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## FEATURED Q&A

# Should Companies Be More Involved in Peru's Water?



Officials aim to expand water services to millions of Peruvians. Children are pictured collecting contaminated water in Lima. // File Photo: International Development Research Centre.

**Q** The Peruvian government wants the private sector to play a larger role in water management as it enacts reforms that are aimed at giving more people across the country access to running water by 2021, Housing Minister Edmer Trujillo said July 25. He said reaching the goal of providing basic water services to millions of Peruvians who lack them will require some 50 billion soles, or approximately \$15 billion, in investment in water infrastructure projects. How much involvement should the private sector have in water resource management in Peru? What are the pros and cons of giving the private sector a larger role in the management of water for Peruvians? What would be the likely dynamic between the two spheres as they work to achieve the goal of providing greater access to water across the country?

**A** Cesar Fonseca, acting regional head for Latin America and the Caribbean at 2030 Water Resources Group: "First, President Pedro Pablo Kuczynski has a particular knowledge and commitment to the management of water resources. He aims to provide water and sanitation to 100 percent of the population in urban areas and 84 percent in rural areas by the end of his term in 2021. He also has close links with the private sector and multilateral agencies, which facilitates development, financing and implementation. The expected funding that the state is able to provide is one-third of the \$15 billion needed for total coverage in water and sanitation. The other two-thirds must come from the private sector and from international cooperation. The main problem is not financial resources, but rather how to properly

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## TODAY'S NEWS

### POLITICAL

## U.S. Sanctions Eight Venezuelans Linked to New Assembly

The U.S. Treasury imposed sanctions on eight Venezuelan officials who reportedly supported the creation of the powerful new constituent assembly. Among the sanctioned officials is the older brother of late President Hugo Chávez.

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### BUSINESS

## Toyota Delaying Operations at Mexico Plant

The automaker said it would delay the start production at the planned factory until 2020.

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### ECONOMIC

## Brazilian Finance Minister Expecting Pension Reform by Year End

Finance Minister Henrique Meirelles said he expects the reform to win congressional approval despite the corruption scandals surrounding the government.

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Meirelles // File Photo: Brazilian Government.

## POLITICAL NEWS

## U.S. Sanctions Eight Venezuelans Linked to New Assembly

The U.S. Treasury on Wednesday slapped sanctions on eight Venezuelan officials linked to the creation of the Andean country's powerful new constituent assembly, *The Wall Street Journal* reported. The sanctioned officials reportedly supported the establishment of the



Adán Chávez // File Photo: Venezuelan Government.

new super-body. The Treasury imposed the penalties against the officials, who are mainly second-tier officials in President Nicolás Maduro's ruling party. They include Adán Chávez, the older brother of late Venezuelan President Hugo Chávez. "This regime's disregard for the will of the Venezuelan people is unacceptable," U.S. Treasury Secretary Steven Mnuchin said in a statement. The 545-member constituent assembly was seated last week after an election that opposition leaders and other critics of Maduro's government have called fraudulent. The assembly, which was selected from a list

## CORRECTION

A commentary by Peter Sufrin published in Wednesday's Advisor incorrectly said Brazilian President Michel Temer had been charged with passive corruption and obstruction of justice. While Temer was charged with passive corruption, he has not been charged with obstruction of justice, though Brazil's chief prosecutor is expected to file that charge against him by the end of the month.

of candidates handpicked by Maduro's government, on Tuesday declared itself superior to all other branches of Venezuela's government, including the courts and the opposition-controlled legislature, the National Assembly. The sanctions freeze assets the targeted individuals have in the United States, and Americans will be barred from conducting business with them, *The Financial Times* reported. The United States previously sanctioned more than a dozen other current and former Venezuelan officials, including Maduro.

## ECONOMIC NEWS

## Brazil's Meirelles Eyes Pension Reform Approval by Year End

Brazilian Finance Minister Henrique Meirelles said he expects a controversial pension reform to be passed by the end of this year, despite the political turmoil and corruption scandals surrounding the government, *The Financial Times* reported Thursday. "We expect that group of reforms, particularly the social security reform, to be concluded by this year-end," Meirelles said. "Which means [not only] social security, the most important one, but also tax reform, which is beginning to now be formulated." A reform to the country's pension system, which allows Brazilians to retire in their mid-50s, is a key component of President Michel Temer's plan to boost the struggling economy and narrow the budget deficit. Temer was on track to pass the reform until an audio recording was released in May in which Temer is allegedly heard discussing bribes with businessman Joesley Batista, igniting a corruption scandal and causing some to call for Temer to stand trial for the allegations. Last week, the president successfully avoided standing trial after securing enough votes in the lower house of Congress to keep him out of court. "After the vote for the rejection of the accusation from [Chief Prosecutor Rodrigo] Janot, the number was very good from the government's perspective in terms of being able to build a foundation

## NEWS BRIEFS

## Franklin Downgraded to Tropical Storm After Making Landfall in Mexico

Hurricane Franklin, the first hurricane of the year in the Atlantic, made landfall in Mexico early this morning but should break up by later today or Friday, forecasters say, National Public Radio reported. While Franklin has since been downgraded to a tropical storm, the rains can still produce "life-threatening flash floods and mudslides," the National Hurricane Center said. Franklin reached the shores of Mexico's Veracruz State as a category-one hurricane. Mexico City is within the tropical storm's possible path.

## U.S. Expels Two Cuban Diplomats After American Envoys Suffer Symptoms

The United States has expelled two diplomats from the Cuban Embassy in Washington after U.S. diplomats in Havana suffered mysterious symptoms of hearing loss, *BBC News* reported. State Department spokeswoman Heather Nauert said there were no "definitive answers about the source or cause" of the symptoms, but the U.S. diplomats' ailments reportedly may have been caused by some type of covert sonic device. Cuba's foreign ministry said it was investigating the matter and denied targeting the diplomats.

## Toyota to Delay Start of Operations at Planned Mexico Factory

Japanese automaker Toyota said it will delay the start of operations at its planned new plant in Mexico from 2019 to the first half of 2020, the company said Thursday, *Reuters* reported. The company had originally planned to begin manufacturing its Corolla sedan model at the \$1 billion Guanajuato plant in 2019, but last week said it would instead be manufacturing the Corolla at a new U.S. factory that will be built in coordination with Mazda.

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manage water-related issues and how to develop water governance policies that include different sectors of society. Fortunately, the current scenario is allowing close cooperation between the state and the private sector. Second, the 'Niño Costero' weather phenomenon at the beginning of the year brought devastation and destruction, but at the same time, it put the issue of secured water supply on the public agenda. It offers a window of opportunity for the government to establish structural public policies and to involve the private sector and civil society in reconstruction efforts. Third, the private sector is increasingly aware of the risks associated with water and its role in its own day-to-day practices for the sustainability of its business. Fourth, social conflicts in the country have been reduced considerably since the beginning of this government. One of the most sensitive issues is access to water, especially in mining projects. Fortunately, the government is unlocking investments through inclusive dialogue policies, and the private sector is increasingly aware of the importance of involving civil society and communities in the decisions that affect their own wellness and environment. Finally, multiple Latin American governments and private organizations have recently been involved in corruption issues, which in principle weaken their credibility and institutional capacity. However, the positive side is that the transparency of information and management is now not only necessary, but essential."

**A** **Karsten Paerregaard, chair professor of social anthropology in the School of Global Studies at the University of Gothenburg in Sweden:** "For several decades, it has been the priority of Peru's governments to improve the country's water infrastructure. Still, 5.5 million Peruvians do not have access to drinking water in their homes, and 11 million live without proper sewage systems. Peru's current government aims to provide 100

percent of the country's urban population and 84 percent of its rural population with running water and sewage systems by 2021. To finance this effort, which requires some \$15 billion, the government is inviting the private sector to invest more in Peru's water management. Private capital has already financed water treatment plants and other projects in some of its cities. Such investments meet urgent needs in the public service that the local or regional governments cannot afford. However, they come at a price. Peru's water law of 2009 stipulates the formation of River Basin Councils throughout the country, which bring together different user groups to agree on and coordinate the management of the country's water resources. By inviting private capital to finance Peru's water infrastructure, the government upsets the balance between the stakeholders of these councils in favor of the mining industry and other private agencies. The government's suggestion also neglects rural areas that are short of private capital. In many communities, the water users have constructed the running water infrastructure on their own, and they often lack proper sewage systems. In their eyes, it is the job of the government—not private capital—to finance the improvement of their water management."

**A** **Marisa Escobar, senior scientist at the Stockholm Environment Institute:** "The 2009 Water Resources Law created Basin Water Resources Management Plans, which are developed by the National Water Authority. River Basin Councils support the plans' implementation and include representatives from civil society, user organizations, ethnic groups, hydraulic system operators, rural communities and business associations. They also have a technical secretariat responsible for developing and executing technical work to promote the formulation, monitoring, evaluation and implementation of the plans. The private sector should be

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from there again," said Brasília-based political consultant Thiago de Aragão. Meirelles said he now expects the government to resume efforts to pass the pension reform, and congressional leaders have indicated they may put the reform up for a vote next month.

## BUSINESS NEWS

## Grupo México to Build New Terminals for Transporting Oil

Mexican mining and infrastructure corporation Grupo México plans to build at least three terminals for transporting oil by railway in the country, including one exclusively for U.S. oil refiner Valero, the company's chief financial officer, Xavier García de Quevedo, said Tuesday, Reuters reported. The move to expand the company's oil-by-rail business comes as fuel imports from the United States to Mexico continue to grow. Grupo México has been in talks

**The company's expansion plans come amid growing fuel imports to Mexico from the United States.**

with importers of refined oil products into Mexico, and earlier in August, Valero announced it had signed a long-term agreement with the Mexican infrastructure company to transport fuels by rail from Veracruz to other inland terminals in Mexico. "Our interest is to build and operate the terminals, to offer rail services and [access to] the terminals," García de Quevedo said. Potential locations for the terminals include Torreón, Chihuahua, Mazatlán, Manzanillo and Guadalajara, he added. Grupo México operates rail lines in Texas and Florida, and its drilling unit, called Pemesa, is looking into participating in upcoming oil auctions in Mexico, particularly for shallow water blocks.

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involved in water resource management as one participant of the process, preventing it from being a dominant group leading the discussion. From this perspective, River Basin Councils and their Technical Secretariats should be the mechanism through which the private sector has participation in the process. A big benefit of the involvement of the private sector is its potential contribution of technical expertise in the process of defining robust alternatives for water development. The private sector could also help with resources for the implementation of the infrastructure itself. For instance, there is incredible agriculture potential in Peru; through its involvement in the River Basin Councils, the agriculture sector could promote plans for infrastructure that benefits the majority of the water users. The formation of River Basin Councils is still in progress, and a potential drawback is that private sector groups could become dominant. Infrastructure plans in some regions of the country could thus be based on a private sector group's interest, without considering the water governance system that requires the involvement of a wide set of stakeholders. From my experience with River Basin Councils, the technical secretariats are key to the interface between the government and the stakeholders. A strong technical secretariat can be the link that facilitates the interaction between the two spheres, providing strong technical guidance to recommend the best robust options that can benefit the majority of the stakeholders."

**A Paulo Gregoire, Latin America analyst at Stratfor:** "The involvement of the private sector in water management can allow for an expansion of the services to many more Peruvians, however, there is a political risk associated with it, in case water rates increase considerably. It will all depend on how the Peruvian government will balance the need to expand water services with the

population's demands for a reasonable price for the water they consume. We have some examples of relative success and failure in Latin America. In Bolivia, for example, the privatization of a municipal water company in Cochabamba caused water rates to

“The disadvantage is that the water rates, depending on how the reform is implemented, could get too expensive for many poor people.”

— Paulo Gregoire

increase by more than 30 percent, which led to national protests, and the privatization had to be suspended eventually. In Chile, the private sector has succeeded in increasing the coverage of the country's water services. Basically, the advantage of having the private sector managing water services is that clean water may be brought to many more people, since national governments in Latin America usually don't have enough funds to undertake major infrastructure projects. The disadvantage is that the water rates, depending on how the reform is implemented, could get too expensive for many poor people, and this could cause a revolt against the government. This is one of the main political risks associated with this water reform. It is important to see how Peru's new water regulatory framework will work though. Some of the key things to watch for are whether the government will impose profit margin limits for the private companies managing water services, the amount of money that companies will have to invest, and what the new water rates will be."

*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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