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IS THERE A CHANCE
FOR A RENEWED
GROWTH STORY?

Peru turns the page



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ProInversión

Private Investment Promotion Agency - Peru

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A new chapter for Peru?

AFTER A TROUBLED FIRST HALF OF 2017, PERU IS SHOWING SIGNS OF RENEWED ECONOMIC ACTIVITY. REBOUNDED COMMODITY PRICES ARE SHORING UP THE ECONOMY, GIVING ITS PRESIDENT BREATHING SPACE TO DELIVER LONG-DUE REFORMS. JACOPO DETTONI REPORTS

Peru is approaching 2018 with some confidence that the worst of an economic downturn fraught with internal and external challenges is finally over.

First battered by the end of the commodities supercycle, the country was then hit by the local fallout from the regional graft scandal caused by Brazilian construction company Odebrecht (which reached the very highest levels of the country's political and business elite).

Finally, abnormal flooding devastated its northern coast.

After less than a year in power, president Pedro Pablo Kuczynski reacted by instigating a wide-reaching cabinet reshuffle. This gave his reform agenda some new momentum just as recovering commodity prices helped the business and investment cycle rebound.

Early reforms pay off

Despite its recent troubles, Peru still enjoys the favour of the international community and good access to the international markets, having built a track record of sustained economic growth and fiscal discipline since the deep reforms of the early 1990s.

The country still has plenty of unexplored potential to lure investors seeking opportuni-

ties in a region that has struggled in the aftermath of the commodity boom. In the infrastructure sector alone, Peru faces a monster investment gap of an estimated \$160bn. This translates into dozens of projects waiting to leave the drawing board to be developed by domestic and international companies.

Yet extremely poor governance remains a major challenge across the board, as the Odebrecht scandal underlined. Even the state's deep pockets cannot help if national, regional and local authorities struggle, as they often do, to spend their annual budget for lack of human resources and competences. If the worst, at least economically, is really behind the country, expectations are high that Mr Kuczynski will focus on reforms and try to find some political room to address governance issues once and for all.

On the rebound

"The economy is turning around," says Pablo Secada, former chief economist at the Peruvian Economy Institute (IPE) and CEO of consultancy firm Opportunity Investments. "Private investment started falling in 2014, when the mining cycle came to an end, but even when mining investment stopped falling, investment in other sectors kept retreating because SMEs postponed their investment plans.

"That cycle touched bottom in the second



BUSINESS CONFIDENCE HAS BOUNCED BACK, HINTING AT A DEFINITIVE RECOVERY IN PRIVATE INVESTMENT IN 2018





On the rise: Peru and its capital Lima (pictured) are experiencing renewed economic activity

quarter of 2017, when the economy began to bounce back driven by external factors such as the growing prices of mining commodities, but also recovering exports volumes in traditional sectors such as textiles. Business confidence has also bounced back, hinting at a definitive recovery in private investment in 2018.”

After the global financial crisis, Peru led Latin America’s ‘Southern Cone’ in growth as booming commodity prices boosted investment in its mining sector. Peru is the world’s second largest producer of copper, the world’s third largest producer of zinc and silver, and the sixth largest of gold, with mining products making up 60% of total exports. The government tried to capitalise on that unprecedented push by setting in motion infrastructure developments across the board to raise millions of Peruvians out of poverty and unleash the country’s economic potential.

As the commodity cycle cooled off, economic growth sharply fell in 2014 and any attempted recovery was frustrated by weak external conditions, but also by the Odebrecht scandal, which sent shockwaves throughout the local political and business communities. Most notably, it saw former president Ollanta Humala and his wife taken into custody (pending a final verdict on money-laundering charges related to their dealings with the Brazilian company and Venezuela); implicated another former president, Alejandro Toledo,

who is now living as a fugitive in the US; and did not spare Mr Kuczynski, who has denied any wrongdoing and is protected by political immunity as long as he is president.

Brighter horizon

The devastation left behind by the flooding that hit Peru’s northern coastal areas put additional pressure to the authorities and economy. Overall, public and private investment combined fell to less than 21% of GDP in the first three quarters of 2017, the lowest level since 2009, according to figures from the central bank.

“There have been challenges, particularly at the beginning of the year, but things are improving and we expect growth to gain momentum towards the end of 2017, reaching its potential in 2018, primarily on the back of higher public and private spending, as well as accommodating financial conditions,” says Fernando Bravo, a Peru-born managing director at Goldman Sachs’s investment banking division. Goldman Sachs expects annual growth in Peru to stand at 2.8% in 2017, then accelerate to 4% in 2018, from 4% in 2016.

With an emerging consensus that the worst might be behind the economy, the business environment – which appeared particularly depressed once the Odebrecht scandal hit – is also improving.

“With the new cabinet and more construc- ▶



New broom: hopes are high that president Pedro Pablo Kuczynski will continue his reform agenda

tive policy environment, we are starting to see increased [economic] activity, and despite all the uncertainties, we do see very strong interest from investors across asset classes and sectors to invest in Peru,” says Mr Bravo. “They still see the country as one of the strongest among the main Latin American economies, both from a macroeconomic and structural reforms perspective, but also in terms of investment opportunities.”

Peru’s overall FDI amounted to \$6.9bn in 2016, down from \$8.3bn the previous year, but considerably higher than the \$4.4bn recorded in 2014, according to figures from Unctad. Central bank figures show FDI flows remained weak in the first half of 2017, when they did not exceed \$2.6bn.

Despite the recent headaches, the country’s economic fundamentals are solid and its public finances relatively sound, although the fiscal deficit is growing and estimated at 3% and 3.5% in 2017 and 2018, respectively, from 2.6% in 2016, which already represented the highest level in 15 years, according to figures from the IMF. On the other hand, public debt is expected to be 30% of GDP at the end of 2017, according to the IMF.

Major bond offering

Yield-thirsty financial investors still hold Peru in high esteem. State-owned oil company Petreperu pulled off the largest corporate offering in the country’s history in June 2017, when it placed two bonds worth a total \$2bn fetching a 4.75% yields on a 15-year tranche, and 5.625% on another 30-year tranche. These

are competitive yields for an issuer such as Petroperu and underline the market’s propensity for Peruvian commodities.

At the same time, national investment promotion agency ProInversión signed three public-private partnerships (PPPs) in 2017, including a \$95m project for the development of a waterway network in the Amazonian region of the country with a consortium led by Chinese-owned Sinohydro, as well as a \$278.4m transmission line running between Mantaro, Marcona, Socayaba and Montalvo, which was awarded to Colombian utility company ISA.

Beyond an apparently recovering investment sentiment, the Odebrecht scandal, as well as the hiccups in the reconstruction programme caused by flooding, highlighted Peru’s long-standing governance challenges. Its governability is currently at stake at a national level, with Congress dominated by a pugnacious opposition led by Keiko Fujimori, the daughter of former president Alberto Fujimori, who is in jail serving a maximum 25-year sentence for human rights violations.

“In the context of this administration, Congress is controlled by the opposition, and that poses some challenges to getting things done,” says Mr Bravo. “However, particularly since the cabinet reshuffle in mid-year, there is a bit more dialogue, and it’s going to be important for the government to gain some more consensus with concrete achievements. Historically, Peru has done very well from a macroeconomic perspective, but there is room for growth in terms of strengthening different institutions. That’s why, in addition to launching projects, it is important to launch structural reforms such as the formalisation of the economy and labour reforms.”

Peru’s institutional strength ranked 106th out of the 137 countries surveyed in the latest Global Competitiveness Report by the World Economic Forum.

Joining the club

One of the main objectives of Peru on its way to upgrading its institutions, is becoming a member of the OECD, a matter that Mr Kuczynski has defined as a state issue. The government is signing up to a series of international conventions on its way to OECD membership, such as the ‘Multilateral Convention on Mutual Administration Assistance in Tax Matters’, which it endorsed in October.

At the same time, local regulatory frameworks and institutions are being strengthened. With regard to infrastructure investment alone, the government upgraded the legislation on PPPs (see page 8) and restructured investment promotion agency ProInversión (see page 7).

But the challenge ahead goes way beyond these measures. Peru needs major reforms in any sector, from the labour market to the judiciary, health and education. Only when it becomes a modern, functioning state will its investment potential finally be unleashed. ■

Q&A: ALBERTO NECCO

An IPA overhaul

REFORMS AT PERU'S NATIONAL INVESTMENT PROMOTION AGENCY, PROINVERSIÓN, ARE DESIGNED TO MAKE PROJECT DEVELOPMENT MORE EFFICIENT THAN IN THE PAST. MEASURES SUCH AS APPOINTING HIGH-QUALITY CONSULTANTS ARE ALREADY IN PLACE, AS EXECUTIVE DIRECTOR ALBERTO ÑECCO TELLS fDi

Q How are you strengthening ProInversión?

A The decree 1251 [approved in November 2016] establishes a new legal framework for public-private partnerships [PPPs] and for the functioning of ProInversión, opening a window for us to restructure the way we work internally.

To make processes nimbler, the executive director has got many of the decisional powers that used to belong to special committees made up by external members. The committees will still be engaging in the development of a project and tasked with issuing opinions and guaranteeing the quality of the processes.

For what concerns the development of our project pipeline, we have focused on the problems we had to improve the quality, efficiency and predictability of our processes.

Q What have been the major problems you have addressed here?

A We realised that we have to improve the capacity to contract good external consultants. We have lost the capacity to attract world-class consultants over the years. We haven't updated our policies to contract consultants, and now we are working on a new set of rules for this with the support of the World Bank and we aim to have it ready by the end of 2017.

In the meantime, we have already started contracting quality consulting for urgent projects, as was the case with the Michiquillay copper project, where we launched a

process to select a consultant, which Goldman Sachs won. [For] more than 15 years ProInversión didn't work with a consultant of this level and it is helping us a lot with the project, with 10 major mining companies, including some of the global leaders in the sector, participating in the pre-qualification phase of the tender.

Q How are you speeding up the tendering process of a project?

A We are working to improve the readiness of the projects we are bringing to the market. It is key for us to have a plan ready with all the steps necessary to make a project happen. With the new rules we have to come up with a detailed agenda of the project and foresee any possible interference (expropriation, relocation, etc) so that when the project is executed it's going to be clear how long it will take to fix these interferences. The new legal framework obliges us to be much more ready to improve the quality of what we do.

Q Are there any specific improvements with regard to investment promotion?

A We are working to combine our execution and promotion capacities. We are now in a position to go out to the market and bring to Peru more sophisticated investors than in the past and develop a pipeline that keeps them in the country. We have to put in place quality projects and good mechanisms to lure the best investors, which are also those who can get the best terms of financing. ■



CURRICULUM VITAE

ALBERTO ÑECCO

2017

ProInversión

Acting executive director

Previously

Banco de Crédito BCP, head of special projects; Credicorp Capital, managing director, corporate development

WITH THE NEW RULES WE HAVE TO COME UP WITH A DETAILED AGENDA OF THE PROJECT AND FORESEE ANY POSSIBLE INTERFERENCE





Men at work: the installation of natural gas pipelines in capital Lima is evidence of Peru's attempts to fill the infrastructure gap

Laying a pipeline of opportunity

PERU HAS TO CLOSE A \$160BN INFRASTRUCTURE DEFICIT. NATIONAL INVESTMENT PROMOTION AGENCY PROINVERSIÓN, WHICH IS TASKED WITH TURNING THIS SHORTAGE INTO AN OPPORTUNITY FOR INVESTORS, HAS HIGH AMBITIONS FOR DEVELOPING ITS PORTFOLIO OF PROJECTS IN 2018, REPORTS JACOPO DETTONI

Peru's infrastructure gap has been widening as sustained economic growth has multiplied the needs of its economy. The authorities have been scrambling for years to address the chronic lack of transport, energy and industrial infrastructure, partly through an ambitious public-private partnership (PPP) programme that featured among the first experiments of its kind in South America.

However, economic growth has greatly outpaced infrastructure development, increasing the overall infrastructure gap that has now reached a massive \$160bn, according to esti-

mates by Peruvian infrastructure lobby association Afin. Additionally, infrastructure projects were at the core of the corruption scandals that hit the country's business and political elite in recent months, causing additional delays and uncertainties across the whole sector.

There have been signs of a renewed appetite for projects in Peru in the second half of 2017 as recovering mining commodity prices breathed new life into the country's economy. The government is attempting to address governance issues, while promoting best practices across the board and working on a first ever national infrastructure plan expected to provide a strategic perspective to future developments. The months ahead will thus be key to defining the progress of the pipeline of projects that investment promotion agency ProInversión is developing on behalf of the government.

A noticeable gap

"Despite the achievements of the past decades [Peru's economy grew by an average of 5.1% between 2000

and 2016, UN figures show], there are still major hurdles that investors have to face when doing business in Peru and that do not allow that the benefits of economic development lead to a greater reduction of poverty," Afin said in its latest report, published in 2016. "Among them, the gap of physical infrastructure, as well as the quality deficit of the existing infrastructure, stand out," it added.

Peru ranks 89th globally for the quality of its infrastructure, behind its Pacific Alliance partners Chile (44th), Mexico (57th) and Colombia (84th), as well other major Latin American economies such as Brazil (72nd), according to figures from the latest Global Competitiveness Report by the World Economic Forum.

Afin puts the gap at \$160bn, based on benchmarking Peru's existing stock of infrastructure against the stock in other 214 countries across the globe. The sector requiring the highest investment is transport, which needs about \$57.5bn, followed by energy (\$30.8bn), telecommunications (\$27bn), health



PERU'S PPP PROGRAMME HAS OFTEN STRUGGLED TO LIVE UP TO ORIGINAL EXPECTATIONS, PROMPTING THE GOVERNMENT TO PASS A DEEP REFORM OF THE SECTOR



(\$18.9bn), water and sanitation (\$12.2bn), irrigation (\$8.5bn), and education (\$4.6bn).

Closing the gap would mean investing an average of 8.27% (or \$15.6bn) of national GDP into infrastructure between 2016 and 2025, Afín estimates. This huge investment would pay fat dividends straight away – as it calculates an extra growth boost of an average of 15.5% of GDP through 2025 – and would help reduce poverty levels by about 6% annually.

Ripe for returns

“The infrastructure gap that exists in Peru is a big opportunity,” says Pedro Arizmendi, infrastructure leader at EY. “From the perspective of foreign investors, the opportunity lies in the chance to get interesting returns on their investments – likely higher than what they can get in more mature markets such as Europe.”

Investment promotion agency ProInversión has long been tasked with finding ways to turn the lack of infrastructure into an opening for private investors, mostly through

mechanisms such as self-sustainable or co-financed PPPs, as well as ‘works for taxes’, where private companies exchange a fiscal liability with the commitment to develop a particular infrastructure project.

As many as 102 PPP projects have been awarded in Peru between 2004 and 2017, according to ProInversión, including a \$5bn contract for the development of the Lima Metro Line 2, and a \$2.5bn contract for the development of hydro power in the Huánuco region.

PPP overhaul

From a legal framework standpoint, Peru’s PPP programme ranked fifth among PPP programmes in South America, Central America and the Caribbean behind Chile, Colombia, Brazil and Jamaica, according to a 2017 analysis by the Economist Intelligence Unit.

Despite its track record in terms of numbers of projects awarded and companies attracted, as well as its tested legal framework, Peru’s PPP programme has often struggled to live up to original expectations in

terms of development pace and quality of project development, prompting the government led by new president Pedro Pablo Kuczynski to pass a deep reform of the sector.

“[These changes] are aimed at reducing bureaucracy to make the system nimbler, empower ProInversión and put it in a better position to lead its projects and thus avoid its pipeline to be too exposed to political criteria,” says EY’s Mr Arizmendi.

The strengthening of ProInversión (see interview on page 7) accompanies an overhaul of PPP regulations, particularly with respect to several key issues that have often been a cause of recurring delays.

“As opposed to the past, the finance and economy ministry has to review a draft of the PPP contract from the very beginning of the process in order to reduce changes to the final terms of the contract to the minimum, and thus give more predictability to the process,” say Camilo Carrillo, head of the directorate for private investment within the finance and economy ministry.

“On a different note, we realised ►



A new Peru? the national infrastructure plan being released by the government will give investors additional insights into the country's mid-term strategy

that 70% of the changes of contract terms during the life of a project was due to delays in the availability of the land for the project. The new rules make it compulsory to have a predefined date for the final availability of the contracts. We also fit in a strong anti-corruption clause, saying that if any corruption emerges, the contract is automatically void, and this holds also for projects under public works schemes.”

What's next?

ProInversión is hoping to change opinions of its track record by focusing on a more reasonable and efficient portfolio. “We have sharply reduced the number of projects in our portfolio to about 95 from 130 in the past year, and we want to keep reducing them, and put

emphasis on keeping project structuring times within 18 and 24 months, in line with international standards,” says Mr Peñaranda.

After awarding one project in 2016 and three projects in the first 11 months of 2017, ProInversión has set ambitious targets until the end of 2018. The agency plans to award nine PPP projects, worth about \$3bn, in December 2017 alone, including the Michiquillay copper mine, a \$2bn project that has stirred the interest of 10 international and domestic companies and sees the involvement of Goldman Sachs as transaction adviser. Another 22 projects worth \$5.36bn are expected to be awarded in 2018, according to Cesar Peñaranda, the head of the agency's investor services division.

Further down the line, the agency is committed to awarding other major projects, such as Lima Metro Line 3 and Lima Metro Line 4, and aims to create a pipeline of more than \$20bn between 2017 and 2020, with transport infrastructure making up about two-thirds of the total estimated investment; water and irrigation about 11%; mining another 10%; health about 6%; and the remaining amount going into energy, property development, telecommunications and education.

The release of a national infrastructure plan by the government should give the agency new impetus and investors additional insights into the country's mid-term strategy and priorities regarding infrastructure development. The finance and economy ministry has been working on the document in the past months, and aims to publish it in 2018. ■

PROINVERSIÓN AIMS TO
CREATE A PIPELINE OF
MORE THAN \$20BN
BETWEEN 2017 AND 2020



Q&A: GONZALO PRIALE

A gap too far?

PERU SHOULD REDUCE ITS OVERALL LEVEL OF INVESTMENT IN PUBLIC WORKS, AND ENGAGE MORE WITH PRIVATE INVESTMENT THROUGH PPPs AND SELF-SUSTAINABLE PROJECTS, GONZALO PRIALÉ, PRESIDENT OF PERUVIAN INFRASTRUCTURE LOBBY ASSOCIATION AFIN, TELLS **fDi** MAGAZINE

Q Afin estimated an overall infrastructure gap for Peru of \$160bn. What does this mean for the country? Does it have the resources to close that gap?

A In order to close the gap, the state should invest about 6% to 7% of national GDP every year. Currently, it has been investing about 4% to 5% of GDP. In 2016 alone, the country invested 84% of the expenditure allocated to infrastructure into public works projects, and another 16% into public-private partnership [PPPs] schemes. We suggest the state should aim at an investment matrix made up by about 60% in public works, 25% in PPPs and another 15% in self-sustainable unsolicited proposals.

Overall, the Peruvian state has got fiscal solvency and a good macro-economic management led by its central bank. Besides, it has saved resources for more than 15% of GDP.

Q The infrastructure sector came to an abrupt halt as the local chapter of the Odebrecht scandal came to light. What is the current situation? Is the private sector showing renewed interest for projects in Peru?

A We have got to an inflection point. On the one hand, the global prices of the commodity that Peru exports have been improving, something that will shore up growth in 2018. On the other hand, facing up to and addressing corruption is not an alternative to infrastructure investment: we have to keep investing and growing while the fight against corruption unfolds. The private sector needs a clear time horizon to keep investing.

Q Peru has been addressing its infrastructure gap for years, with little result. What does it still need to be successful?

A An infrastructure gap has always been there. What's new is that the gap has been estimated, and there is awareness in the country about the need to close this gap. Now the government should launch the national infrastructure plan it has been working on – a three-year plan to start with. The plan is important to attract high-profile investors to the country. At the same time, ProInversión needs to continue the gradual upgrade of its processes, adjusting to international standards according to the institutional capacities of the country.

Q How can you minimise those risks that have caused delays in the past, such as the risk of changes to the terms of contract, or the risk of delays in the delivery of land needed for the project?

A It is impossible to avoid changes to PPP contracts with a long time horizon. These changes will always be needed, but can be minimised with deeper studies, standard contracts, competition factors able to unveil bold offers in public tenders, as well as having expropriations and permits ready in order to make it possible for the work to start after the signing of the contract and the financial closing, and then continue without major hiccups. It is better to spend earlier to prepare the projects than spend later to make up for delays and changes to the execution budgets. ■



CURRICULUM VITAE

GONZALO PRIALÉ

2017

Afin
President

Previously

Peruvian business association
Confiep, vice-president, director
for public services

PROINVERSIÓN NEEDS TO CONTINUE THE GRADUAL UPGRADE OF ITS PROCESSES, ADJUSTING TO INTERNATIONAL STANDARDS ACCORDING TO THE INSTITUTIONAL CAPACITIES OF THE COUNTRY



Paying upfront: Peruvian national development bank Cofide invested as much as \$2.68bn in the first six months of 2017

Cofide puts finance to work

WITH LOW PUBLIC DEBT, PERU IS WELL PLACED TO ENCOURAGE INVESTMENT INTO A WIDE-RANGING INFRASTRUCTURE PROGRAMME. MEANWHILE, RESTRUCTURED NATIONAL DEVELOPMENT BANK COFIDE IS ALREADY INCREASING ITS ACTIVITY TO BOOST THE MARKET, AS JACOPO DETTONI REPORTS

Peru's infrastructure deficit, together with available financing options, provides solid foundations on which to revive the investment cycle in the infrastructure sector. In the current market, international investors are thirsty for quality projects offering decent yields, with many watching the pipeline of projects being developed by international promotion agency ProInversión.

These include Canadian Brookfield Asset Management, which owns majority stakes in infrastructure concessions all over the globe, and Chinese state-owned China Three Gorge, which swiftly filled the void left by scandal-hit

Brazilian construction group Odebrecht in several major projects.

Scope for spending

At the same time, the country's public debt remains relatively low, giving the government room to allocate fresh resources for the development of projects under public-private partnerships (PPPs) or public works schemes. Within this context, restructured national development bank Cofide will play a key role in whetting the private sector's appetite by facilitating the bankability of future projects and setting them in motion. However, to be successful, it will have to avoid the excesses of the past.

"The finance and economy

ministry committed up to \$9.8bn to PPP projects until 2042," the Peruvian association for infrastructure development, Afin, wrote in September 2016.

"As the PPP framework stabilises and the development of the portfolio of projects intensifies, it's clear that [the government] needs to make space for big infrastructure developments in the coming years. Given that, the state (at central, regional and local level) could finance the execution of projects through the public debt. In fact, countries with low public debt are making the most of this to address economic slowdown and stimulate private and public investment."



WHEN IT COMES TO PERU INTERNATIONAL INVESTORS ARE CONCERNED WITH THE POLITICAL SCENARIO AND THE ABILITY OF THE GOVERNMENT TO IMPLEMENT ITS PLANS



Total external debt is expected to be 30% of GDP at the end of 2017, and then to gradually decrease to 22.4% of GDP in 2022, according to IMF estimates. In the whole of Latin America, only Chile and Paraguay have lower levels of external debt than Peru.

Low debt, combined with the prudent fiscal policies of the past, give the government ample fiscal space to address contingent challenges, such as the reconstruction of the communities affected by heavy flooding in March 2017, as well as structural challenges such as the country's infrastructure gap. And Peru's access to the bond market is still good – it sold sovereign bonds worth 10bn soles (\$3.1bn) in July to pay in advance loans in foreign currency as part of an ongoing 'solarisation' of the public debt. The 15-year notes fetched a yield of 6.15%.

"From talking to international investors, we don't see them being concerned [about the] debt and fiscal situation, but when it comes to Peru they are more concerned with the political scenario and the ability of the government to implement its plans," says Fernando Bravo, a Peru-born managing director at Goldman Sachs' investment banking division.

Cofide's comeback

National development bank Cofide, which acts as a second-tier lender, has played a key role in capturing the resources available on the market and funnelling them towards the development of all kinds of projects. "In a context with so much liquidity, we want to incentivise private banks to invest in the country's projects," says Pedro Grado Smith, chairman of Cofide.

Cofide has increased its focus on infrastructure projects in recent years, with loans to the sector growing to 53% of its overall portfolio in June 2017, from 22% at the end of 2011. Despite a historically solid balance sheet and profitable operations, its exposure to the infrastructure sector did not spare the bank from the consequences of the economic slowdown and the troubles in the same infrastructure sector.

The bank's volume of non-performing loans spiked up to an estimated 17% of its total outstanding loans at the end of 2017, from less than 1% a year earlier. This mounting financial strain prompted international credit rating agencies to downgrade the bank, and eventually forced a deep financial and operational restructuring.

"The new regulation allows Cofide to take on up to 50% of a pro-

ject finance risk, whereas in the past it could reach even 100%," says Mr Grado Smith. "In this way, we introduce a diversification principle where there are at least two banks."

Putting resources to work

In this new regulatory framework, having regained financial stability, the bank is looking forward with renewed confidence regarding its key role in the development challenges awaiting the country.

"Infrastructure remains our key focus, and we don't want to leave the energy sector, and with the slowdown of mining we are looking at some corporate sectors such as agribusiness, and credit lines tailored for SMEs," says Mr Grado Smith.

Cofide has increased lending volumes to reignite the investment cycle across the board. It invested as much as \$2.68bn in the first six months of the year, which almost equals the \$2.72bn invested in the whole 2016, and already exceeds the annual sums disbursed in 2015, 2014, and 2013, according to company figures.

If Peru does not lack the resources to invest into development projects, the time has come for the country to put these resources at work in an efficient, and sustainable, way. ■



Power cut: the Chaglla hydroelectric plant over the Huallaga river in Huánuco region is just one of the projects from which Odebrecht has had to withdraw

Odebrecht's Peruvian divorce

BRAZILIAN CONSTRUCTION GIANT ODEBRECHT IS DISPOSING OF ITS VALUABLE PORTFOLIO OF INFRASTRUCTURE PROJECTS IN PERU IN THE WAKE OF A CORRUPTION SCANDAL THAT JEOPARDISED THE CONTINUITY OF ITS INTERESTS IN THE WHOLE OF LATIN AMERICA. JACOPO DETTONI REPORTS

Brazilian construction company Odebrecht's decade of activity in Peru is coming to a bitter end as the group sells its Peruvian assets to provide for any fine related to the so-called 'Car Wash' scandal.

However, the process has not been without its obstacles because Odebrecht's interests in the country are worth billions of dollars, and the Peruvian government wants to make sure that any sale complies with transparency standards and guarantees the best possible outcome for the Peruvian state.

Odebrecht won projects worth about \$12bn in Peru over the past decade, but the company's Peruvian dealings have been the subject of intense scrutiny since it acknowledged paying \$29m in bribes to secure public works contracts in the country between 2005 and 2014.

Funding shortfall

The future of some of the company's landmark projects in Peru now hangs in the balance. The government has already scrapped Odebrecht's contract for the development of the Southern Peru Pipeline, a massive \$7bn project to transport natural gas from the Anta province to the south coast, because the company's consortium failed to secure the necessary funding to continue the works.

At first, it seemed as if Odebrecht had reached an agreement with Canadian pension fund Brookfield Asset Management to sell its 55% stake in the project. But the deal did not materialise and Peru's private investment promotion agency, ProInversión, is now in charge of restructuring the project. Work is 30% complete, and a new tender was initially expected in 2018, although that target now

seems unlikely to be met.

On the other hand, Brookfield did team up with France's Suez group to acquire the Olmos irrigation concession in the northern Lambayeque region, a project that Odebrecht wrapped up in 2014. Odebrecht also sold the 456-megawatt Chaglla hydropower plant to a Chinese consortium led by state-owned China Three Gorge for about \$1.4bn, according to local press reports, and is negotiating a way out of its remaining Peruvian concerns.

Yet Odebrecht must tread carefully. An emergency decree approved in February set stringent rules to ensure companies involved in corruption cases sell their interests locally, lest the capital needed to ensure the continuity of the attached contracts and pay future fines and indemnification charges leave the country. ■