for adequate trails of source of funds without sacrificing the agility expected by millennials, likely the wealthiest generation we have ever known. Thus,

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## TOP NEWS

## BANKING

## Stonegate Launches Debit Card for U.S. Travelers to Cuba

The Florida-based bank said U.S. travelers can now use its MasterCard debit card in 10,000 hotels, restaurants and other businesses in Cuba.

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## PENSIONS

## Proposed Pension System Changes May Be Damaging: Credicorp

A proposal to allow retirees to have unrestricted access to their pension funds could decimate savings, said Credicorp.

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## BANKING

## Scotiabank Reports 28% Profit Increase

Scotiabank, led by CEO Brain Porter, said its profit in the quarter that ended Oct. 31 was driven by lower expenses and strength in its international banking business, which includes operations in Chile, Colombia, Mexico and Peru.

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Porter // File Photo: Bank of Nova Scotia.

## BANKING NEWS

## Brazil's BTG Allegedly Paid Cunha \$11.5 Mn for Favors: Officials

Brazilian investment bank BTG Pactual paid the powerful speaker of the country's Chamber of Deputies, Eduardo Cunha, 45 million reais (\$11.5 million) for political favors, investigators alleged Nov. 30, The Wall Street Journal



**This is an absurd situation."**

— Eduardo Cunha

reported. Investigators said they uncovered evidence that BTG allegedly bribed Cunha in 2013 in exchange for favors related to financial legislation that would benefit the bank, the newspaper reported, citing a court order.

Cunha is already the target of an investigation into whether he deposited millions of dollars in alleged bribes in Swiss bank accounts. The most recent allegations against Cunha came a day after BTG Pactual's chief executive officer, André Esteves, resigned following his arrest and jailing on charges related to the massive corruption scandal at state-run oil company Petrobras. Esteves and ruling party Sen. Delcídio do Amaral were imprisoned on charges of obstruction of justice and witness tampering in connection with the scandal. Through his attorney, Esteves has denied wrongdoing, and Cunha vehemently denied the allegations against him. "This is an absurd situation," said Cunha, The Wall Street Journal reported. Monday's allegations led Brazil's stock market to slide as investors worried that the deepening allegations will worsen Brazil's recession and political crisis. BTG Pactual's shares have plunged more than 30 percent since Esteves' arrest. After Esteves' arrest, BTG chose Persio Arida as the investment bank's temporary leader, and he was named Nov. 29 as its executive

chairman, The Wall Street Journal reported.

The bank appointed Marcelo Kalim and Roberto Sallouti as co-CEOs. Esteves' arrest has led the bank's clients to pull money from BTG hedge funds and other investments. In a letter to trading partners and clients, Arida said Nov. 27 that the bank itself is not the target of authorities' investigation.

## Stonegate Launches Debit Card for U.S. Travelers to Cuba

Florida-based Stonegate Bank on Nov. 19 became the first U.S. bank to allow its customers to use their debit cards in Cuba. The bank, headquartered in Pompano Beach, said its debit MasterCard can now be used in 10,000 hotels, restaurants and other businesses in Cuba. "This is the first step in relieving the burden of U.S. travelers carrying cash when traveling to Cuba and another step in normalizing commercial relations between the two countries," Dave Seleski, the bank's president and chief



Seleski // File Photo: Stonegate Bank.

executive officer, said in a statement. "Hopefully more issuing banks will help this process by approving credit and debit cards as well." Cardholders will need to sign for all purchases with their debit cards, the bank said, adding that the cards will likely be able to be used in ATMs next year. In March, MasterCard allowed its U.S.-issued cards to be used in Cuba, but federal rules left banks to decide whether their cards could be used on the island. Jeff Wilson, president of MasterCard's GeoCentral Division, called the move a "milestone" that is part of an effort "to deliver our cardholders a convenient and safe way to pay when traveling to Cuba."

## NEWS BRIEFS

## Spain's Mutua Madrileña Buys Stake in Three Chilean Insurers

Madrid-based insurer Mutua Madrileña announced Nov. 26 that it has agreed to buy a 40 percent stake in Chile's Bci Seguros Generales, Bci Seguros Vida and Zenit Seguros for 209 million euros (\$221.69 million), Reuters reported. The Spanish company will acquire the holdings through a purchase from majority shareholder Empresas Juan Yarur or through a capital increase, the insurer said. The acquisitions will provide Mutua Madrileña with new avenues for growth, Insurance Business Review reported.

## Banamex Taps NCR for New ATMs With Deposit Capabilities

Georgia-based NCR Corporation said Nov. 23 that it has been chosen to provide Banamex, one of Mexico's largest banks, with intelligent deposit ATMs. The company's new "SelfServ" ATMs will be installed in existing Banamex branches, as well as a number of "digital branches." NCR anticipates completing the installations by December. Since last year, NCR has installed more than 1,500 Banamex-branded ATMs throughout Mexico, including 750 intelligent deposit units with coin, cash and check deposit functionality. No financial details were disclosed.

## Peru's Proposed Pension Changes Could Harm Budget: Credicorp

Peruvian lawmakers' proposal to allow workers to have unrestricted access to their private pension funds in retirement could decimate savings and harm the country's budget, Credicorp said Nov. 18, Bloomberg News reported. A congressional panel advanced the measure last week that would allow retirees to withdraw 95.5 percent of their savings.

Stonegate Bank has 21 offices in Florida, along with \$2.31 billion in assets and \$1.95 billion in deposits. [Editor's note: See [Q&A](#) on whether Cuba represents risk or opportunity for U.S. banks in the July 30-Aug. 12 issue of the Financial Services Advisor.]

## Scotiabank Reports 28% Profit Increase

Toronto-based Bank of Nova Scotia on Dec. 1 reported a 28 percent increase in profit for the quarter ending Oct. 31, saying that a strengthening international banking business and lower expenses drove gains, Bloomberg News report-

“We are well-positioned, including through the Pacific Alliance countries, for future growth.”

— Brian Porter

ed. For the quarter, Scotiabank's net income increased to 1.84 billion Canadian dollars (\$1.38 billion), or 1.45 Canadian dollars per share. That compares to 1.44 billion Canadian dollars, or 1.10 dollars per share for the same quarter in 2014. In the August-through-October period last year, the bank's bottom line was hit by some restructuring costs, the lender said. The profit that the bank reported on Dec. 1 beat the average estimate of analysts surveyed by Bloomberg. “The bank continues to perform well, given challenging conditions in certain businesses and markets,” Scotiabank's chief executive officer, Brian Porter, said in a statement. “We are well-positioned, including through the Pacific Alliance countries, for future growth.” Scotiabank is the first Canadian bank to report its earnings for the quarter that ended in October. Canada's six largest banks are expected, on average, to report a 4 percent increase in profit for the quarter, year-on-year, Rob Sedran, an analyst at CIBC Capital Markets, told Bloomberg News. For the quarter, Scotiabank also reported a 6.6

### FEATURED Q&A / Continued from page 1

simply eliminating services that directly affect the future and the health of our economies is a flawed approach; yet, embracing and developing innovation in correspondent banking services is not only smart, it will define the banks that will survive over the next 10 to 15 years. There is a single and very effective strategy banks can use to strengthen anti-money laundering controls: continuous implementation of robust and risk-based transaction monitoring and enhanced due diligence processes. Risks to banks and related companies have always existed; yet, governments have learned that cutting access to funding weakens criminal organizations. However, excess compliance burdens coupled with regulators' limited knowledge in banking and business have driven banks to make bold decisions, such as de-risking. The ripple effects of this one-size-fits-all de-risking approach is destabilizing the global financial system and fueling alternate methods that foster opportunities for criminal organizations to thrive upon.”

**A Manuel Orozco, member of the Financial Services Advisor board, director of the Migration, Remittances and Development Program at the Inter-American Dialogue and fellow at the Center for International Development at Harvard University:** “The threat and increased practice of terminating correspondent bank relationships by U.S. banks is part of a larger effort to eliminate financial relationships they interpret as a regulatory burden and a risk. The reality is that, in the short term, the sacrifice is minimal because revenue from correspondent banking activities is not substantial nor in the core business of corporate banking. In practical terms, there is an effort or threat to terminate these relationships because government regulatory oversight over risk management has put the burden on banks, and to these institutions, correspondent banking activities are interpreted to represent a third-party liability. The relationship between

the perception of risk and threats, and actual financial criminal damage is a murky one. Many of regulators messages and guidance about activities that are interpreted as risky are not well-founded or supported by evidence that, for example, money laundering or other financial crimes are targeting correspondent banking vehicles. There is a great need to establish confidence-building guidance, including agreed procedures and examination of risk, rather than simply viewing correspondent banking as a threat.”

**A Paul Taylor, head of Compliance Initiatives Americas, U.K. & Ireland at SWIFT:** “Correspondent banking has been, and always will be, essential to enabling companies and individuals to make international and cross-border payments. It is critical to international trade and economic development. However, according to a World Bank report in November, correspondent banking relationships have shrunk, and the drivers are not only ‘de-risking,’ but also banks’ proportionate approach to residual risk, their change in risk policy, business strategy and the economic viability of the relationships concerned. What is indeed certain is that banks’ continued return-on-equity reduction since the 2008 crisis has led to economic viability concerns of these correspondent banking relationships. Moreover, there is a clear regulatory concern pertaining to either driving riskier flows into opaque transaction flows, or equally troublesome, cutting off economies from global trade and banking, concerns that are high on the agenda. It is also true that today, many stakeholders are asking for increased clarity of obligations to conduct due diligence on customers of the respondent banks, the obligation of proper ‘know your customer’s customer’ measures, as well as to improve the information flows between correspondent banks, through the use of KYC Utilities (according to an Oct. 6 CPML report for consultation). In light of this context, there are a number of things that

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percent year-on-year rise in revenue to 6.13 billion Canadian dollars. The figure fell short of analysts' estimates. The bank also said that its operating expenses declined 2.3 percent to 3.27 billion Canadian dollars. For the quarter ending in October, the lender also set aside 551 million Canadian dollars in provisions for bad loans, a decline from 574 million last year. The bank's international banking earnings jumped 53 percent in the quarter to 564 million dollars. Porter has said that the lender is focused on Latin American countries, particularly Chile, Colombia, Mexico and Peru for growth. In July, Scotiabank struck a deal buy the Panama and Costa Rica operations of Citigroup. At the same time as its earnings announcement, Scotiabank said it has named Ignacio "Nacho" Deschamps as a strategic advisor for digital banking, effective Jan. 4, *The Globe and Mail* reported. Porter said the appointment is part of the bank's efforts to enhance its digital banking services in Canada and abroad. "His leadership in navigating and leveraging digital banking trends, and his deep banking expertise in key international markets, will provide tremendous benefit to Scotiabank," said Porter.

## ECONOMIC NEWS

### Puerto Rico Avoids Default, Governor Issues 'Distress Call'

Puerto Rico on Dec. 1 made a scheduled \$354 million debt payment, avoiding default, but the U.S. commonwealth's governor at the same



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

time told members of Congress that the territory has completely run out of cash. Puerto Rico

## ADVISOR Q&A

### Has Anything Really Changed in Guatemala?

**Q** "Nothing has really changed" in Guatemala, former President Otto Pérez Molina, who resigned in September and was jailed amid a corruption scandal, told Anita Isaacs, the Haverford College professor wrote in a Nov. 5 *New York Times* op-ed. Few political reforms are under debate in Guatemala's Congress, and advisors of President-elect Jimmy Morales are suspected of having ties to organized crime and political violence, Isaacs wrote. Will Morales make inroads into fighting graft, or should Guatemalans expect more of the same? What is the likelihood that anti-corruption reforms will pass Congress and be effective? What are the biggest obstacles to fighting corruption in Guatemala, and can they be overcome? Will CICIG continue to play an important role in shaping Guatemala's next chapter in fighting corruption?

**A** Arturo Matute, Guatemala analyst at the International Crisis Group: "Only time will tell whether the extraordinary events of 2015 will result in sustainable political reform in Guatemala. The country's political system remains vulnerable to powerful interests, including organized crime. But it is wrong to suggest that 'nothing has really changed' since President Pérez Molina resigned and dozens of other officials were arrested amid accusations of widespread corruption. It is true that President-elect Jimmy Morales is an outsider with little political

experience, dubious advisors and scant support in Congress. Nonetheless, Guatemala's justice system is getting stronger, citizen mobilization continues and progress is being made on political reforms. New laws promoted by CICIG in its first years of operation and implemented with its assistance have given prosecutors the tools to investigate complex cases such as the customs fraud scandal that brought down the Pérez Molina government. Most importantly, the collaboration between CICIG and the Public Ministry is producing a change in mentality. Prosecutors are increasingly confident they can investigate the powerful criminal structures that have traditionally permeated the state. Citizen groups say they will maintain pressure for greater transparency and accountability on the authorities who take office in mid-January. Initial reforms to the electoral law and state contracting rules have already been passed. There are still tremendous hurdles, such as low tax collection levels that deprive security and justice institutions of desperately needed funding. But CICIG and the MP continue to investigate official malfeasance. And newly elected leaders know that an energized citizenry will not accept business as usual."

**EDITOR'S NOTE:** More commentary on this topic appears in the Nov. 25 issue of the *Latin America Advisor*.

was able to make the payment due Dec. 1 because of a trade-off, Gov. Alejandro García Padilla told members of the U.S. Senate Judiciary Committee, *The New York Times* reported. The territory used money that had been earmarked for making payments next month on a lower

tier of bonds than the constitutionally-guaranteed ones on which payment was due Tuesday. "This is a distress call, from a ship of 3.5 million people that is adrift at sea," García Padilla told lawmakers. The governor has pressed for Congress to allow Puerto Rico to restructure its



## NEWS BRIEFS

## Argentina's Menem Sentenced to More Than Four Years

Former Argentine President Carlos Saúl Menem was sentenced Dec. 1 to four and a half years in prison by a court in Buenos Aires for overseeing the embezzling of public funds in order to pay government bonuses during his presidency in the 1990s, *The New York Times* reported. The court found that \$466 million has been embezzled in the scheme. Menem had created a system in which money would be set aside for an intelligence agency and then would be periodically funneled to pay ministers and other government workers a bonus in addition to their regular salaries, the court said. Menem said through his lawyer that he would appeal the conviction.

## Honduras Releases Five Syrians Arrested With Fake Passports

The five Syrian men who were caught and imprisoned in Honduras for trying to reach the United States with fake passports were freed from jail on Dec. 1, *Reuters* reported. The five agreed to pay a fine in exchange for the court dropping the charges against them, a court spokeswoman said. Their capture stirred fears in the United States that militants from ISIS would try to enter the United States through its southern border, but Honduran authorities said there were no indications that the men were Islamic State fighters.

## Berenson to Return to U.S. After Serving Jail Term in Peru

American Lori Berenson, who was jailed in Peru in 1996, will soon return to the United States after serving her prison sentence for helping the Tupac Amaru Revolutionary Movement, *BBC News* reported Nov. 30.

debts under the U.S. bankruptcy code, a move that is currently prohibited because of Puerto Rico's status as a U.S. territory.

## Brazil's Recession Continues With Q3 Contraction

Brazil's deep recession continued in the third quarter as the economy contracted 1.7 percent in the quarter as compared to the previous three-month period, government statistics agency IBGE announced Dec. 1, *The Wall Street Journal* reported. The July-through-Sep-



Rousseff // File Photo: Brazilian Government.

tember period marked the third consecutive quarter that Latin America's largest economy contracted. Gross domestic product in the quarter shrank 4.5 percent as compared to the same quarter last year, the statistics agency said. Economists are expecting the economy to contract by 3.9 percent this year and shrink by 2.04 percent next year, the newspaper reported. IBGE also revised its second-quarter statistics, saying GDP shrank 3 percent in the three months through June as compared to the second quarter of 2014. Brazil's agricultural sector contracted 2.4 percent in the third quarter as compared to the second and 2 percent year-on-year, while industry contracted 1.3 percent in the third quarter as compared to the second and 6.7 percent year-on-year. Investments and services also contracted, as did the services sector, which represents 60 percent of the country's GDP. Analysts blame much of Brazil's economic malaise on stalled economic reforms pushed by President Dilma Rousseff, whose approval ratings are barely in the double digits. The president's unpopularity has made it

difficult for her to convince lawmakers to back austerity measures.

## POLITICAL NEWS

## Colombian Troops Kill ELN Rebel Leader in Clash

The Colombian army said troops killed a senior leader of the ELN rebel group, José Daniel Pérez, also known as "One-eyed Lucho," on Nov. 30, *BBC News* reported. Pérez died in a clash between the rebels and the armed forces in Santander province. The army said Pérez was behind an ambush in October in which 11 soldiers and one police officer were killed. Pérez's death comes as the ELN has been holding exploratory talks about the possibility of joining the Colombian government's peace talks with the Revolutionary Armed Forces of Colombia, or FARC, rebels. President Juan Manuel Santos congratulated the security forces on Monday on the operation, saying in a posting on Twitter that the military and police dealt a "strong blow" against the ELN, weaken-

**The army said Pérez was behind an ambush in October in which 11 soldiers and one police officer were killed.**

ing the rebel group's Eastern Front. Before the clash on Nov. 30, the ELN had maintained that the October ambush did not represent a change in its hope to reach a peace agreement with the government. The Colombian government, however, decided to increase its attacks on the ELN after the ambush in October. The army called the operation in which Pérez died a "strategic blow" to the rebel group, *EFE* reported. Pérez is said to have also planned attacks against Colombian authorities and to have laid landmines, as well as attacking the Caño Limón Coveñas oil pipeline.

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can be done to better improve the state of corresponding banking: most experts would recommend clear, country-wide structured AML/CFT procedures that include built-in assurances to guarantee that these procedures and systems are, in fact, capturing residual risk. There is also consensus on the need for an increased use of data-sharing tools such as KYC Utilities, and data analysis packages that will ultimately increase transparency and generate closer working relationships between banks and supervisors, which in turn can lead to more effective compliance programs.”

**A** **Matias Mora, managing director, and Federico Pauls, director, at Berkeley Research Group in Panama City:** “The increasingly demanding requirements for AML/CFT measures, including the incorporation of new tools to combat and prosecute financial crimes and the compliance with the Basel III Accord have added to the qualifications and requirements of the FATF-GAFI in Central America and the Caribbean. These regulations have increased the minimum requirements of the correspondent banks with their financial clients in this region, resulting in the closure of accounts for the examined financial intermediaries. According to Felaban (the Latin Banking Federation), these changes have increased the closing of accounts by a staggering 45 percent. Additionally, North American banks have reduced correspondent relationships with Latin American banks by 31 percent. This is heavily affecting the Central American banking sector, limiting banks’ courses of action and their capacity to negotiate new correspondent banking relationships, as well as generating an increase on internal conflicts between compliance departments and international operations, according to Felaban. This situation has even affected prestigious banks with excellent qualifications and

international rankings. In the region’s up-and-coming markets, it is known that ambiguous regulations can allow violations of said regulations and lead to possible sanctions. The IMFC recently established that it will collaborate with these countries in order to help them optimize their policies’ framework,

“**In the region’s up-and-coming markets, it is known that ambiguous regulations can allow violations of said regulations and lead to possible sanctions.”**

— Matias Mora & Federico Pauls

aiming to reduce vulnerabilities and promote a solid, balanced and sustained growth. However, this can be a time-consuming and costly effort. Besides denouncing suspicious activities or transactions, innovative preventive measures, which can be difficult to apply, must be taken including the outsourcing of the compliance and ‘know your customer’ processes. The implementation of these measures, especially in small banking institutions, is not cost-effective and makes this a very complex problem to reverse in the short- and medium-term. The implementation of these measures can lead to an increase in cost of the banking operations by as much as an 86 percent. All of the changes mentioned above are currently generating the closure of many financial intermediaries, as well as creating mergers that aim to reinforce or improve their correspondent relationships by transferring their portfolio to able banking institutions.”

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

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