



**Asia-Pacific
Economic Cooperation**

2019/SOM3/EC/WKSP2/006

Infrastructure Plan and Public-Private Financing Models

Submitted by: Peru



**Best Practices Workshop on Public Investment
Systems
Puerto Varas, Chile
28-29 August 2019**



APEC
CHILE 2019

 **CSP** · INDUSTRIAL ENGINEERING
UNIVERSITY OF CHILE
CENTRE FOR PUBLIC SYSTEMS

Infrastructure Plan and Public-Private Financing Models

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**Asia-Pacific
Economic Cooperation**

*Best Practices on Public Investment
Systems (EC 08 2018A)*

CONTENT

- **PERUVIAN INFRASTRUCTURE PLAN FOR COMPETITIVENESS (PNIC).** Setting the goals and strengthening investment systems.
- **PUBLIC PRIVATE PROJECTS SYSTEM.** Optimizing execution and ensuring the sustainability of prioritized projects.
- **WORKS FOR TAXES.** Private companies contributing directly to reducing the infrastructure gap.



PERUVIAN INFRASTRUCTURE PLAN FOR COMPETITIVENESS (PNIC)

Setting the goals and strengthening investment systems

PERU ECONOMY DATA

	2013	2014	2015	2016	2017
<u>Population (million)</u>	30.5	30.8	31.2	31.5	31.8
<u>GDP per capita (USD)</u>	6,412	6,234	5,729	6,209	6,779
<u>GDP (USD bn)</u>	195	192	178	196	216
<u>Economic Growth (GDP, annual variation in %)</u>	5.8	2.4	3.3	4.0	2.5
<u>Unemployment Rate</u>	5.9	6.0	6.4	6.7	6.9
<u>Fiscal Balance (% of GDP)</u>	0.9	-0.2	-1.9	-2.3	-3.0
<u>Inflation Rate (CPI, annual variation in %)</u>	2.8	3.3	3.6	3.6	2.8
<u>Trade Balance (USD billion)</u>	0.5	-1.5	-2.9	2.0	6.7
<u>International Reserves (USD)</u>	65.7	62.3	61.5	61.7	63.6
<u>External Debt (% of GDP)</u>	31.0	36.1	41.0	38.1	35.5

PERÚ: STRONG FRAMEWORK FOR FOREIGN INVESTMENT

- Non discriminatory treatment and access: Foreign investors receive the same treatment as local investors.
- Free movement of capital.
- Anti-trust framework and promotion of competition.
- Guarantees to Private Property.
- No restrictions to acquire equity from locals.
- Freedom to access internal and external credit.
- Access to international disputes settlement mechanisms.
- Peru participates in the Investment Committee of the Organization for Economic Co-operation and Development (OECD) – It promotes the implementation of the Guidelines for Multinational Enterprises.

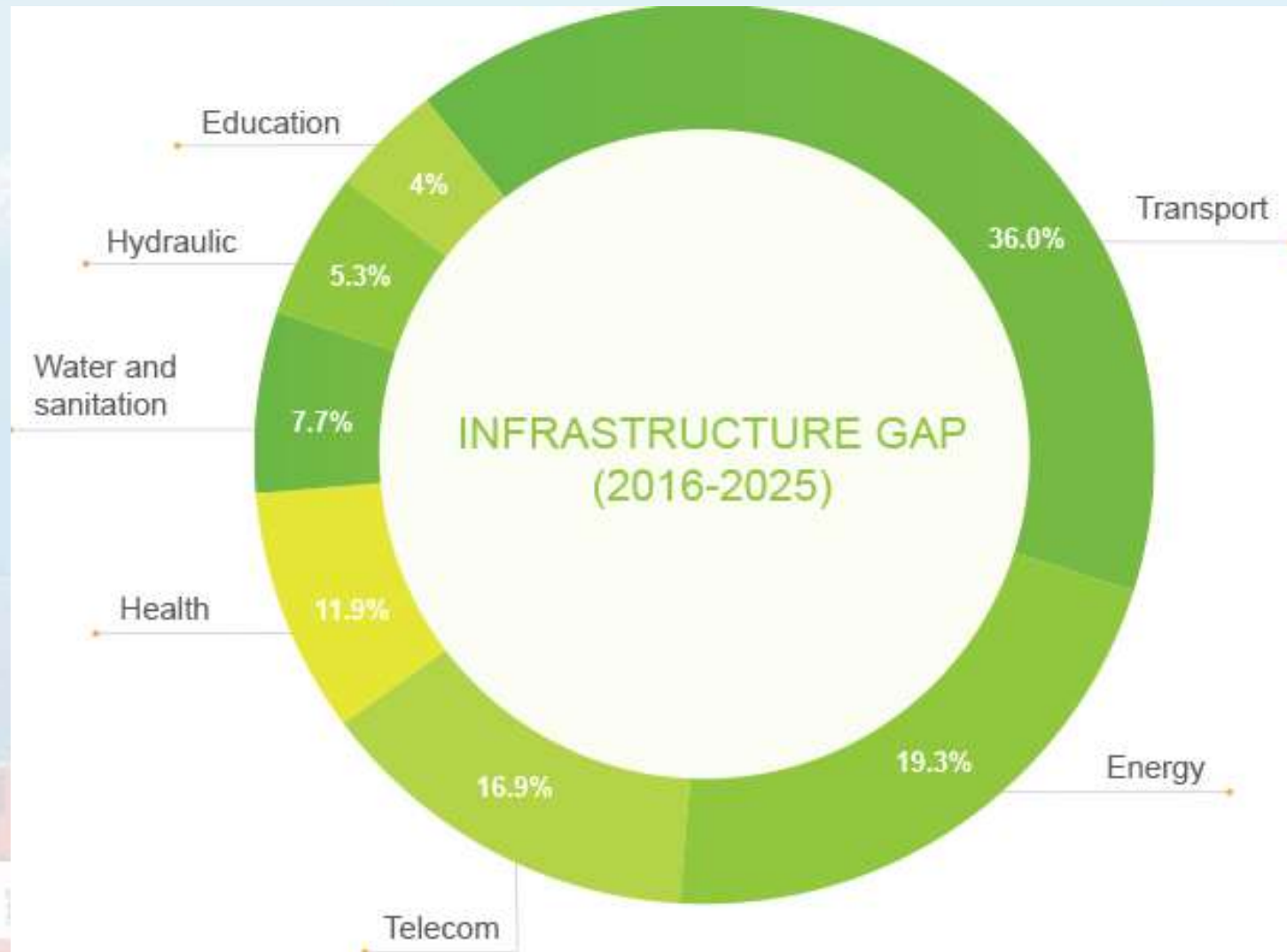
INFRASTRUCTURE GAP

- US\$ 159 billion

Global Competitiveness Index 2018

Overall 63rd/140

Infrastructure 85th/140



INFRASTRUCTURE PLAN FOR COMPETITIVENESS (PNIC)

- With the support of the UK government, it was created the UK-Peru Joint Infrastructure Task Force, taking the experience of the [National Infrastructure Assessment](#) (An assessment of the United Kingdom's infrastructure needs up to 2050).
- Published on July 28, 2019, the PNIC prioritize the execution of 52 projects of high social and economic impact. Represents investment of US\$ 29 billion distributed in four sectors: Transport and communication, Agriculture, Sanitation and Energy.
- 24 of the 52 projects are already underway, 25 are on feasibility stage (viability, formulation, structuring and transaction) and 3 of them are still on idea phase.
- Proposes an institutional framework for permanent monitoring of projects, and the mandatory use of tools such as Project Management Offices (PMO), PNIC Contracts, articulation of government levels and Building Information Modeling (BIM).

PNIC – Methodology

CRITERIA

- Social impact
- Economic impact
- Competitiveness contribution

PORTFOLIO CONSTRUCTION PROCESS

- Respond to a long-term sector strategy
- Be registered in the PMI or IMIAPP
- Have a budgetary framework
- Start project execution in the five years considered by the PNIC (2019-2023)

The methodology followed the principle of transparency, is based on international best practices and respects the competences of the sectors.



PNIC – Benefits

- Peru´s agenda: A development agenda is generated.
- Predictability for investors: A portfolio of short-term projects attracts more investors
- Efficiency in the use of resources: The planning and prioritization of projects with greater impact on society ensure an efficient allocation of public resources
- Discourage to corruption: Having defined objectives, specific deadlines and implementation tools reduce the incentive to promote a poorly conceived project.



PUBLIC PRIVATE PROJECTS PERUVIAN SYSTEM
Optimizing execution and ensuring the sustainability of prioritized projects

PUBLIC PRIVATE PARTNERSHIP

It is a modality of private investment participation:

- **EXPERIENCES**
- **KNOWLEDGE**
- **EQUIPMENT**
- **TECHNOLOGY**
- **PRIVATE FUNDING**

Distribute risks and resources.

In order to:

- **CREATE**
- **DEVELOP**
- **IMPROVE**
- **OPERATE**
- **MAINTAIN**

- ▶ Public infrastructure and / or provide public services
- ▶ Services related to public infrastructure and / or public services
- ▶ Applied research and / or technological innovation

DIFFERENCE BETWEEN PPP AND PUBLIC WORK

	PPP	PUBLIC WORK
NATURE	<p>Work execution: by the private sector. Exploitation: In charge of the private sector, it implies the provision of a “public service” (conditions of quality, continuity and efficiency of the service: SERVICES LEVEL).</p>	<p>Work execution: by the private sector. Exploitation: In charge of the Government. There is no greater relationship with the provision of the subsequent public service. At the end of the Work it is delivered to the Government.</p>
DESIGN	<p>By the private sector (optimization and efficiency). 2 options: Special Public Bidding or Comprehensive Projects Bidding</p>	<p>By the Government.</p>
WORK QUALITY RISK (quality, continuity and efficiency)	<p>There is a "Work Quality Incentive": Having the same company in charge of construction and maintenance provides better incentives to maintain the quality of the work, since it has logical repercussions on the subsequent need for maintenance (a reduction in the quality would result in higher maintenance costs).</p>	<p>The one who builds is not necessarily the one who operates and provides maintenance</p>

ORIGIN

GOVERNMENTAL

Identification of opportunities by the Government.

PRIVATE

Identification of opportunities by an investor.

CLASSIFICATION

SELF-FINANCED

Project with its own income generation capacity, which does not require co-financing, considering:

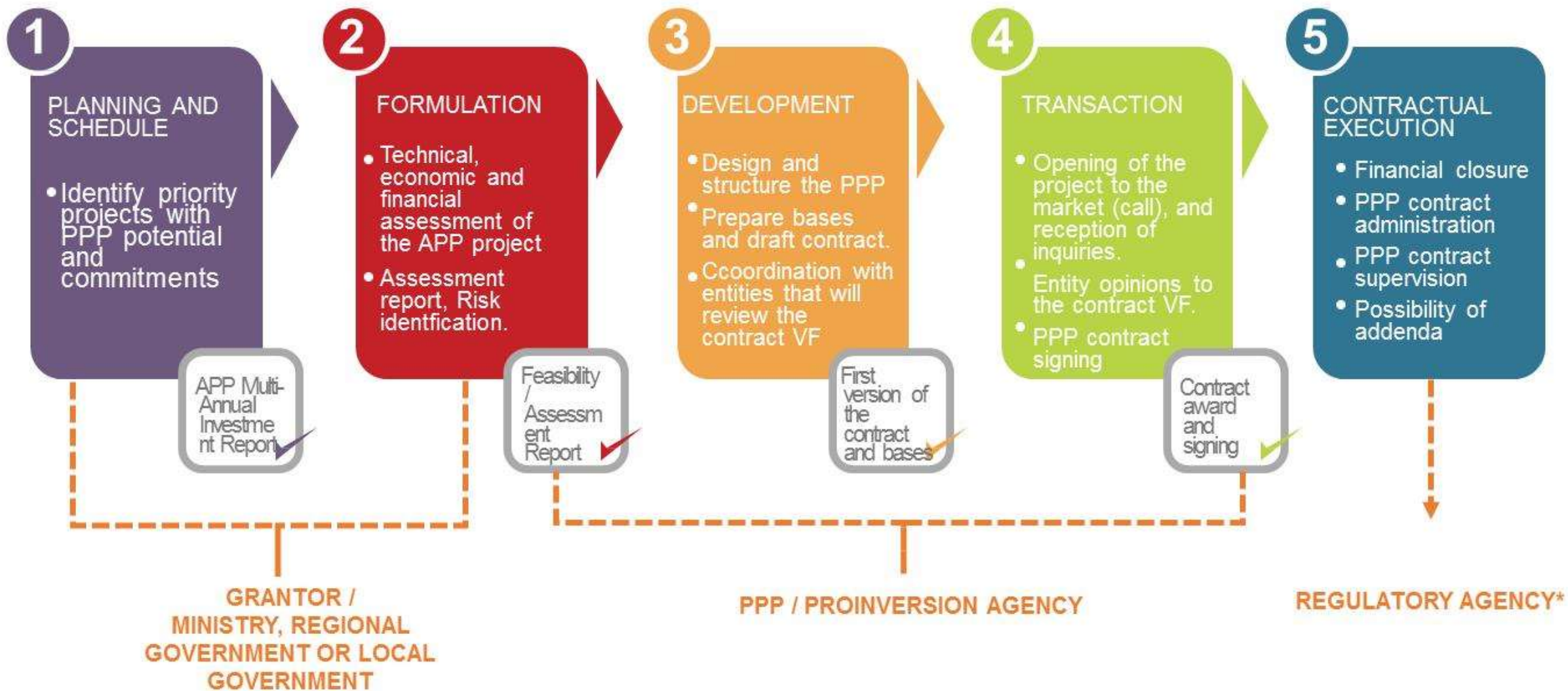
- Minimum or no demand for financial guarantee by the Government.
- Non-financial guarantees that have a zero or minimum probability of demanding co-financing.

CO-FINANCED

The Public Private Partnership project that requires co-financing or the granting or contracting of financial or non-financial guarantees that have a significant probability of demanding co-financing:

- If a financial guarantee is required: They are considered significant if they exceed 5% of the Total Investment Cost.
- If a non-financial guarantee is required: Have a significant probability of demanding

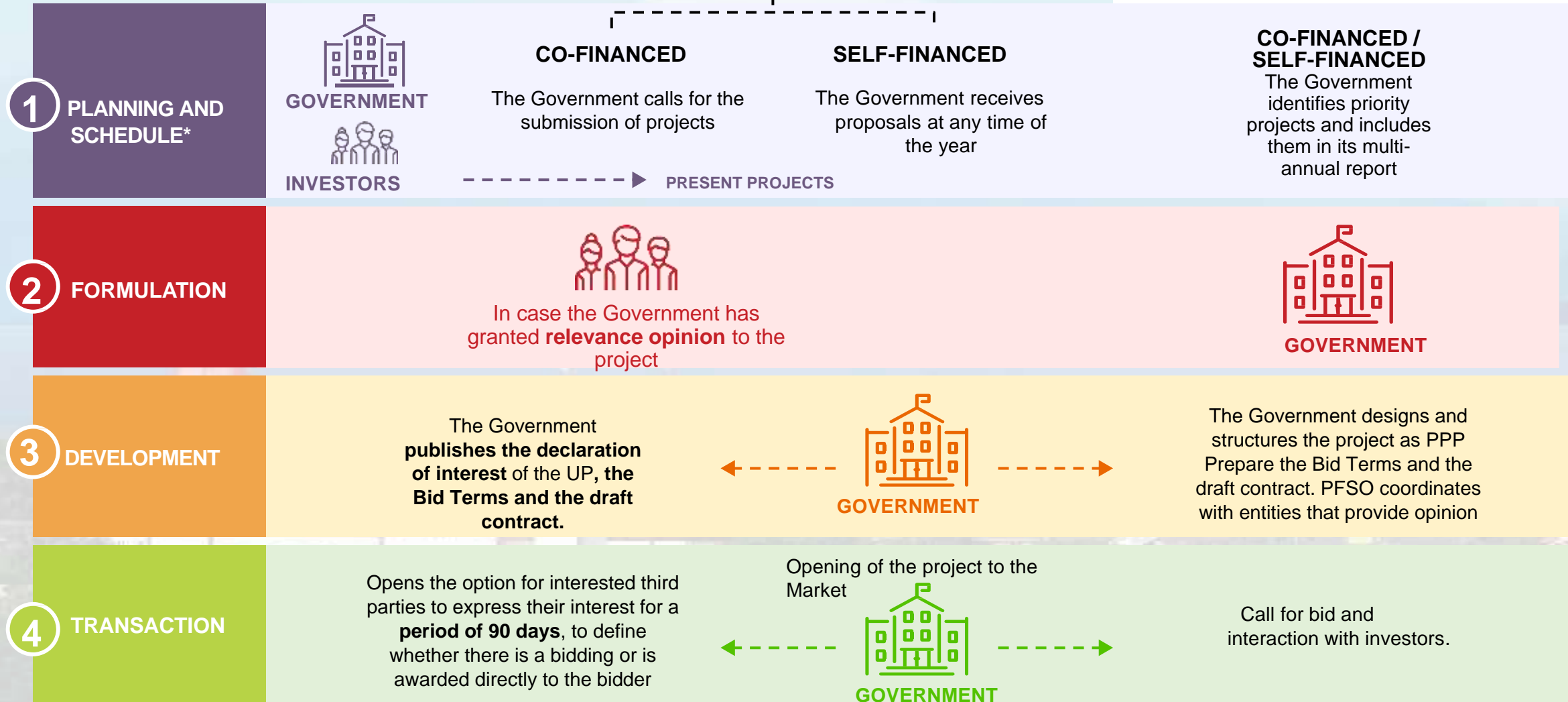
LIFE CYCLE OF A PPP



PPP PROJECT

UNSOLICITED PROPOSAL

GOVERNMENT INITIATIVE



2019-2022 PROJECTS



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Private Investment Promotion Agency - Peru

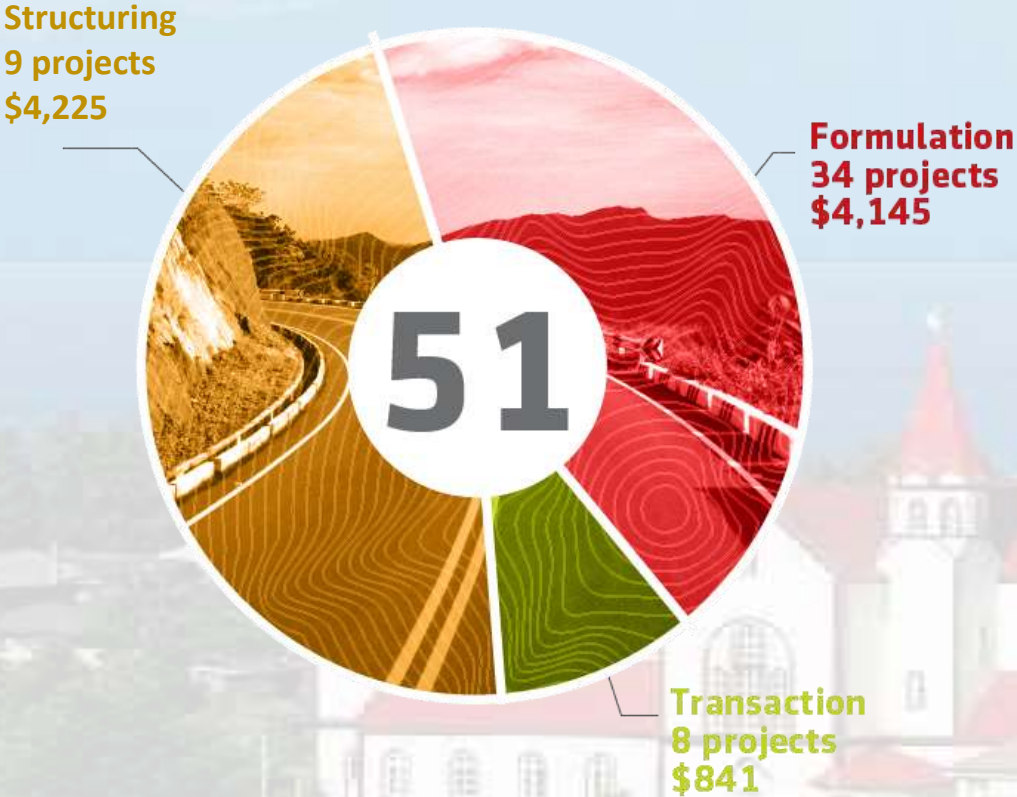


2019 – 2022 PROJECTS

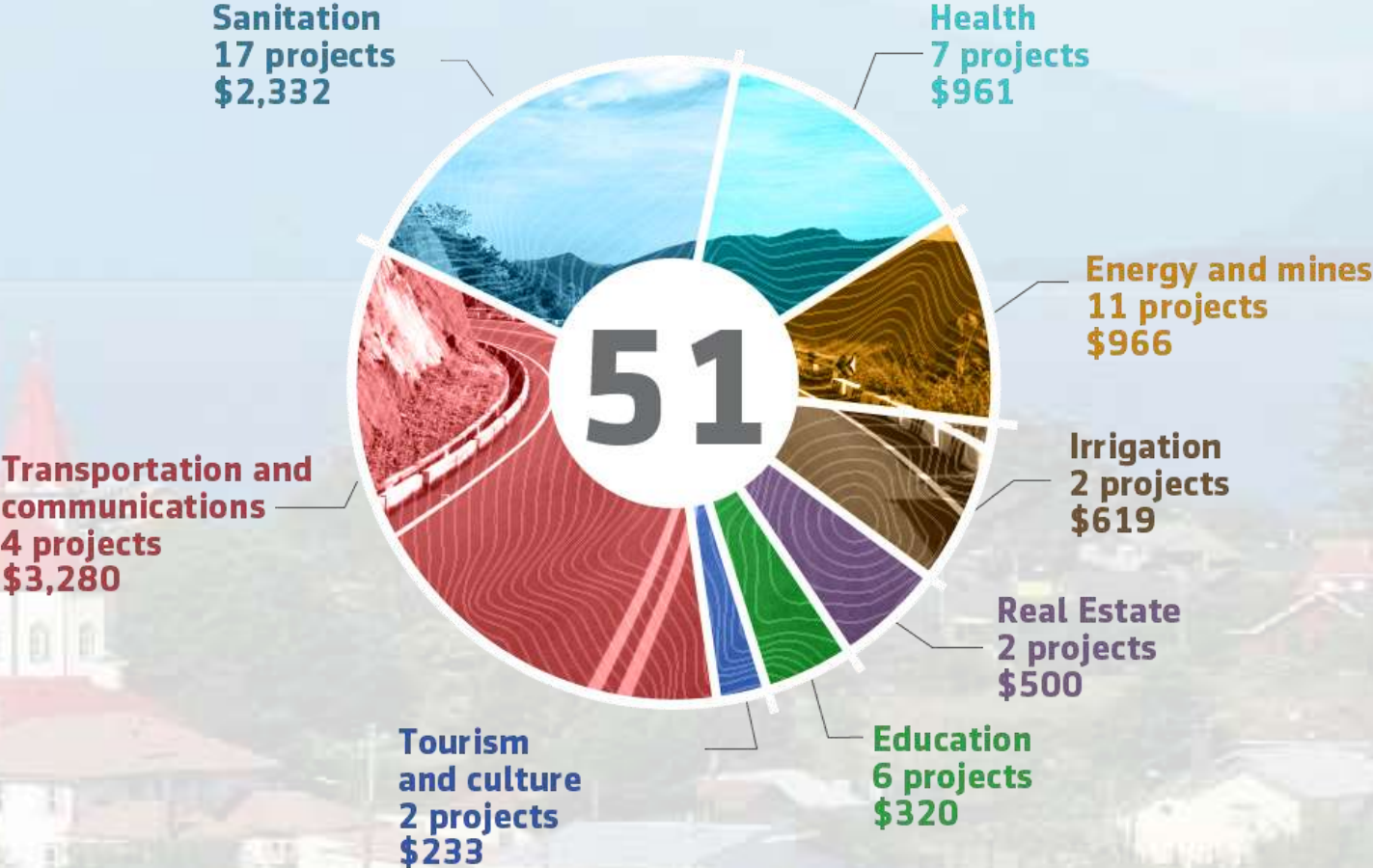
51 PROJECTS - USD 9,211 M



PER PHASE of PPP process



PER SECTOR



2019 PROJECTS

7 PROJECTS - USD 841 M

TRANSPORTATION

AMOUNT: USD 227 M

- Huancayo – Huancavelica Railway

ENERGY AND MINES

AMOUNT: USD 344 M

- Wide-scale use of Natural Gas
- 220 kV Tingo María – Aguaytía Link
- 500 kV La Niña – Piura Link
- 220 kV Pariñas - Nueva Tumbes Link

WATER AND SANITATION

AMOUNT: USD 270M

- WWTP Titicaca (awarded 29.04.2019)

REAL ESTATE

AMOUNT: To be defined

- Chavimochic non-farming lands
-

PROJECTS 2020

35 PROJECTS - USD 6,512 M

TRANSPORTATION AMOUNT: USD 3,053 M	■ Peripheral Ring	■ Longitudinal de la Sierra road – Section 4
		■ Marcona Port Terminal
ENERGY AND MINES AMOUNT: USD 622 M	■ Piura - Nueva Frontera TL	■ Valle del Chira Substation
	■ ENOSA	■ Puerto Maldonado – Iberia Transmission Line
	■ Chincha New Substation	■ Algarrobo Mining Project
	■ Nazca New Substation	
WATER AND SANITATION AMOUNT: USD 1,212 M	■ Headwaters Works	■ Puerto Maldonado WWTP
	■ Huaraz WWTP	■ Cañete WWTP
	■ Tarapoto WWTP	■ Cusco WWTP
	■ Chiclayo WWTP	■ Trujillo WWTP
	■ Cajamarca WWTP	■ Cajamarca WSS
	■ Chincha WWTP	
EDUCATION AMOUNT: USD 301 M	■ COAR Center	■ CER Villa María del Triunfo
	■ CER Metropolitan Lima	■ CER Ate and San Juan de Lurigancho
	■ CER Comas and San Martín de Porres	
REAL ESTATE AMOUNT: USD 500 M	■ Industrial Park of Ancon	■ Lima Convention Center
HEALTH AMOUNT: USD 591 M	■ ESSALUD Chimbote	■ ESSALUD Piura
	■ Cayetano Heredia Hospital	■ GIRSE
		■ New Military Hospital
OTHER SECTORS AMOUNT: USD 233 M	■ Choquequirao Archeological Park	■ San Cristobal Cablecars

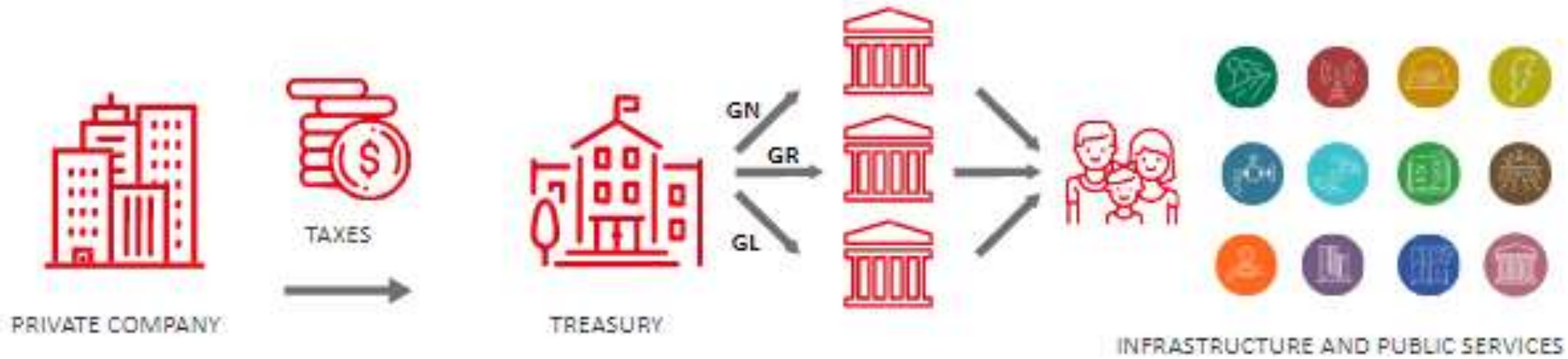


WORKS FOR TAXES

Private companies contributing directly to reducing the infrastructure gap



TRADITIONAL PUBLIC WORKS



WORKS FOR TAXES



What is Works for Taxes?

It is a mechanism that allows a Private Company to finance and execute Public Investment Projects, charged to its corporate tax.



Accelerates the execution of Public Investment Projects, sustaining or increasing the dynamism of each economy



Simplifies procedures and releases resources, increasing the efficiency of Public Entities

WHAT IS WORKS FOR TAXES?

- ✓ Private companies or can fund up to 50% of the income tax to be paid.
- ✓ Project should be approved through the Peruvian Public Investment System (now Inverte.pe). Must be a public project, not private.
- ✓ The Financing company is in charge of selecting, according to its own rules, a well-experience contractor that finally will be the responsible of the construction process. Private Co. pays the works with its own money.
- ✓ Projects can be awarded either with “preliminary” studies completed or definite technical studies. Private Co. has the option to complete the project technical final studies needed for the construction.
- ✓ The Financing company does not receive any monetary profits for the project construction. The only entity that makes profits is the constructor.

WHAT IS WORKS FOR TAXES?

- ✓ This mechanism appears to have benefitted regional and local Governments by increasing the execution of infrastructure projects, accelerating local infrastructure, using the know-how of private companies to increase the quality of their investments, and enhancing the reputation and image of local governments by helping them to reach their goals and objectives.

Local governments have mainly used it to invest in transport, sanitation and education whereas regional governments have mainly used it to invest in transport, health and sanitation.



(OECD: 2015)

WORKS FOR TAXES



1

Streamlines public investment project execution with the participation of the private sector to benefit the community.

2

Allows Regional or Local Governments and Public Universities to build infrastructure and pay for it, interest-free, for up to 10 years.

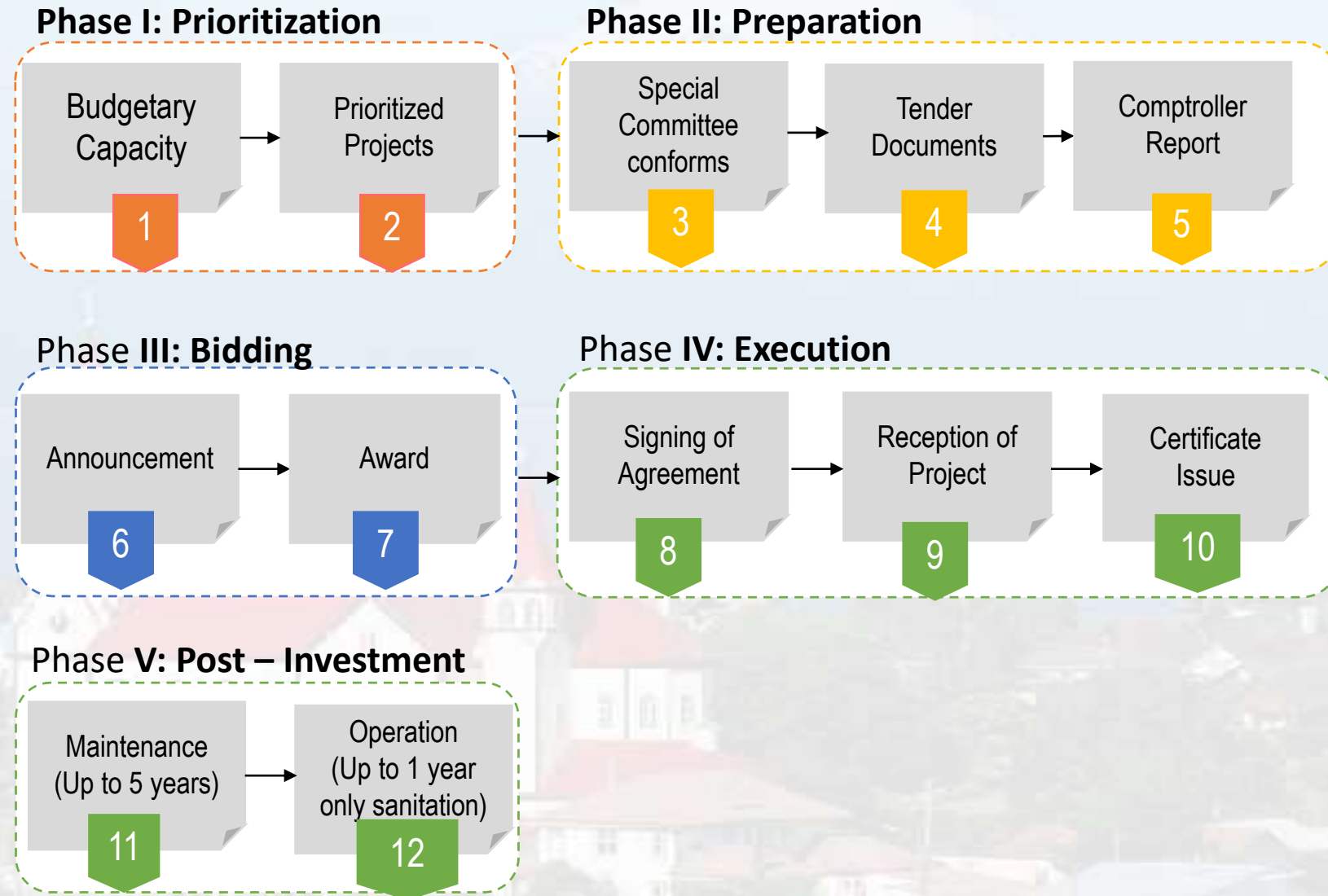
3

The private sector becomes responsible for previous studies, technical files and works execution.

4

ProInversion articulates, facilitates and provides technical advisory during the entire process.

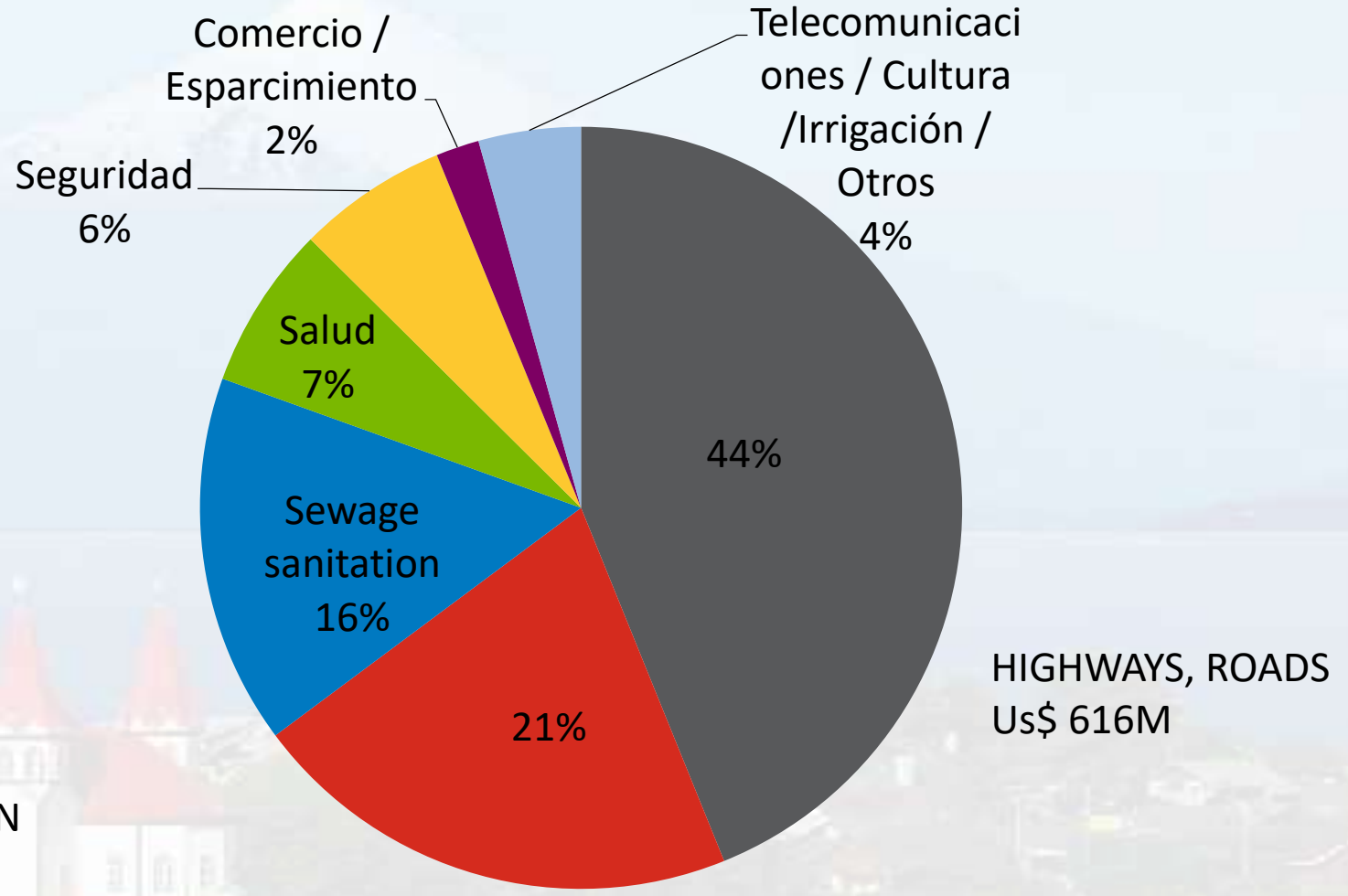
WHAT IS WORKS FOR TAXES?: FLOW CHART



Results 2009-2019

US\$ 1400 millions

373 projects



- ✓ 95 private companies financing public investment.
- ✓ 300 public entities using work for taxes.

Chilina Bridge



Project development involves the connection of the districts of Miraflores, Alto Selva Alegre, Yanahuara, Cayma y Cerro Colorado in the province and department of Arequipa.

Status: Executed

Public Sector: Regional government of Arequipa

Company: Partnership with Southern – Interbank - Backus

Estimated investment: US\$ 81.85 million.

Direct Beneficiaries: 310,681 people



Improving Educational Institution



Improving educational institution “Virgen de Guadalupe” in the district of Ventanilla and province of Callao.

Status: Executed

Public Sector: District Municipality of Ventanilla

Company: Banco de Crédito del Perú - BCP

Estimated investment: US\$ 3.44 million.

Direct Beneficiaries: 784 people



Improving of Fire Station



Improving the volunteer fire company in the city of Negritos – La Brea in the province of Talara – Piura.

Status: Executed

Public Sector: District Municipality of La Brea

Company: Graña y Montero Petrolero S.A.

Estimated investment: US\$ 1.25 million.

Direct Beneficiaries: 1 334 people



The Municipal Theater of Trujillo



Improving the infrastructure of the municipal theater of Trujillo in the province of Trujillo, department of La Libertad.

Status: Executed

Public Sector: Provincial Municipality of Trujillo

Company: Empresa Editora El Comercio S.A.

Estimated investment: US\$ 1.83 million.

Direct Beneficiaries: 122 269 people



Hospital Construction



Construction of the Cesar Vallejo hospital located in the province of Santiago de Chuco, department of La Libertad

Status: In execution

Public Sector: Regional government of La Libertad

Company: Barrick - BBVA

Estimated investment: US\$ 12.04 million.

Direct Beneficiaries: 61 170 people



Construction of roads and sidewalks



Three projects based on construction of roads and sidewalks, and improvement of gardens in the district of Tinyahuarco in the province and department of Pasco.

Status: Executed

Public Sector: District Municipality of Tinyahuarco

Company: Volcan Compañía Minera S.A.A

Estimated investment: US\$ 3.06 million.

Beneficiaries: 4915 people



Installation of water and sewer



Improvement and expansion of water and sewer in La Encantada town, Chulucanas district, province of Morropon, department of Piura.

Status: Executed

Public Sector: Regional government of Piura

Company: Banco de Crédito del Perú - BCP

Estimated investment: US\$ 2.08 million.

Direct Beneficiaries: 2 597 people



FINAL REMARKS

- **Importance of assessing the economies constraints.**
- **Setting the goals and strengthening investment systems. Institutions articulation, clear rules, optimization.**
- **Ensuring the sustainability of prioritized projects. Not only building but service delivery.**
- **Innovative policy tools to ensure the infraestructure provision**



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