LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Monday, December 12, 2016

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Devry Boughner Vorwerk
Corporate VP, Global Corporate Affairs
Cargill

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

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

Dirk Donath
Senior Partner,
Catterton Aimara

Marlene Fernández
Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President, Boeing Latin America

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

James R. Jones
Chairman, ManattJones
Global Strategies

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
Chairman,
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
Policy Advisor, Chatham House

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

Roberto Sifon-Arevalo
Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

THEDIALOGUE

FEATURED Q&A

How Should Bolivia Deal With its Water Shortage?

Bolivian President Evo Morales last month declared a national emergency due to the country's water shortage. // File Photo: Bolivian Government.

Q Bolivia's government has declared a national emergency amid a drought that has severely limited the country's water supply, 16 years after the so-called Water Wars in Cochabamba led to widespread conflict and sparked an international debate over privatizing water and sanitation services. The water crisis is expected to extend into 2018. How should Bolivia go about managing its limited resources as it struggles to adapt to what is likely to be the "new normal" with regard to water scarcity? Should Bolivia attempt to privatize water again, or is there another way to manage access and infrastructure? What will the drought mean for its agriculture sector? What will water scarcity mean for the country's political and civil stability?

A Ronald MacLean-Abaroa, former Bolivian minister of finance and former mayor of La Paz: "Bolivia's water crisis is the consequence of a mistaken policy of nationalization that began to get carried away by the present government as early as 2006. Climate change has been a long process—Bolivia was at its forefront with the melting of its Chacaltaya glacier. That should have been a sufficient warning of what was about to come, but national authorities did nothing. On the contrary, the nationalization of the autonomous municipal water companies in Cochabamba (SEMAPA) and La Paz (SAMAPA), destroyed the institutional infrastructure built—in the case of SAMAPA—over 40 years. As mayor of La Paz, I chaired the board of SAMAPA between 1985 and 1997 when we invited an international bid for a 20-year concession that was transparently awarded to a French consortium.

Continued on page 3

TODAY'S NEWS

POLITICAL

Colombia's Santos Accepts Nobel Peace Prize

Colombian President Juan Manuel Santos accepted the prize in Oslo for his efforts to bring Colombia's half-century armed conflict with the FARC guerrillas to a close.

Page 2

BUSINESS

Google, Cuba Reach Deal to Expand Services

Under the agreement, Cuba would have access to the Google Global Cache, which increases Internet speeds for Google products.

Page 2

POLITICAL

Brazil's Temer Accused of Illegal Campaign Financing

A former executive of construction company Odebrecht in testimony accused President Michel Temer of soliciting illegal campaign contributions in 2014. Also, prosecutors filed new charges against former President Luiz Inácio Lula da Silva.

Page 2

Temer // File Photo: Brazilian Government.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

POLITICAL NEWS

Brazil's Temer Accused of Illegal Campaign Financing

A former executive of construction company Odebrecht cited President Michel Temer 44 times in testimony related to a corruption investigation, alleging that the president was involved in illegal campaign financing, the Associated Press reported Saturday. If Brazil's top electoral court confirms the allegations that the former Odebrecht director, Claudio Melo Filho, leveled against Temer in his 82 pages of testimony, the president could be removed from office, in which case Congress would select a successor, the AP reported. In the testimony about the massive corruption scandal at state-run oil company Petrobras, Melo Filho also made accusations against members of Temer's cabinet and other close allies. Melo Filho told prosecutors that his colleagues at Odebrecht agreed to provide Temer's Brazilian Democratic Movement Party, or PMDB, with $3 million in illegal campaign contributions, according to the testimony that the AP obtained. At the time, Temer was the party's chairman and the country's vice president. "Michel Temer requested, directly and personally to Marcelo [Odebrecht] financial support for the PMDB campaigns in 2014," Melo Filho told prosecutors, referring to the construction company's former chief executive officer. In a statement, Temer dismissed Melo Filho's claims as "false accusations." Most of the $3 million was used to finance the campaign of Paulo Skaf, Temer's candidate in the 2014 gubernatorial race in São Paulo state, Melo Filho alleged in his testimony. The rest of the money went to Eliseu Padilha, who is now Temer's chief of staff. José Yunes, another close aide of Temer's, also received some of the money, Melo Filho alleged. Padilha and Yunes have denied wrongdoing. Melo Filho's testimony was reported a day after Brazilian prosecutors filed new criminal charges against Luiz Inácio Lula da Silva, alleging that the former president used his influence for financial gain after his presidency ended, The Wall Street Journal reported. In filing the charges of influence peddling, money laundering and conspiracy, prosecutors in Brasília alleged that Lula agreed to use his influence in order to secure tax breaks for the auto industry as well as a government contract for a defense company, the newspaper reported, adding that the company's lobbyists paid more than 2.5 million reais ($740,000) to Lula's son, Luís Cláudio Lula da Silva. In addition to filing charges on Friday against the former president, prosecutors also charged his son with money laundering and conspiracy. Both denied wrongdoing through a statement from their attorney.

> **"Michel Temer requested, directly and personally to Marcelo [Odebrecht] financial support for the PMDB campaigns in 2014."**
>
> **— Claudio Melo Filho**

Santos Accepts Nobel Peace Prize

Colombian President Juan Manuel Santos on Saturday accepted the Nobel Peace Prize, saying the prize helped his country achieve the "impossible dream" of coming to a peace agreement with the Revolutionary Armed Forces of Colombia, or FARC, guerrilla group and ending a half-century-long civil war, the Associated Press reported. Santos used the platform of his acceptance speech at the award ceremony in Oslo, Norway to pay tribute to the victims of Colombia's war, celebrate the end of the longest-running conflict in the Americas and call for a shift on the worldwide war on drug trafficking. Santos argued that the U.S.-promoted war on drugs had led to high levels of violence and environmental degradation in countries that export cocaine, and that a focus on easing laws that prohibit the consumption of narcotics would mitigate some of the violence. "It makes no sense to imprison a peasant who grows marijuana, when

NEWS BRIEFS

Mexico's Drug War Reaches 10-Year Mark

Sunday marked the 10th anniversary of Mexico's war on drugs, started when then-President Felipe Calderón ordered the military into the country's fight against drug traffickers. A decade later, drug cartels are weaker and less centralized, but the efforts have done little to mitigate crime or violence in the regions of Mexico most affected by drug trafficking, the Associated Press reported. While proponents have characterized the efforts as flawed but necessary, critics of the war on drugs say the offensive led to the unnecessary deaths of more than 100,000 people and have left 30,000 missing.

Google, Cuba Reach Deal to Expand Services

Google and the Cuban government have reached a deal to expand the Google's services on the island, according to a person familiar with the matter, Bloomberg News reported Friday. Under the terms of the agreement, Cuba would have access to the Google Global Cache, which increases the Internet speeds for Google products like Web search and YouTube. A Google representative did not respond to the news service's request for comment.

U.S. Senate Approves Measure to Evaluate Drug Policy in Americas

The U.S. Senate on Friday passed legislation that calls for a comprehensive evaluation of the country's drug policy in the Americas. The Western Hemisphere Drug Policy Commission Act previously passed the House of Representatives and now heads to President Barack Obama. The bill's sponsor in the House, Rep. Eliot Engel (D-N.Y.), said the measure "will force us to take a fresh look at our drug policy and make sure we have the best strategy moving forward."

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 1

SAMAPA had achieved a moderate level of technical proficiency, but administratively and financially was beset with problems and corruption. The largest consumers of water bribed administrators and had their water counters fixed for years, stealing millions of dollars in unpaid consumption. By 2003, citizens had all but forgotten the water rationing of the 1960s. However, after 2003, the government imposed a freeze on water price increases, and the current government expropriated the companies, depriving them of the technical expertise and financial capacity to anticipate the declining supply of water capacity, the growing demand of water due to increased migration to cities and a housing boom, coupled with an unrealistically cheap, low controlled price paid for water. The populist nationalization of this strategic resource has left Bolivia water-starved without a solution in sight. Obviously, the national government doesn't have the capacity to run water companies that should be run efficiently and transparently by internationally capable operators, under close local regulatory scrutiny, as was the case in the past. This water crisis, on top of the drought, will have a detrimental effect on the national government, confirming the growing sense of frustration due to its incapacity to sustain social services, much less confront the crisis. This crisis will accelerate the government's political decline and will exacerbate further social unrest."

Jaime Aparicio-Otero, former Bolivian ambassador to the United States: "French company Suez modernized the distribution of water in La Paz and obtained suitable results until water was nationalized in 2007. President Evo Morales declared that water is a public good and must be managed by the state. Since then, EPSAS, a public water company, took over. Morales' nationalistic fervor produced a bureaucracy of jaw-dropping incompetence. In his blog, Jean Pierre Lavaud asks: What happened afterwards? Did the service improve? Is water more accessible for the poor? Have they invested wisely to ensure water supply? The short answer is, no. The three main dams that supply water to the city are almost dry. Water rationing has become permanent in La Paz. Furthermore, it was from the Cochabamba Water War of 1999-2000 that the anti-globalization discourse was structured, bestowing Bolivia as the victim of neoliberalism. It was also the same social movement that later destabilized the government of Sánchez de Lozada and allowed Evo Morales to win the 2005 election. The theme of water will be the symbol of the resounding failure of a regime that has squandered the greatest economic boom of Bolivia's history. Authoritarian populism will leave Bolivia without democracy, without justice, without institutions and without water. Morales' legacy will be a nuclear plant in ruins; soccer fields in villages without schools or hospitals, an expensive presidential airplane, a country hypothecated to the Chinese and a new bourgeoisie more corrupt than all previous ones."

> **"Authoritarian populism will leave Bolivia without democracy, without justice, without institutions and without water."**
>
> **— Jaime Aparicio-Otero**

Kathryn Ledebur, director of the Andean Information Network in Cochabamba: "Water scarcity in Bolivia is not new or easily resolved. Significant shortages in La Paz's wealthier southern sector stimulated recent international press coverage. Climate change, population increases, urbanization and a lack of coordination with and among local governments all contribute to the crisis. The rainy season begins two months

Continued on page 4

nowadays, for example, its cultivation and use are legal in eight states of the United States," he said. He added that Colombia "has been the country that has paid the highest cost in deaths and sacrifices," during the war on drugs.

Santos accepted the Nobel Peace Prize on Saturday in Oslo. // Photo: Colombian Government.

Several victims of the 50-year conflict between the Colombian government and the FARC attended the awards ceremony Saturday, but FARC leaders were not present, because they cannot travel internationally due to the fact that they face international arrest warrants by the United States.

BUSINESS NEWS

Venezuelan Officials Arrest Two Toy Company Executives

Venezuelan officials have arrested two toy company executives and have seized almost four million toys, which they plan to redistribute to the poor, BBC News reported Saturday. Officials accused the company of hoarding the toys and increasing prices ahead of Christmas. Last week, the Venezuelan government ordered a number of retailers to decrease the prices of their goods by 30 percent. Business owners have said the order is a populist political move that will drive businesses toward bankruptcy. However, Venezuela's consumer protection agency, Sundde, said that toy distributor Kreisel had stockpiled its goods and was reselling them at a margin of as much as 50,000 percent.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 3

later and is significantly shorter, but more intense, than two decades ago. Resulting flash flooding affects even the regions hardest hit by drought. These shifts wreak havoc on the agricultural sector, which is gradually implementing adaptation strategies. The Bolivian government has carried out significant water infrastructure initiatives, but decentralized municipalities have not made sufficient progress, nor have they earmarked a sufficient portion of their budget, to address problems inherited from their private predecessors. SEMAPA, the water company administered by the municipality of Cochabamba, loses half its water supply through leaks in its dilapidated distribution networks. In spite of these flaws, re-privatization of municipal water companies would face grassroots opposition and have little impact on large-scale water initiatives, spanning municipalities and departmental borders, which are needed to address urban shortages. The Misicuni dam and hydroelectric project in Cochabamba is a striking example. First planned in 1957, 10 private companies (international and joint ventures) have failed to complete the project, now very tentatively slated for conclusion in 2017. Continuing climate shifts and extreme weather remain unwieldy challenges for national, regional and local authorities. Sporadic regional friction over water supply and the use of rural community resources in urban areas will persist, but without foreseeable widespread conflict in the current context."

Marisa Escobar, senior scientist at the Stockholm Environment Institute: "In order to manage its limited resources, Bolivia must first create information and tools to characterize this 'new normal'; assuming that past observations define future conditions is tricky if a new normal has arrived. Second, it must embed this information within participatory processes, allowing divergent interests to evaluate options based on their own definitions of success. This will allow for the identification of options that can garner broad support. Good public utilities and good private utilities exist, as do poor examples of both. This question about whether

> **"In order to manage its limited resources, Bolivia must first create information and tools to characterize this 'new normal'…. "**
>
> **— Marisa Escobar**

or not Bolivia should attempt to privatize again obscures the real issue: the need for good governance. Whether Bolivia's utilities are public or private, good governance will include public participation; oversight; transparent communication of the best possible information about water management challenges and opportunities; and plausible funding options to respond. Potable water for urban consumption is universally given priority over agricultural water use, where consumption is highest. Viewed through this lens, drought can be viewed as a threat to the agricultural sector. Investments in improved agricultural water management may prove cost-efficient for drinking water utilities relative to other supply enhancement options. Lastly, I do not believe that wars must be fought over water. Rather, when information is transparently used to inform open negotiation around the objectives held by various water users, solutions can be identified to successfully navigate tradeoffs. This is neither easy nor fast, but successful water negotiations can improve political and civil stability rather than detract from it."

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2016

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

THEDIALOGUE

Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Kevin Casas-Zamora, Director, Peter D. Bell Rule of Law Program
Ramón Espinasa, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Alejandro Ganimian, Nonresident Fellow
Peter Hakim, President Emeritus
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Migration, Remittances & Development
Jeffrey Puryear, Senior Fellow
Tamar Solnik, Director, Finance & Administration
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 1155 15th Street NW, Suite 800 Washington, DC 20005

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.