Infrastructure Plan and Public-Private Financing Models

Submitted by: Peru
Infrastructure Plan and Public-Private Financing Models

Denisse Miralles – PROINVERSION PERÚ

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

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

<table>
<thead>
<tr>
<th>NATURE</th>
<th>PPP</th>
<th>PUBLIC WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work execution:</td>
<td>by the private sector.</td>
<td>Work execution: by the private sector.</td>
</tr>
<tr>
<td>Exploitation:</td>
<td>In charge of the private sector, it implies the provision of a “public</td>
<td>Exploitation: In charge of the Government. There is no greater relationship with the provision of</td>
</tr>
<tr>
<td>service” (conditions of</td>
<td>service” (conditions of quality, continuity and efficiency of the</td>
<td>the subsequent public service. At the end of the Work it is delivered to the Government.</td>
</tr>
<tr>
<td>quality, continuity and</td>
<td>service: SERVICES LEVEL).</td>
<td></td>
</tr>
<tr>
<td>efficiency of the service:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WORK QUALITY RISK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(quality, continuity and</td>
<td>There is a &quot;Work Quality Incentive&quot;: Having the same company in</td>
<td>The one who builds is not necessarily the one who operates and provides maintenance</td>
</tr>
<tr>
<td>efficiency)</td>
<td>charge of construction and maintenance provides better incentives to</td>
<td></td>
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<tr>
<td></td>
<td>maintain the quality of the work, since it has logical repercussions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>on the subsequent need for maintenance (a reduction in the quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>would result in higher maintenance costs).</td>
<td></td>
</tr>
</tbody>
</table>

**DESIGN**

- By the private sector (optimization and efficiency).
- 2 options: Special Public Bidding or Comprehensive Projects Bidding
- By the Government.

**WORK QUALITY RISK**

(quality, continuity and efficiency)
<table>
<thead>
<tr>
<th>ORIGIN</th>
<th>CLASSIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GOVERNMENTAL</strong></td>
<td><strong>SELF-FINANCED</strong></td>
</tr>
<tr>
<td>Identification</td>
<td>Project with its own income</td>
</tr>
<tr>
<td>of</td>
<td>generation capacity, which does not</td>
</tr>
<tr>
<td>opportunities</td>
<td>require co-financing, considering:</td>
</tr>
<tr>
<td>by the</td>
<td>- Minimum or no demand for financial</td>
</tr>
<tr>
<td>Government.</td>
<td>guarantee by the Government.</td>
</tr>
<tr>
<td></td>
<td>- Non-financial guarantees that</td>
</tr>
<tr>
<td></td>
<td>have a zero or minimum probability</td>
</tr>
<tr>
<td></td>
<td>of demanding co-financing.</td>
</tr>
<tr>
<td><strong>PRIVATE</strong></td>
<td><strong>CO-FINANCED</strong></td>
</tr>
<tr>
<td>Identification</td>
<td>The Public Private Partnership</td>
</tr>
<tr>
<td>of</td>
<td>project that requires co-financing</td>
</tr>
<tr>
<td>opportunities</td>
<td>or the granting or contracting of</td>
</tr>
<tr>
<td>by an</td>
<td>financial or non-financial</td>
</tr>
<tr>
<td>investor.</td>
<td>guarantees that have a significant</td>
</tr>
<tr>
<td></td>
<td>probability of demanding co-</td>
</tr>
<tr>
<td></td>
<td>financing:</td>
</tr>
<tr>
<td></td>
<td>- If a financial guarantee is</td>
</tr>
<tr>
<td></td>
<td>required: They are considered</td>
</tr>
<tr>
<td></td>
<td>significant if they exceed 5% of</td>
</tr>
<tr>
<td></td>
<td>the Total Investment Cost.</td>
</tr>
<tr>
<td></td>
<td>- If a non-financial guarantee is</td>
</tr>
<tr>
<td></td>
<td>required: Have a significant</td>
</tr>
<tr>
<td></td>
<td>probability of demanding</td>
</tr>
</tbody>
</table>
LIFE CYCLE OF A PPP

1. PLANNING AND SCHEDULE
   - Identify priority projects with PPP potential and commitments
   - APP Multi-Annual Investment Report

2. FORMULATION
   - Technical, economic and financial assessment of the APP project
   - Assessment report, Risk identification
   - Feasibility Assessment Report

3. DEVELOPMENT
   - Design and structure the PPP
   - Prepare bases and draft contract
   - Coordination with entities that will review the contract VF
   - First version of the contract and bases

4. TRANSACTION
   - Opening of the project to the market (call), and reception of inquiries
   - Entity opinions to the contract VF
   - PPP contract signing
   - Contract award and signing

5. CONTRACTUAL EXECUTION
   - Financial closure
   - PPP contract administration
   - PPP contract supervision
   - Possibility of addenda

GRANTOR / MINISTRY, REGIONAL GOVERNMENT OR LOCAL GOVERNMENT
PPP / PROINVERSION AGENCY
REGULATORY AGENCY*
The Government identifies priority projects and includes them in its multi-annual report.

The Government calls for the submission of projects.

The Government receives proposals at any time of the year.

The Government designs and structures the project as PPP.

Prepares the Bid Terms and the draft contract. PFSO coordinates with entities that provide opinion.

The Government opens the option for interested third parties to express their interest for a period of 90 days to define whether there is a bidding or is awarded directly to the bidder.

Opening of the project to the Market

Call for bid and interaction with investors.
2019-2022
PROJECTS

ProInversión
Private Investment Promotion Agency - Peru
2019 – 2022 PROJECTS
51 PROJECTS - USD 9,211 M

PER PHASE of PPP process

- Structuring: 9 projects, $4,225
- Formulation: 34 projects, $4,145
- Transaction: 8 projects, $841

PER SECTOR

- Sanitation: 17 projects, $2,332
- Health: 7 projects, $961
- Energy and mines: 11 projects, $966
- Irrigation: 2 projects, $619
- Real Estate: 2 projects, $500
- Education: 6 projects, $320
- Transportation and communications: 4 projects, $3,280
- Tourism and culture: 2 projects, $233
### 2019 PROJECTS
**7 PROJECTS - USD 841 M**

<table>
<thead>
<tr>
<th>Category</th>
<th>Project Details</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRANSPORTATION</td>
<td>Huancayo – Huancavelica Railway</td>
<td>USD 227 M</td>
</tr>
<tr>
<td>ENERGY AND MINES</td>
<td>Wide-scale use of Natural Gas</td>
<td>USD 344 M</td>
</tr>
<tr>
<td></td>
<td>220 kV Tingo María – Aguaytía Link</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500 kV La Niña – Piura Link</td>
<td></td>
</tr>
<tr>
<td></td>
<td>220 kV Pariñas - Nueva Tumbes Link</td>
<td></td>
</tr>
<tr>
<td>WATER AND SANITATION</td>
<td>WWTP Titicaca (awarded 29.04.2019)</td>
<td>USD 270M</td>
</tr>
<tr>
<td>REAL ESTATE</td>
<td>Chavimochic non-farming lands</td>
<td>To be defined</td>
</tr>
</tbody>
</table>
### 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
- ENOSA
- Chincha New Substation
- Nazca New Substation
- Valle del Chira Substation
- Puerto Maldonado – Iberia Transmission Line
- Algarrobo Mining Project

### WATER AND SANITATION
**AMOUNT:** USD 1,212 M
- Headwaters Works
- Huaraz WWTP
- Tarapoto WWTP
- Chiclayo WWTP
- Cajamarca WWTP
- Chinchao WWTP
- Puerto Maldonado WWTP
- Cañete WWTP
- Cusco WWTP
- Trujillo WWTP
- Cajamarca WSS

### EDUCATION
**AMOUNT:** USD 301 M
- COAR Center
- CER Metropolitan Lima
- CER Comas and San Martín de Porres
- CER Villa María del Triunfo
- CER Ate and San Juan de Lurigancho

### REAL ESTATE
**AMOUNT:** USD 500 M
- Industrial Park of Ancon
- Lima Convention Center

### HEALTH
**AMOUNT:** USD 591 M
- ESSALUD Chimbote
- Cayetano Heredia Hospital
- ESSALUD Piura
- 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
10 YEARS
PERUVIAN INNOVATION
US$ 1,400 M
WORKS FOR TAXES

Adapted by other economies
Decentralizes investment
Regional and local level
85%
15 Million beneficiaries
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.
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

Phase I: Prioritization
- Budgetary Capacity
- Prioritized Projects

Phase II: Preparation
- Special Committee conforms
- Tender Documents
- Comptroller Report

Phase III: Bidding
- Announcement
- Award

Phase IV: Execution
- Signing of Agreement
- Reception of Project
- Certificate Issue

Phase V: Post – Investment
- Maintenance (Up to 5 years)
- Operation (Up to 1 year only sanitation)
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 Institucion

Improving educational institucion “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
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 infrastructure provision