# LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Monday, May 2, 2022




**FEATURED Q&A**

# How Can Santiago Solve its Water Shortage Problems?

Santiago has suffered a drought for more than a decade, and officials have announced a water rationing plan for the Chilean capital. // File Photo: Chilean Government.

**Q Santiago governor Claudio Orrego on April 11 announced a new plan to ration water in the Chilean capital, as it goes into its 13th year of a record-breaking drought. The plan includes public service announcements, water pressure restrictions and rotating water cuts for approximately 1.7 million customers for up to 24 hours. What conditions have led to the rationing, and how is the population of Santiago responding? How will the plan affect businesses in Santiago and in greater Chile, and will it lead to lower economic activity? What are the top potential long-term solutions to water stress in Chile, and how could they be financed?**

**A Darío Soto-Abril, executive secretary at the Global Water Partnership:** "It often takes a crisis to get people's attention. With Santiago now facing water rationing, people may wonder when 'Day Zero'—the day when the tap runs dry—will come, as was the case in Cape Town, South Africa in 2018. Cape Town put off 'Day Zero' after water restrictions were imposed and the rains finally came again. We often know months, if not years in advance that water shortages are coming because we can measure rainfall as well as dam and groundwater levels. The impact of droughts can be severe. At their worst, they cost lives. Because industry and agriculture depend on water, it will be no surprise if Chile's economy is harmed. Long-term solutions include investing in early warning and prediction systems. These anticipate risk and potential impact, which can then inform drought policies with mitigating actions clearly spelled out. Stakeholder participation, educational

**Continued on page 4**

**TODAY'S NEWS**

POLITICAL

## Nicaraguan Court Convicts Leaders of Business Group

A Nicaraguan court convicted the president and vice president of the Superior Council of Private Enterprise on charges comparable to treason.

Page 2

BUSINESS

## Itaú Unibanco Buys Minority Stake in XP

Brazil's Itaú Unibanco said Friday that it bought an 11.4 percent stake in brokerage XP for $1.6 billion. The bank had agreed in 2017 to buy a majority stake in XP, but regulators barred it from buying a controlling interest.

Page 3

POLITICAL

## Lasso Declares Emergency Amid Rising Crime in Ecuador

Ecuadorean President Guillermo Lasso declared a 60-day state of emergency amid rising crime that the government blames on drug traffickers.

Page 2

Lasso // File Photo: Ecuadorean Government.

POLITICAL NEWS

# Ecuador's Lasso Declares Emergency Amid Rising Crime

Ecuadorean President Guillermo Lasso declared a state of emergency in three provinces on Friday amid a rise in violent crime that the government blames on drug trafficking, Reuters reported. "Through an executive decree I have declared a state of emergency in the provinces of Guayas, Manabi and Esmeraldas effective from midnight tonight," Lasso said in a video posted to social media. "We protect life in every decision we take, in every corner of our country until all those who are violent have surrendered." Under the state of emergency, approximately 9,000 police officers and members of the military will patrol the streets for 60 days, Reuters reported. Some neighborhoods will have curfews lasting from 11 p.m. until 5 a.m. The curfew will include the town of Durán, which is located near the port of Guayaquil, Agence France-Presse reported. In February, two bodies were found hanging from a bridge in the town in a gruesome scene similar to ones perpetrated by Mexican drug cartels, AFP reported. Since February of last year, fighting between rival imprisoned gang members has led to 350 deaths, AFP reported. Lasso previously put into place a 60-day state of emergency last October, but Ecuador's constitutional court criticized the move, cutting the state of emergency in half to 30 days and saying that the military should be in only a supportive role to the police, Reuters reported. Tamara Taraciuk, acting director of the Americas Division at Human Rights Watch, told the Advisor in a **Q&A** published March 25 that Lasso should "prioritize addressing the crisis" in Ecuador's prison system. "Prisons in Ecuador are overcrowded, with some holding roughly twice as many detainees as they have capacity for, and they have insufficient and poorly trained guards," said Taraciuk. "Ecuador should address violence within the prison system and ensure that it is not a breeding ground for crime and violence," she added.

# Biden, López Obrador Discuss Migration in Call

U.S. President Joe Biden and his Mexican counterpart, Andrés Manuel López Obrador on Friday discussed migration in a call that the White House described as "very constructive," Reuters. "The majority of the conversation was about migration and was about continued work on coordination," said White House Press Secretary Jen Psaki, the wire service reported. "The tone of the call was very constructive ... This was not a call where President Biden was threatening the Mexican president in any way. They have been an important partner," she added. In a tweet, López Obrador called the call "cordial" and said Mexican Foreign Minister Marcelo Ebrard would visit Washington today. Biden and López Obrador "reiterated the need to build stronger tools for managing regional migration surges," the White House said in a statement. The call between Biden and López Obrador happened just a few days after a U.S. federal judge in Louisiana ordered the Department of Homeland Security to halt its efforts to end Title 42, a public health order implemented by then-President Donald Trump, which led to the quick deportation of hundreds of thousands of migrants over the past two years amid the Covid-19 pandemic, CBS News reported. The Biden administration announced on April 1 that it would seek to end the order by late May.

ECONOMIC NEWS

# Panama's National Assembly Approves Crypto Legislation

Panama's National Assembly on Thursday approved legislation to regulate the use of crypto assets in the Central American nation and also outline rules for its commercialization, Reuters reported. The measure, which passed on a vote of 38-0 with two abstentions, provides for the

NEWS BRIEFS

## Nicaraguan Court Convicts Leaders of Business Group

A court in Nicaragua on Friday convicted Michael Healy, the president of the Superior Council of Private Enterprise (COSEP), and its vice president, Álvaro Vargas, on charges comparable to treason, Reuters reported, citing the Nicaraguan Center for Human Rights. Healy could receive up to 13 years in prison and Vargas nine years. Police arrested the men last October. The charges against them are similar to those filed against dozens of people, including political and student leaders, who have challenged President Daniel Ortega.

## Iranian Oil Minister Arrives in Venezuela to Sign Energy Deals

Iranian Oil Minister Javad Owji arrived in Caracas on Saturday with a delegation of more than a dozen officials to seal energy deals, Bloomberg News reported Sunday, citing sources who asked not to be identified. Owji and his delegation visited the Paraguana refining complex with the head of state-owned oil company PDVSA, Asdrúbal Chávez. The two countries have forged closer ties in an effort to circumvent U.S. economic sanctions on both nations. [Editor's note: See related **Q&A** in the April 18 issue of the Advisor.]

## Banco Santander Chile Exceeds Estimates in Reporting Q1 Earnings

Banco Santander Chile on Friday reported $300.6 million in net income for the first quarter, exceeding analysts' estimates, the Associated Press reported. The bank reported earnings of 64 cents per share, while the average estimate of three analysts in a survey by Zacks Investment Research was for 55 cents per share. Overall, Santander Chile reported $1.12 billion in revenue for the quarter.

 

public and private use of cryptocurrencies and will allow Panamanians to use cryptocurrencies in order to pay taxes and any other civil or commercial payments that are not otherwise prohibited by law, the wire service reported. The legislation aims to regulate "the trading and use of crypto assets, the issuance of digital value, the tokenization of precious metals and other assets, payment systems and other provisions," Coin Telegraph reported. Gabriel Silva, an independent lawmaker and supporter of the measure, said the legislation is broader than measures that El Salvador previously passed, which make Bitcoin legal tender. "We're seeing the emergence of many different types of crypto assets like works of art," said Silva, Reuters reported. "That's why we didn't want to limit ourselves only to cryptocurrencies," he added. Belisario Castillo Saenz, chief executive officer of tokenization firm Feänor Corp., said crypto assets could bring people without financial accounts into the formal financial system as the country has high Internet penetration, Reuters reported. However, some experts have warned that the measure could worsen Panama's image as a country lacking transparency in financial matters, Reuters reported. "Panama was already in a bad position, and these payment methods skip the due diligence processes that international organizations are asking Panama to embrace," said Romain Dromard, chief executive officer at the financial investment advisory firm K&B Family Office, told Reuters. [Editor's note: See Q&A on the popularity of digital currencies in the Nov. 4-17, 2021 issue of the Dialogue's biweekly Financial Services Advisor.]

## BUSINESS NEWS

# Itaú Unibanco Buys Minority Stake in XP for $1.6 Billion

Brazil's Itaú Unibanco said Friday in a filing that it bought a minority stake in the investment brokerage XP, Bloomberg News reported. The bank acquired an 11.4 percent stake in XP for roughly $1.6 billion as part of a purchase agreement hammered out in 2017, the news service reported. Itaú, Latin America's largest commercial bank, originally agreed to buy a 46 percent stake in São Paulo-based XP, but Brazilian regulators had barred the bank from purchasing a controlling interest in the brokerage, fearing it might harm competition, Bloomberg News reported. The original deal in 2017 was to be the first in a series of steps that would have seen the merger of Itaú and XP, but since the deal went south, the two companies have grown sour on one another, Bloomberg News reported. It is unlikely Itaú will end up holding on to its new XP shares. Itaú CEO Milton Maluhy has previously said that even though the bank was willing to buy XP shares, it would end up selling the stock or handing the shares over to its own investors, as it has done in the past, according to the report. Despite the stock purchase, the value of XP's shares is down about 14 percent year to date, the news service reported.

## THE DIALOGUE CONTINUES

# Have Argentina and the IMF Reached a Sustainable Deal?

**Q The International Monetary Fund's board on March 25 approved a new $44 billion debt restructuring plan for Argentina, replacing a failed $57 billion program from 2018. The debt plan has led to a rift in the ruling Peronist coalition, some of whose members argue the deal will cause further economic strain on the country's population. How good of a deal is the new program for Argentina, and how much belt-tightening will it require of the government and of Argentines? What will the agreement cost the ruling Peronists politically? To what extent will the deal help to put Argentina's economy on a more sustainable path?**

**A Benjamin Gedan, deputy director of the Latin American Program and director of the Argentina Project at the Woodrow Wilson Center:** "The IMF values broad political and public support for its bailouts. That is particularly crucial in Argentina, a bitterly divided nation where the Fund is the ultimate political football. In announcing the $44 billion loan to Argentina, the country's 22nd IMF program, Managing Director Kristalina Georgieva emphasized that 'strong political and social consensus is key to sustain the implementation of the reform agenda.' Regrettably, unity is a long shot. The program enjoys significant public support, despite widespread loathing for the Fund; in a March survey, 67 percent of respondents favored an agreement with the IMF. But that enthusiasm will wane. The deal requires sensible, but significant, spending cuts, including sharp reductions to energy subsidies. Most economists say it is too lenient to revive Argentina's stricken economy. But Argentines, suffering staggeringly high inflation, have low tolerance for a higher cost of living. During legislative debate in March, protesters threw stones at the Congress building. The politics are also unfavorable. Former President Mauricio Macri faced bitter complaints of tarifazos after raising the cost of public transportation and natural gas. Now in the opposition, his Juntos por el Cambio coalition hopes to see Peronists pay a similar price. Meanwhile, President Alberto Fernández's Frente de Todos coalition risks breaking up over the program. Cristina Kirchner, the influential vice president, is a vocal critic of the IMF. Her son, Máximo, resigned as the Frente de Todos Lower House leader amid disagreements over the president's handling of the IMF."

**EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the April 7 issue of the Advisor.**

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

programs and public awareness are critical to planning the institutional responses that protect vulnerable communities. In other words, a holistic, integrated approach to water management is crucial. That is why Global Water Partnership and the World Meteorological Organization set up the Integrated Drought Management Programme—to provide a help desk that advises countries and provides guidelines that address disaster risk reduction, climate adaptation strategies and national water policies."

A **María Loreto Silva R., partner at Bofill Escobar Silva in Santiago:** "Chile, like many countries in the region, is experiencing the effects of climate change. Numerous cities and regions of our country have encountered a shortage in water supply and therefore have had trouble meeting the water requirements of economic activities. Our capital, Santiago, is not exempt from this phenomenon. Water sources have decreased significantly in recent years. Thirteen years of drought have weakened our ability to meet the needs of the population and, according to official data, in the past 30 years water resources have decreased between 10 percent and 37 percent of the national level. Fortunately, so far, we have been able to successfully circumvent the problem. Investments that drinking water companies have made have been essential to increasing water supplies and providing backup. Citizen awareness of sustainable water consumption has also been key. However, these are not enough. We need public policies that deliberately focus on climate change. We must invest in infrastructure that increases the availability of drinking water and approaches other phenomena associated with the effects of climate change on water supply, such as floods. The reuse of water is also a pending task. We must modernize our pricing model, which neither addresses climate change nor sufficiently contributes to sustainable water consumption. We have a huge task ahead of us, and we must tackle it with a sense of urgency, with collaboration between water companies, the state and citizens. We must focus on climate change now. It's not a challenge for the future; it's a reality we must face today."

A **Guillermo Donoso, Maria Molinos and Daniela Rivera, professors at the Water Law and Management Center at the Pontificial Catholic University of Chile:** "Santiago is implementing a rationing protocol for drinking water. It is not a holistic and integrated plan to face the drought in the basins of the metropolitan region, which affects all water users. It is noteworthy that the document mentions only three of the 28 water supply service providers in the metropolitan region. Why have not all providers been included in this protocol? It is very worrying that, once again, proposed measures ignore the unitary and integrated management of the basin. Additionally, the protocol comes late. It proposes a risk management approach, establishing four stages; in the fourth, the red alert stage, rationing is applied through rotating water cuts. The problem is that today, with the prolonged drought that has affected the country for more than 13 years, only the red alert is applicable, an eminently reactive policy, like most of the water management policies that the country has established. Finally, a water cut-based rationing protocol is inefficient and inequitable. Regarding the former, evidence from other countries shows that households stockpile water in advance of the cut, so it does not effectively reduce consumption. The latter issue of inequity arises when cuts are applied to households that today have low consumption. Why should they assume a cost generated by users with high consumption? The appropriate policy instrument would be a protocol with volumetric consumption limits."

*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 ISSN 2163-7962

**Erik Brand**
Publisher
ebrand@thedialogue.org

**Gene Kuleta**
Editor
gkuleta@thedialogue.org

**Leticia Chacón**
Reporter
lchacon@thedialogue.org

**Mark Kennedy**
Reporter
mkennedy@thedialogue.org



**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

Subscription inquiries are welcomed at
ebrand@thedialogue.org