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FEATURED Q&A

Does Peru Have the Right Plans to Fix its Infrastructure?



Rebuilding Peru's infrastructure following devastating floods this year will boost investment across the country, President Pedro Pablo Kuczynski said Sept. 7. // File Photo: TV Perú.

Q Reconstruction efforts to repair the damage from flooding caused by the "coastal El Niño" weather phenomenon will increase investment activity across Peru, President Pedro Pablo Kuczynski said this month. Coastal areas of Peru were devastated by El Niño from January to March, with heavy rains and landslides damaging infrastructure and agriculture, and leaving many Peruvians homeless. Is Kuczynski correct? Which sectors and areas of the country are likely to see the bulk of investment during the reconstruction efforts? What changes should be made to make Peru's infrastructure more resilient against future natural disasters?

A James R. Jones, chairman, and Pedro Niembro, senior director, at Monarch Global Strategies: "As if it's not enough of a hurdle to overcome Peru's legislature being overwhelmingly in the hands of the opposition party, President Kuczynski now must tackle the remnants of natural disasters inhibiting his reform plans to move the country forward. Flooding related to El Niño left more than 100 people dead, 42,000 homes destroyed and up to four times that many homes damaged, mainly in the central and northern coasts of Peru. The heavy rains washed out schools, roads, bridges and more, with at least 9,000 people still living precariously in emergency camps, without basic services such as a solid roof, drainage or running water. A massive rebuilding effort is clearly needed. The bulk of investment will take place in the Piura region in the north of Peru, but other affected areas include the Lambayeque, Cajamarca, La Libertad and Ancash regions. These areas require investment in many types of infrastructure, including roads and

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TODAY'S NEWS

POLITICAL

Brazil Swears in New Chief Prosecutor

Raquel Dodge took office as Brazil's top prosecutor, succeeding Rodrigo Janot, whose term expired. Dodge vowed to continue Janot's work to investigate corruption.

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BUSINESS

Mexico's Femsa Sells Part of Stake in Heineken

The Mexican bottling group had sold a 5.24 percent stake in the Dutch brewer for approximately \$3 billion. Femsa's CEO said the company still has a positive view of Heineken.

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POLITICAL

Hurricane Maria Pounds Dominica

Hurricane Maria battered the island of Dominica Monday night as a powerful Category 5 hurricane. Roosevelt Skerrit, the prime minister of the Caribbean island nation, said there was widespread devastation and that the storm tore the roof off of his residence.

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Skerrit // File Photo: Government of Dominica.

POLITICAL NEWS

Hurricane Maria Pounds Dominica as Category 5 Storm

Hurricane Maria made landfall Monday night in Dominica as a powerful Category 5 storm, leaving destruction in its wake, and then continued barreling westward in the Caribbean, NBC News reported. The storm, packing maximum sustained winds of 160 miles an hour, then

“We will need help, my friend, we will need help of all kinds.”

— Roosevelt Skerrit

lashed Guadeloupe early this morning. The storm is expected to strike the Virgin Islands this afternoon and Puerto Rico late today into Wednesday morning, according to the U.S. National Hurricane Center. The storm could be “potentially catastrophic,” the hurricane center said. Maria may become even more destructive than Hurricane Irma, which left at least 70 people dead in the Caribbean and the southeastern United States, since it formed in late August. In Dominica, Prime Minister Roosevelt Skerrit wrote on Facebook that Hurricane Maria had torn the roof off of his residence and flooded his home, adding that he was “at the complete mercy of the hurricane.” A few minutes later, Skerrit wrote that he had been rescued. In a later post, Skerrit said the hurricane had caused serious damage across the island, which is home to some 73,000 people. “Initial reports are of widespread devastation,” Skerrit said in the post. “So far we have lost all what money can buy and replace. So far the winds have swept away the roofs of almost every person I have spoken to or otherwise made contact with. The roof to my own official residence was among the first to go and this apparently triggered an avalanche of torn-away roofs in the city and the countryside.” The prime minister added that airports and seaports would be

closed for days. “My focus now is in rescuing the trapped and securing medical assistance for the injured,” he added. “We will need help, my friend, we will need help of all kinds.” The governor of the U.S. Virgin Islands, Kenneth Mapp, suspended recovery efforts that were underway following Hurricane Irma in order to prepare for Maria. U.S. President Donald Trump declared states of emergency on Monday for the U.S. Virgin Islands and Puerto Rico. The governor of Puerto Rico, Ricardo Rosselló, warned residents that Maria could dump even more rain on the island than did Irma. “Seek refuge with a family member, friend or move to a state shelter, because rescuers will not go out and risk their lives once winds reach 50 miles per hour,” said Rosselló, NBC News reported. As of 8 a.m. Eastern Time, Maria was located about 170 miles southeast of St. Croix, and moving west-northwest at 9 miles an hour, according to the National Hurricane Center.

New Brazilian Chief Prosecutor Sworn in

Brazil's new prosecutor general, Raquel Dodge, was sworn in Monday and vowed to continue her predecessor's anti-corruption campaign, Reuters reported. Dodge succeeded Rodrigo Janot, during whose time in office investigators unearthed massive amounts of corruption involving billions of dollars worth of kickbacks at entities including state oil company Petrobras.



Dodge // File Photo: Brazilian Government.

“The people maintain their hope for a better nation, they are interested in the nation's destiny,” Dodge said at the prosecutor general's office in Brasília. “They are following the investigations and trials, they will not tolerate corruption and do not just wait on results, but demand them.”

NEWS BRIEFS

U.S. Ready to Take Further Action Against Venezuelan Government: Trump

U.S. President Donald Trump on Monday said the “growing crisis” in Venezuela is unacceptable, and that the United States is ready to take further action against President Nicolás Maduro’s administration in order to ensure that democracy is restored to the country, Politico reported. At a dinner with South American leaders on the sidelines of the U.N. General Assembly in New York, Trump said “the country is collapsing, their democratic institutions are being destroyed,” and blamed the government for the crisis.

Avianca to Suspend Ticket Sales Ahead of Strike

Colombian airline Avianca on Monday said it would be suspending the sale of tickets to local destinations after more than half of the airline’s pilots voted last week to hold an indefinite strike over wages and benefits, Reuters reported. The company said it plans to stop ticket sales from Sept. 20 to Sept. 22 in order to maintain service quality and mitigate operational problems that could arise from the work stoppage. The strike is expected to begin at some point between Sept. 20 and Sept. 27, the president of the Colombian Association of Civil Aviators said last week.

Enel’s Brazil Unit Begins Operations at Two Brazil Solar Farms

The Brazil unit of Italy’s Enel, Enel Green Power Brasil Participações, has initiated commercial operations at two solar farms in Brazil with a combined capacity of 546 megawatts, ReNews reported Monday. The 254 MW Ituverava project is located in Bahia State, and the 292 MW Nova Olinda farm is in Piauí State. Enel said it had invested some \$300 million in the latter project.

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bridges, drainage and housing, and dams and levees. The government is still assessing the full extent of the damage and cost of reconstruction, but at least \$10 billion needs to be invested. The major ingredient needed to repair the damage of El Niño as well as to build the necessary infrastructure for the future growth of the region is to substantially improve the rule of law and regulation enforcement. For years, populist politicians have fostered settlements in dangerous or risk-prone areas to curry political favor and with minimal planning or concern for safety. Peru needs a reliable legal framework to support growth and attract investors to Peru to provide jobs and a better standard of living. Forced changes to the president's cabinet for political reasons is not a recipe for building confidence in the legal system for investors. President Kuczynski will have to rally the Peruvian people to create a backlash against politicians who are pushing 'business as usual,' which further fosters corruption and inhibits economic development."

A Jan Kubicz, associate member of the Peru Desk at Squire Patton Boggs:

"Much of the damage occasioned by the El Niño phenomenon can be directly attributed to Peru's aging and rather flimsy infrastructure, which was unable to withstand the heavy flooding and mudslides. To provide some perspective, approximately 70 percent of Peruvian roads are local roads, and less than 2 percent of those roads are paved. It is easy to visualize how such roads quickly transformed into torrents of mud, given the torrential downpours earlier this year. Modernization is desperately needed. Improving infrastructure and streamlining foreign investment have been longtime cornerstones of President Kuczynski's agenda. There is no question that his administration has taken immediate action to channel investment to the hard-hit coastal areas, such as the northern region of Piura. The Kuczynski cabinet

recently approved the so-called 'Reconstruction with Changes' plan. The plan comes with a price tag estimated at approximately 25.65 billion soles (just shy of \$8 billion), with contracts expected to be awarded by



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— Jan Kubicz

the end of the year. Certainly, this is quite an ambitious undertaking. Approximately 77 percent of the earmarked funds will be devoted to rehabilitating and reconstructing damaged roads, bridges, homes, clinics and other facilities, while 21 percent of the funds will go to prevention projects, such as river clearing and embankment. 'Reconstruction with Changes' will undoubtedly pump much-needed investment into Peru's historically neglected coastal regions, boosting the local economies in the process. Creating a resilient and modern infrastructure will require a thoughtful and well-planned reconstruction, executed with quality workmanship according to international standards. Corruption and favoritism can interfere with such aspirations. Fortunately, anti-corruption efforts are a prominent feature of President Kuczynski's agenda, and his administration is well aware of the need to pursue 'Reconstruction with Changes' transparently and with an eye toward preventing corruption. The plan is very encouraging, but efficient and transparent execution both remain key. Just last week, Peru's Congress issued a vote of no confidence in the Kuczynski cabinet, forcing the re-appointment of new cabinet members. The impact of this political turmoil on 'Reconstruction with Changes' remains to be seen."

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All of Brazil's federal prosecutors cast ballots to select Janot's replacement as his term came to an end, and Dodge came in second. President Michel Temer, who faces graft charges, had full authority to name Janot's replacement, and Dodge had received the backing of a core group of prosecutors who have uncovered some of the country's worst instances of graft.

BUSINESS NEWS

Mexico's Femsa Sells Part of Stake in Heineken

Mexican bottler and retailer Fomento Económico Mexicano, or Femsa, on Monday said it had sold a 5.24 percent stake in Heineken, the world's second-largest brewer, for approximately \$3 billion, Reuters reported. Femsa said it had offered the stake to institutional investors outside Mexico. The company had sold its brewing business to Heineken in 2010 in exchange for shares. The sale reduced Femsa's stake in Heineken N.V. to 8.63 percent from 12.53 percent, and its stake in Heineken Holding was reduced to 12.26 percent from 14.94 percent. Femsa said its overall economic interest in Heineken fell to 14.76 percent from 20 percent, and that it expected the sale to be finalized by Sept. 21. The company said it would retain one seat on the board of directors at Heineken Holding and two on the supervisory board of Heineken N.V. L'Arche Green, the company through which the Heineken family exercises control over Heineken Holding, said in a statement it would buy back shares worth \$240 million, and that the price per share would be determined by Femsa's offer. The CEO of Femsa, Carlos Salazar Lomelín, said the company held a "very positive view" of Heineken as a long-term investment, and that the sale did not represent a change in its view or expectations of its continued investment in the brewer. He said the sale would allow Femsa to take advantage of favorable tax treatment given by a repatriations decree issued by the Mexican government at the start of this year.

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A Francisco Durand, professor of political science at the Catholic University of Peru: "Kuczynski faced another terrible El Niño climate event and responded quickly and effectively, showing leadership at a critical moment, given the devastation it brought mostly in coastal areas. That momentum is lost now, but he may recover with better performance in these areas. Eleven out of 25 departments were hit, with Piura, which is located on the north coast, being the department that sustained most damage. Efforts are underway, led by a Pablo de la Flor, who was appointed 'reconstruction czar'—a novel idea. De la Flor was recruited from Banco de Crédito, Peru's largest bank, and shares the presidential conviction that private managers can provide best results, a conviction that still needs to be proven correct. Also, the government is counting on public-private partnerships (PPPs) to reconstruct roads and other facilities where investors can later recoup their money. The reconstruction cost is estimated in \$6 billion and, besides private investment invested in PPPs, the government is counting on a special fund created during the 2002-2013 export bonanza. So far, the country is still awaiting the results before determining if

the 'business approach' works. In Piura, inhabitants without homes who are now living in tent cities are beginning to lose patience. This region is the biggest test for De la Flor. The more serious problem, however, is the

“ The more serious problem, however, is the lack of long-term national planning to develop infrastructure that is resilient to recurrent flooding.”

— Francisco Durand

lack of long-term national planning to develop infrastructure that is resilient to recurrent flooding. Homes can be rebuilt, but without a plan, new bridges and roads will most likely replace the old ones and look strong until the next El Niño arrives. No wonder ancient cultures considered El Niño the worse punishment from the gods. It still is."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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