

# Guide to Investing in Infrastructure Projects in Peru

2020/2021



**ProlInversión**

Private Investment Promotion Agency - Peru



**PERU**

Ministry  
of Foreign Affairs

**EY**

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# A NOTE FROM THE PRESIDENT OF PERU



**Martín Vizcarra**  
President of Peru

In the current global context, in which every country in the world has been hit by the public health and economic crises brought on by the COVID-19 pandemic, innovative public policies are crucial to alleviate the negative effects of the crisis and effectively revive the economy, in order to return to the path of medium- and long-term sustainable development.

The economic measures taken by the Peruvian government have been viewed in a highly positive light by international analysts. Foreign investors continue to demonstrate their trust in the policies that our government has been implementing, along with the country's solid macroeconomic position, which is reflected in a stable exchange rate, a ratio of international reserves to GDP that is among the highest in the world, low inflation and a moderate fiscal deficit, as well as a stable legal framework for investment.

Additionally, a number of programs have been created to help the Peruvian business sector weather the crisis, such as *Reactiva Perú (Kickstart Peru)* and the *SME Business Support Fund*, which have financed over 600,000 small and medium companies.

Along with our continued focus on the impacts of the public health crisis, we are also concentrated on kickstarting the Peruvian economy. According to our latest forecasts, we expect a 10% GDP growth rate in 2021, which will rank Peru in first place among regional recovery indicators. By 2022, Peru's GDP will have returned to pre-COVID-19 levels, making it one of only three countries in the region to do so, alongside Chile and Colombia.

As part of our economic resurgence, one of the main objectives is to attract the interest of international investors in Peru's projects portfolio, particularly for projects aimed at closing the existing gaps in the health and sanitation sectors. According to the National Infrastructure Plan for Competitiveness (PNIC) the total infrastructure gap in the country (2019 - 2038) is estimated at S/363 billion soles (PEN), consisting primarily of S/160 billion in transportation, S/71 billion in sanitation, S/58 billion in health, and the rest in water, telecommunications, electricity and education.

With this in mind, we have also begun to implement the *Arranca Perú (Start Up Peru)* program, which will invest S/6.834 billion in the execution of infrastructure works and create over one million jobs across the country.

We expect to award the contracts for the construction of Line 3 and Line 4 of the Lima Metro using a Government to Government System, with an investment of approximately S/30 billion. This same system will be used to execute works for 75 schools, 44 hospitals and health centers, and 24 sanitation and drinking water projects valued at over S/11 billion, along with the execution of a range of projects for the reconstruction and improvement of northern Peru worth S/7 billion. These projects are currently being promoted by the National Authority for Reconstruction and Improvement (ARCC) among Peruvian and foreign companies following the execution of the Government to Government Agreement with the United Kingdom of Great Britain and Northern Ireland.

Additionally, our Private Investment Promotion Agency (ProInversión) will organize tender processes for twenty-two infrastructure projects valued at a total of USD5.9 billion, involving works such roads, transmission lines, hospital centers, wastewater treatment plants, headworks and conveyance works for drinking water supply, radioelectric spectrum bands, schools, and more.

This is just a brief overview of the strengths and opportunities that Peru offers investors. I hope that this **Guide to Investing in Infrastructure Projects in Peru** will provide the world with a more detailed idea of the profitable portfolio of investment projects available in our country, and assist the international business class in getting involved in the Peruvian market.

I reaffirm my government's commitment to promoting foreign investment in Peru, in an effort to help bolster our economy's strength and competitiveness. You are cordially invited to explore the infrastructure and construction opportunities offered by Peru, which are the fruit of our tireless work to create a stable environment favorable to long-term business investments in our country. Not only will these projects be of great benefit to the private sector; they will also help create jobs and drive national development to the benefit of all Peruvians.

# A NOTE FROM THE MINISTRY OF FOREIGN AFFAIRS



**Mario López Chávarri**  
Minister,  
Ministry of Foreign Affairs

The public health and economic crisis unleashed by the COVID-19 pandemic has led to unprecedented consequences around the world. In face of this situation, Peru was one of the first countries to establish a national lockdown with the goal of reducing the spread of the virus among its citizens, thus prioritizing the need to safeguard lives through the temporary suspension of a number of sectors that comprise the nation's economic activity.

Peru's sound macroeconomic environment in recent decades, achieved thanks to efficient fiscal sustainability policies, has allowed the country to better manage the pandemic's impact. Although GDP is expected to fall by 12% in 2020 and public debt will equal around 33.9% of GDP, the recovery measures promoted by the Peruvian government will drive an economic growth of 10% in 2021. Furthermore, the debt incurred to finance programs aimed at containing the consequences of the crisis will rank among the lowest in the region, even less than that of countries such as Argentina, Brazil, Colombia, and Mexico.

The forecasts for Peru's economy next year are highly positive, thanks to its quick and effective adoption of a package of reactivation measures equivalent to 17% of the national GDP. Our market has also remained stable, with a country risk of 158 basis points, which is the lowest in Latin America and three times lower than the regional average.

According to the globalization index established by the consulting firm EY, Peru is the third most globalized country in Latin America. This index takes into account aspects such as openness to international trade, free capital flow, exchange of technology and ideas, free labor movement, and cultural integration.

Peru's strengths include an attractive market and natural resources in high demand across the world, with a policy of openness that has made foreign trade and the attraction of foreign investors a fundamental pillar of national development. As a result, the competitiveness of sectors such as mining, telecommunications, energy, finance, transportation and others has been bolstered by the inflow of capital from abroad.

In keeping with this approach, the Ministry of Foreign Affairs has established a Priority Action Plan for the 2020-2021 period that will enable to intensifying our efforts to identify markets and opportunities for the promotion of our portfolio of infrastructure projects. The Ministry will also use its network of Peruvian embassies and consulates to implement a strategy aimed at boosting the country's image as an attractive emerging market that is safe for investments and business, while solidifying the perception of Peru as a democracy with the ability to weather the crisis caused by the pandemic within an increasingly complex regional and international scenario.

This "Guide to Investing in Infrastructure Projects in Peru," prepared with the interinstitutional collaboration of EY and ProInversión, is an important tool for carrying out these efforts. The materials included herein are of exceptional importance to the country's economic promotion, making it a valuable source of information for potential investors in these key sectors for Peru's national development.

I extend a cordial invitation to all foreign investors to visit Peru and explore the opportunities our country has to offer, particularly in the infrastructure and construction sectors, whose growth in the coming years guarantees projects that are highly profitable from both a social and economic viewpoint.



# A NOTE FROM THE MINISTRY OF FOREIGN AFFAIRS



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Despite the expected drop in Peru's GDP under the present circumstances, international financial institutions such as the World Bank predict that the Peruvian economy will rebound in 2021. The Ministry of Economy and Finance of Peru has projected a growth of approximately 10%, thus situating Peru ahead of other major economies as the fastest expanding country in the region.

In this light, the current crisis offers new opportunities and challenges for our country, along with international investors seeking to maximize the performance of their available financial resources. In keeping with our established foreign policy priorities at this point in time, and in coordination with the public and private domestic sectors concerned, the Directorate General of Economic Promotion of the Ministry of Foreign Affairs is carrying out a proactive campaign to attract investments in prioritized sectors such as infrastructure, construction, and mining, among others.

For this purpose, the Ministry of Foreign Affairs has a major comparative advantage: its extensive network of diplomatic missions around the world. These act as "opportunity radars" identifying interest from potential investors wherever they are located and performing prospective studies in "non-traditional" regions that may become new sources of investment in a rapidly changing global environment. In this way, our foreign missions become active agents of promotion, with special expertise in their respective host countries and local high-level contacts.

Another of the strengths of the Ministry of Foreign Affairs is its network of decentralized offices throughout the different regions of Peru. These offices work closely with regional governments and public and private institutions in their areas of jurisdiction, acting as agents for the identification of investment opportunities in regional projects, in coordination with the Ministry of Foreign Affairs and our missions abroad. The Ministry's global perspective and specialized skill in handling foreign affairs make it especially well-positioned to foster an all-important strategic approach to promoting and attracting foreign investment, as well as facilitating Peruvian investment abroad.

The Ministry's work in this area also involves promoting and participating in the negotiation of investment promotion and protection agreements, investment chapters in free trade agreements, and double taxation and tax evasion treaties, thus enabling it to strengthen the legal basis necessary to attract investments to our country.

To achieve all of the foregoing, the Ministry of Foreign Affairs, through its Directorate General of Economic Promotion, develops close partnerships with the relevant public and private sectors. In some cases, these partnerships take the form of interinstitutional cooperation agreements like the one signed in 2013 with the consulting firm EY Perú.

As part of the successful public-private partnership with EY, the Ministry of Foreign Affairs produces specialized investment guides that are made available to our diplomatic missions as a vital tool in their work of promoting and attracting

investments to Peru. These publications include the "Peru Business and Investment Guide," the "Pacific Alliance Business and Investment Guide," and a specialized "Mining Guide," as well as another one dedicated to the Oil & Gas sector.

Today, alongside EY and ProlInversión, we are proud to present the **Guide to Investing in Infrastructure Projects in Peru**. This sector is vital to the economic reactivation of our country, which has a total infrastructure gap (2019 - 2038) of USD110 billion, concentrated above all in the transportation, sanitation, health, water, telecommunications, electricity, and education sectors, among others, according to the National Infrastructure Plan for Competitiveness (PNIC).

I would like to thank EY and ProlInversión for once again lending their invaluable assistance, which will provide Peruvian and international investors with a useful decision-making tool for investment in a wide range of opportunities offered by Peru's infrastructure and construction sector.

# A NOTE FROM EY



**Paulo Pantigoso**  
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“

Public investment in infrastructure is a necessary path to stimulate the recovery of our economy, especially in a once-in-a-century experience such as the pandemic.

It is a great pleasure to present the first edition of the EY Guide to Investing in Infrastructure Projects in Peru. Its main purpose is to serve as a tool to document and evaluate the infrastructure field in Peru, in order to offer foreign investors a real and current view of the Peruvian market and to encourage them to take advantage of the opportunities available.

Because of COVID-19, we are experiencing exceptional, dramatic and life changing events. Peru's economy in particular, aligned with the global economy, urgently needs to be energized.

To achieve this, public and private investments are fundamental. As a first step, there is nothing better than clear and updated information, as we have included in this publication.

With this Guide, EY reaffirms its commitment to contribute to the progress of the country and the growth of companies. Our intention is to offer readers a friendly and concise overview of the economic performance and business environment in Peru.

We express our deepest thanks to the President of Peru, to our Ministry of Foreign Affairs and to ProInversión, as well as to all my EY team, for the collective collaboration to prepare and offer this Guide, which includes the current project pipeline detailed in section 3.4.

We invite you to contact us if you have any questions and we wish you the best in all the investment opportunities you find in Peru.

# A NOTE FROM EY



**Manuel Rivera**  
Tax Infrastructure  
Leader  
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“  
The pandemic is revealing the importance of infrastructure. We must keep in mind that the ultimate goal is to improve the standard of living through the provision of high-quality public services.

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I am very enthusiastic to introduce this Guide for stakeholders and potential investors in the infrastructure field. It is the result of a joint effort from a diverse team, with different background experiences and perspectives, but mostly with the same passion for promoting Peruvian investment opportunities.

The timing of this Guide could not be better. Peru's gap in infrastructure, up to 2025, will

be USD110 billion and we are committed to stimulate its prompt reduction. Moreover, our country is still struggling with COVID-19 and its collateral effects on the economy. In this challenging scenario, it is well known that public investment can be a driving force to stimulate the market, in terms of rapidly providing private companies with new options to offer their goods and services, as well as to create new job opportunities.

Peru has taken this path. Recently, President Martín Vizcarra announced that some of the most attractive megaprojects (as Lines 3 and 4 of Lima's subway system and the Central Highway) which have shown slow progress in the last few years, would be given a new boost through Government to Government Agreements (G2Gs). This type of agreement was successfully implemented in the Pan American Games Lima 2019. G2Gs will also be used as part of an aggressive plan for “packaging” works in strategic sectors such as health, education, water and sanitation.

It should be highlighted that the focus is not on the development of public infrastructure per se. There is an extremely wide gap in essential services, deeply emphasized by the pandemic. Thus, each project is a step toward improving the quality of life of citizens. With this clear purpose in mind, every endeavor should be made to deliver high quality public services. Although great works are expected, the highest standards possible of operation and maintenance are also necessary to ensure improved standards of living.

We hope this Guide provides a holistic approach of Peruvian investment climate and helps as a starting point for canalizing your interest in our country. We invite you to enjoy this Guide and contact us should you have any questions or need special assistance.

# A NOTE FROM EY



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We can expect a second wave of infrastructure investment in the coming years, leveraging on the lessons learned and the strengths that Peru has achieved with the effort of its citizens.

These are challenging times for everyone, not only in Peru but across the globe. Times that require, probably more than ever, promoting public and private investment in infrastructure in all countries, but even more so in emerging ones such as Peru, in order to close the infrastructure gap and provide quality and adequate services to our citizens.

This is the main purpose of the Guide to Investing in Infrastructure Projects in Peru 2020/2021 aimed as a useful tool for any private investors, banks and other financial

institutions, multilateral organizations and governmental entities interested in exploring and assessing Peruvian investment opportunities in infrastructure.

It is in this spirit that we have comprised in this Guide the most recent data on the current Peruvian infrastructure gap, an overview of the infrastructure opportunities by sector (roads, railways, healthcare, water & sanitation, education, telecom, among others) a project pipeline as well as a section covering the financing of infrastructure projects in Peru.

You will also find in this Guide a detailed section on the most relevant characteristics of the Public-Private Partnership (PPPs), Works for Taxes and Government to Government (G2G) frameworks as well as an overview of the main legal, tax, labor, environmental and custom tax matters that are relevant for any potential investor in infrastructure in Peru.

Peru, as a country, has valuable experience in promoting foreign and domestic investment in infrastructure over the past thirty years. However, our infrastructure gap is still huge and the COVID-19 collateral effects will only increase the need and urgency of closing that gap.

We can expect, then, a second wave of infrastructure investment in the coming years, leveraging on the lessons learned in recent years and the strengths that Peru has achieved with the effort of all its citizens. We trust that this Guide will be useful for any individual and entity interested in participating in this next wave, whether as investors, lenders, advisors or in any other role.



# A NOTE FROM EY



**Enrique Oliveros**  
Strategy and Transactions  
Lead Partner and Head of  
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**Peru has a proven track-record of developing infrastructure projects in partnership with the private sector and is recognized as a regional leader.**

Countries all around the world need to invest huge amounts of money in infrastructure. Growing population, rapid urban development, the emergence of new technologies and climate change will accelerate the demand for new infrastructure. Experts suggest that at least 5%-6% of GDP should be invested annually on infrastructure and this figure is even higher for developing countries that have large infrastructure gaps. EY studies estimate that over 75% of the infrastructure needed for 2050 is still to be developed.

We should highlight that investment in infrastructure is a global challenge, and not only a concern for developing countries. While developing countries need to build non-existent infrastructure; developed nations need to replace old infrastructure,

adapt existing infrastructure to new technologies or regulatory demands and do all this while addressing growing concerns on climate change that require the deployment of resilient infrastructure.

Capital requirements are significant and the public sector, especially in developing countries, can only provide a small amount of funds to develop the much-needed infrastructure. In this scenario, the public sector must play a new role of promoting private investment in infrastructure and setting rules that through transparent mechanisms allow private investors to provide their share of capital to develop infrastructure.

Public-Private Partnership (PPPs), privatizations, concessions, government to government (G2Gs) agreements are some of the mechanisms used globally to channel private investment towards infrastructure projects. In developing countries, these mechanisms have proved to be very useful in giving people access to energy, water or telecom services or providing them with better quality services.

Peru has a proven track-record of developing infrastructure projects in partnership with the private sector. Since the mid 90's, our country has successfully used different mechanisms to procure infrastructure development and is recognized as a regional leader based on its strong macro figures, a good regulatory framework and our government's commitment to PPPs and concessions.

A new generation of infrastructure projects, including sub-sovereign transactions, "green" projects, climate-resilient projects as well as "traditional infrastructure" is to be released and we expect this Guide to be useful for potential investors that are evaluating doing business in Peru.



# A NOTE FROM PROINVERSIÓN



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Peru has been one of the fastest growing economies in the region in the past two decades, maintaining stable macroeconomic policies that have made it possible to promote private investment and boost the growth of the domestic market, while developing a clear policy of integration with the international markets.

The good performance of the Peruvian economy is widely recognized not only by risk rating agencies, which project a stable scenario for the country, despite the current situation, but also by the main institutional investors who maintain appetite for Peruvian sovereign bonds. This reflects future confidence in the proper management of the economy and the evolution of the main economic indicators.

The good prospects for the Peruvian economy are based mainly on the boost in the construction sector and associated activities, which sustain a growing investment dynamic thanks to the development of large infrastructure projects awarded in recent years. Added to this is the Peruvian government's commitment to promoting the development

of projects through the National Infrastructure Plan for Competitiveness (PNIC) that prioritizes 52 projects for an investment of approximately USD30 billion, of which, more than 60% will be executed in the Public-Private Partnership (PPPs) modality.

Currently, the portfolio of mature projects, mainly in the PPP modality, promoted by ProInversión exceeds USD5.9 billion. There are 22 projects that will be awarded, or called for tender, before July 2021, among which are the Huancayo - Huancavelica Railway project (USD232 million), the Natural Gas Massification project in seven central and southern regions of the country (USD200 million), the Headworks project, to increase and ensure the supply of water within the city of Lima (USD600 million), the Ancón Industrial Park (USD650 million), five electricity transmission projects (USD251 million), two hospital projects (USD254 million), one highway project in the central highlands (USD280 million), one urban connectivity project in Lima and Callao (USD2,049 million), one telecommunications project (USD291 million), two wastewater treatment plants and sewerage networks (USD222 million), five educational infrastructure projects (USD603 million) and a mining-hydraulic development project (USD350 million in a first stage).

For all these projects, international public tenders will be called through which the aim is to generate competition and attract the best global operators in order to ensure the provision of services with high quality standards throughout the concession period.

It should be noted that in Peru foreign investment can be developed freely under the same conditions as domestic investment and is not subject to compliance with performance requirements.

Additionally, Peruvian regulations contain special regimes that guarantee the invariance of relevant aspects for the development of investments such as the free movement of capital, free competition, and the guarantee of private property. This policy is based on the conviction that private investment should be the engine for growth, and for this we require the concurrence of national and foreign capital to promote the development of the enormous opportunities that the country presents.

At ProlInversión - Agency for the Promotion of Private Investment, as a State agency in charge of promoting and facilitating private investment in Peru, we assist the investor in the prospecting, establishment and post-establishment stages. ProlInversión's portfolio contains projects that will make an important contribution to improve the country's connectivity and competitiveness, and at the same time begin to meet the needs of social infrastructure, and by closing the gap will further strengthen the bases for sustained growth.

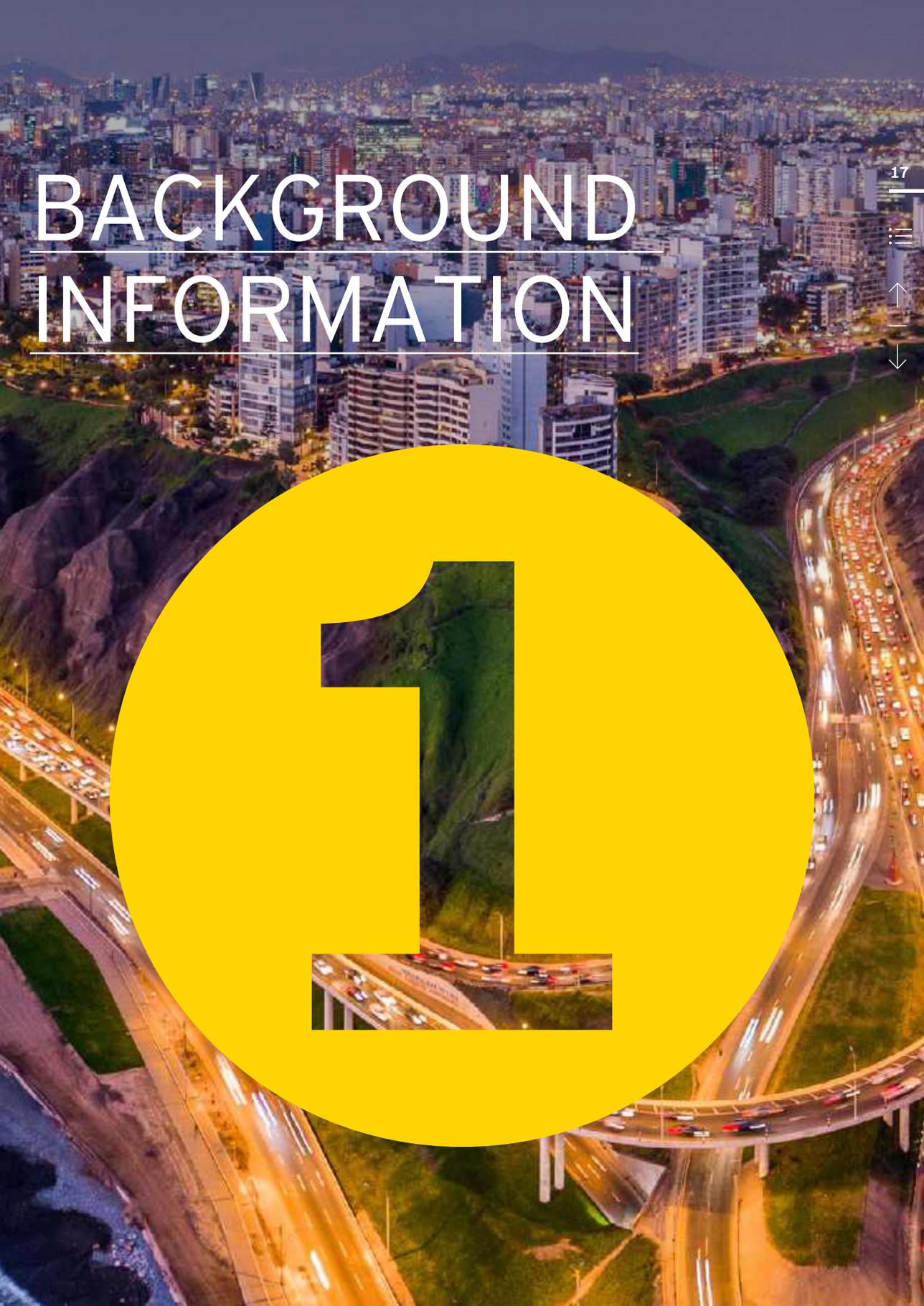
We invite investors to explore investment possibilities in Peru and share the benefits of its promising development.

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# BACKGROUND INFORMATION

1

## 1

# GOVERNMENT

Peru is a constitutional democratic republic with a multi-party system. Under the current Constitution of 1993, the President is the Head of State and Government, elected for a five-year period, without the possibility of running for immediate re-election. A constitutional amendment enacted in 2000 prevents immediate presidential re-election but allows unlimited non-consecutive terms.

The President designates the Prime Minister and the rest of the Cabinet. There is a 130-member unicameral Congress elected for a five-year term. Bills may be proposed either by the Executive or by the Legislative Branches, and they become law after being passed through Congress and enacted by the President. The Judiciary and the National Electoral Board are independent institutions.

The Peruvian Government is directly elected, and voting is compulsory for all citizens between the ages of 18 and 70. In the most recent democratic elections of 2016, Pedro Pablo Kuczynski was elected President of the Republic of Peru; however, he tendered his resignation in the face of an impeachment vote. Peru's first vice president, Martín Vizcarra, was sworn in as president on March 23, 2018 and will hold the post until July 2021. President Vizcarra's appointment was widely applauded by international leaders and markets because it represented the sustainability and improvement of investment-friendly policies.

## Country Overview

### Government Type

Constitutional Republic

### Legal System

Based on civil law

### Executive Branch

- ▶ **Chief of State and Head of Government:** President Martín Vizcarra Cornejo (since March 2018)
- ▶ **Elections:** Every five years by popular vote (non-consecutive re-election). Next elections: April 2021
- ▶ **Cabinet:** Council of Ministers is appointed by the President

### Legislative Branch

- ▶ Unicameral congress
- ▶ 130 seats
- ▶ Members elected by popular vote, for five-year term (non-consecutive re-election)
- ▶ Next elections: April 2021

### Judicial Branch

Judges are appointed by the National Council of the Judiciary: renamed National Justice Board after the 2018 Referendum

### Principal International Relationships

- ▶ Member of the United Nations since 1945, member of the Security Council 2006-2007
- ▶ Member of the World Trade Organization (since 1995)
- ▶ In 1998, became a member of the Asia Pacific Economic Cooperation (APEC) forum
- ▶ In 2011, formed the Pacific Alliance with Chile, Colombia and Mexico

Sources: Peruvian Constitution, Ministry of Foreign Affairs (MRE)

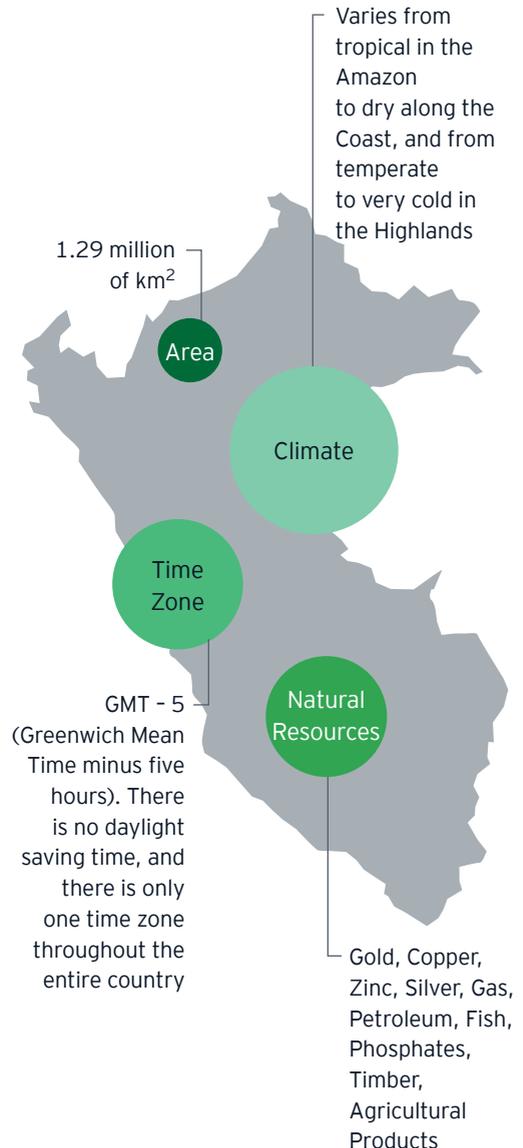
## 2

## GEOGRAPHY

Located on the west central coast of South America, Peru is bordered by the Pacific Ocean to the west, Chile to the south, Bolivia and Brazil to the east, and Colombia and Ecuador to the north. With a total land area of 1.29 million km<sup>2</sup>, Peru is the third largest country in South America after Brazil and Argentina. It may be divided geographically into three regions:

- ▶ The Coast (Costa) which is a narrow desert strip 3,080 km long that accounts for only 11.7% of Peru's territory even when it contains approximately 19 million inhabitants. Lima, the political and economic capital of the country, is located in this region.
- ▶ The Highlands (Sierra) which consists of the Andean Mountain Range, covers 27.9% of the territory and contains almost 10 million inhabitants. This region contains the country's major mineral deposits.
- ▶ The Amazon Jungle (Selva) is the largest region occupying 60.4% of Peru's territory and contains 3.6 million inhabitants. This region is rich in petroleum and forestry resources.

### Geography Data



Sources: Central Reserve Bank of Peru (BCRP), National Institute of Statistics and Information (INEI)

## 3

## PEOPLE

The estimated population of Peru in 2020 is 32.6 million, of which 10.6 million (32.6%) reside in Lima, the capital of the country. The urban and rural population is distributed in 79.3% and 20.7%, respectively. The population of the Coast accounts for 58%, the Highlands 31%, and that of the Jungle is 11%.

Before COVID-19, the Economically Active Population (EAP) was 17.4 million (53% of total population) giving the country a beneficial “demographic bonus” effect.

There is freedom of belief and religion; the predominant religion is Roman Catholicism. The main official languages are Spanish and Quechua. Aymara is also spoken in some parts of the Southern Highlands region of the country.

With respect to the literacy rate, 94.4% age 15 and over can read and write.

## People Overview

<b>Population</b>	32.6 million people 79.3% resides in urban areas
<b>Age Structure</b>	0 - 14 years 24.9% (2020) 15 - 64 years 66.1% (2020) 65 years and over 9.0% (2020)
<b>Annual Growth Rate</b>	1.6% (2015-2020)
<b>Birth Rate</b>	19.1 births/1,000 population (2018)
<b>Death Rate</b>	4.8 deaths/1,000 population (2018)
<b>Gender Ratio</b>	At birth 1.04 male/female
<b>Life Expectancy at Birth</b>	76.6 years (2020)

Source: National Institute of Statistics and Information (INEI)



## 4

## CURRENCY

The Peruvian currency is the Sol (former “Nuevo Sol”) (S/ or PEN). The Central Reserve Bank of Peru (BCRP) conducts a managed floating regime for the exchange rate of the Peruvian Sol (PEN) versus the US Dollar (USD). The Bank allows the market to determine the value of the currency, although it intervenes to avoid large fluctuations.

During 2019, the USD to S/ exchange rate reflected an appreciation of the Sol of 1.63% on average in the context of a still financially dollarized economy. Historically, the Peruvian Sol reached an all-time high of S/3.65 per USD in September of 2002 and a record low of S/1.28 per USD in August of 1992.

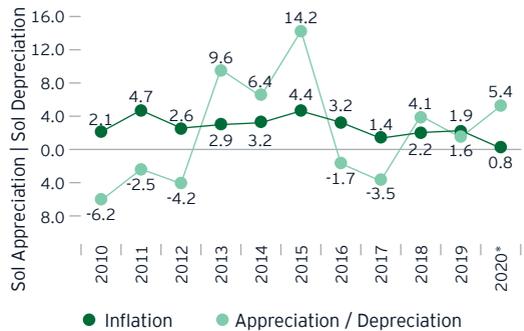
Banks are currently (as of September 18, 2020) buying USD at S/3.533 and selling USD at S/3.538. Parallel market rates are slightly different.

There are no restrictions or limitations on holding bank accounts in foreign currency or to emit funds abroad.

The BCRP started targeting inflation in 2001 and is now committed to keeping the annual inflation rate within a target range of 1% to 3%. The Central Reserve Bank's commitment to stable inflation has favored inflows of capital as well as exchange rate stability.

The annual inflation rate was 1.9% in 2019, remaining among the lowest in the region (2.2% in 2018). The Bank's officials also expect inflation to finish 2020 with an estimate of 0.8%.

### Appreciation / Depreciation and Inflation



\*Exchange rate estimated at S/3.50 and inflation forecast according to the Inflation Report of September, 2020  
Source: Central Reserve Bank of Peru (BCRP)

### Exchange Rate



\*Forecast as at September, 2020  
Source: Central Reserve Bank of Peru (BCRP)

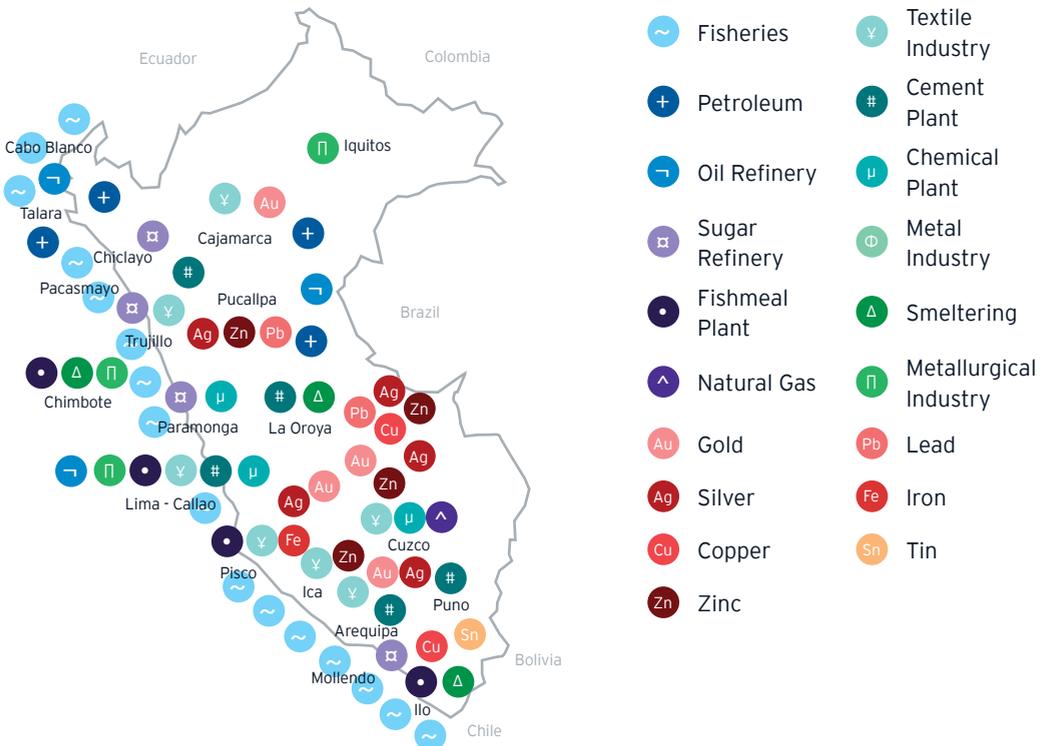
5

# ECONOMIC OVERVIEW

The country has had continuous economic and political stability since the early 1990s. It is a very diverse country due to the climatic, natural and cultural variations of its regions. Peru's economy reflects its varied geography, an arid coastal region, the Andes further inland, and tropical lands bordering Colombia, Brazil and a portion with Bolivia. It has rich deposits of copper, gold, silver, lead, zinc, natural gas and petroleum. Abundant mineral resources are found mainly in the mountainous areas, and Peru's coastal waters provide excellent fishing grounds.



## Main Economic Activities by Region

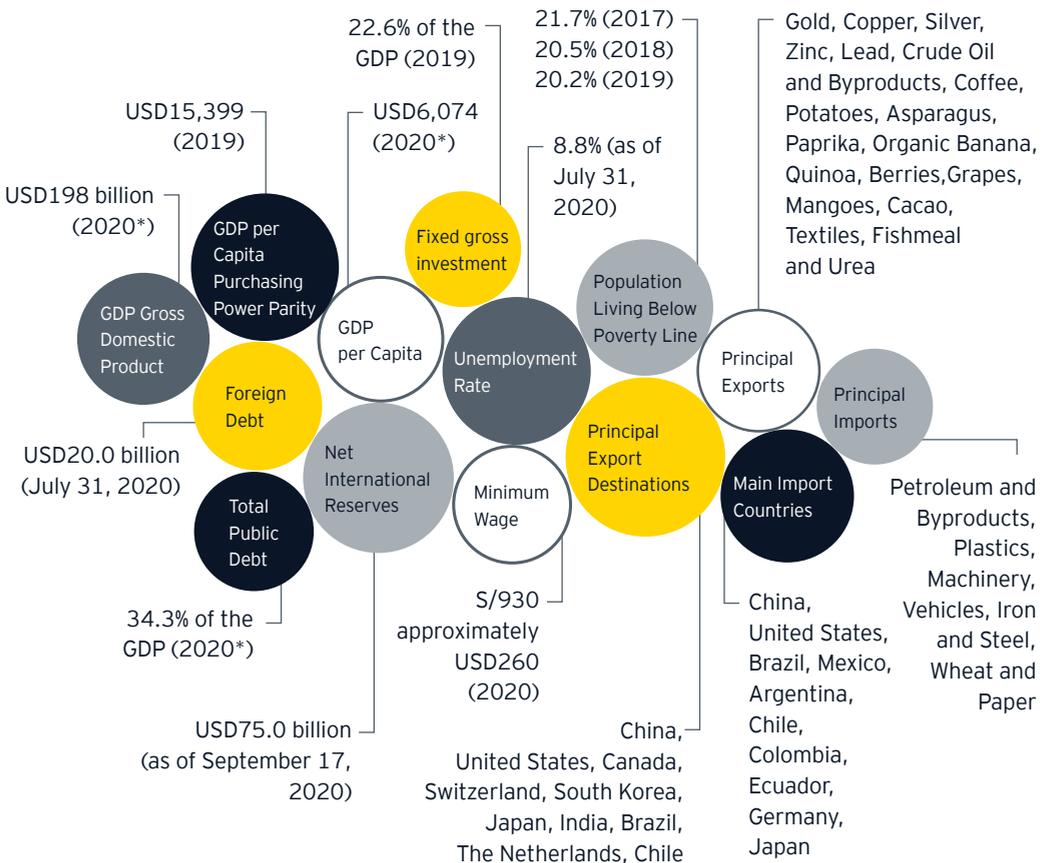


Source: University of Texas - Perry Castaneda Library Map Collection

Peru has been one of the region's fastest-growing economies, over the past two decades, in a context of low inflation. Due to prudent macroeconomic policies, investor friendly market policies and the government's aggressive trade liberalization strategies, Peru has achieved significant progress in social and economic development indicators as well as dynamic GDP growth rates, reduction of external debt, a stable exchange rate and low inflation.

Following a 2.2% GDP growth in 2019, Peru would face a drop in output in 2020 of almost 12% of its GDP after being one of the first countries in the region to impose a lockdown to stop the spread of coronavirus. Nevertheless, Peru's economic stimulus plan equivalent to 20% of GDP, according to the Multiannual Macroeconomic Framework 2021-2024<sup>1</sup>, will speed up the recovery in 2021 with an expected growth rate estimated in 10% to 11% of its GDP.

Peru's Economic Overview



\*Forecast. Inflation Report of September, 2020

Sources: Central Reserve Bank of Peru (BCRP), Ministry of Economy and Finance (MEF), National Institute of Statistics and Information (INEI), International Monetary Fund (IMF)

<sup>1</sup> Multiannual Macroeconomic Framework 2021-2024. Ministry of Economy and Finance [https://www.mef.gob.pe/pol\\_econ/marco\\_macro/MMM\\_2021\\_2024.pdf](https://www.mef.gob.pe/pol_econ/marco_macro/MMM_2021_2024.pdf)

Peru's rapid expansion has helped to reduce the national poverty rate from 48.5% in 2004, to 20.2% of its total population in 2019. Extreme poverty declined from 17.4% to 2.9% over the same period. These results are consequences of the consistency in the economic policies taken by the governments that are also reflected in the sustained growth of the economy. In 2019, Peru accumulated 20 years of continuous GDP growth. It is expected that COVID-19 will severely impact such achievements.

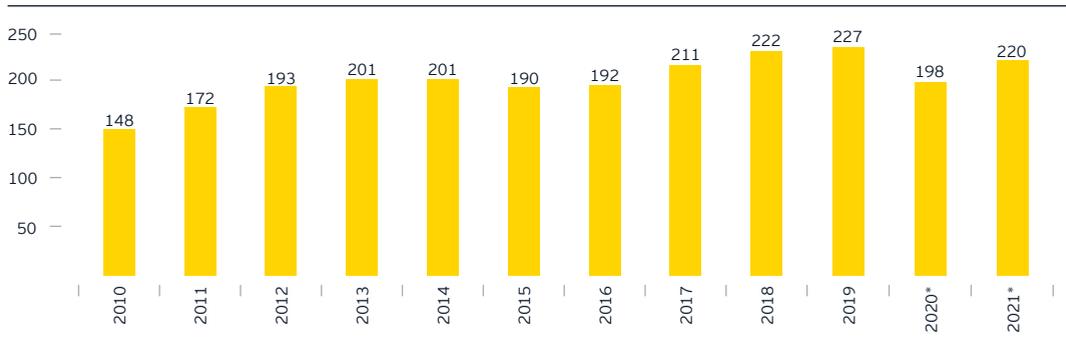
Gross Domestic Product - GDP (% variation)



\*Forecast. Inflation Report of September, 2020

Source: Central Reserve Bank of Peru (BCRP)

Gross Domestic Product - GDP (in USD Billions)



\*Estimated

Source: The World Bank (WB)

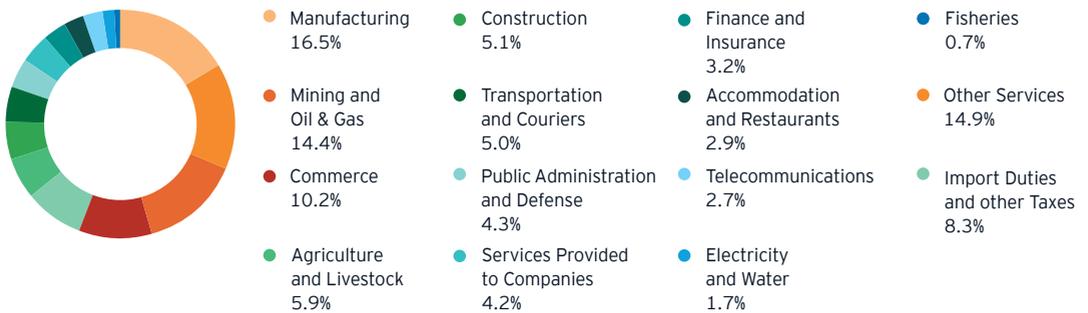
Gross Domestic Product by Industry (Annual % Change)

Type of Company	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*	2021*
Agriculture and Livestock	4.1	5.9	2.7	1.6	3.5	2.7	2.8	7.8	3.4	1.3	3.6
Fisheries	52.9	-32.2	24.8	-27.9	15.9	-10.1	4.7	47.7	-25.9	3.0	8.5
Mining	-2.1	2.5	4.3	-2.2	15.7	21.2	4.5	-1.7	-0.8	-12.5	14.4
Oil & Gas	5.1	1.0	7.2	4.0	-11.5	-5.1	-2.4	0.0	4.6	-11.4	5.9
Manufacturing	8.6	2.5	4.9	-3.6	-1.5	-1.4	-0.2	5.9	-1.7	-1.3	7.7
Electricity and Water	7.6	5.8	5.4	4.9	5.9	7.3	1.1	4.4	3.9	-6.0	12.6
Construction	3.6	15.8	9.0	1.9	-5.8	-3.2	2.1	5.3	1.5	-22.2	23.2
Commerce	8.9	7.2	5.9	4.4	3.9	1.8	1.0	2.6	3.0	-17.8	17.4
Other Services	7.0	7.0	6.1	5.1	4.1	4.1	3.3	4.4	3.8	-12.3	8.2
<b>GDP</b>	<b>6.5</b>	<b>6.0</b>	<b>5.8</b>	<b>2.4</b>	<b>3.3</b>	<b>4.0</b>	<b>2.5</b>	<b>4.0</b>	<b>2.2</b>	<b>-12.7</b>	<b>11.0</b>

\*Forecast. Inflation Report of September, 2020

Source: Central Reserve Bank of Peru (BCRP)

## Composition of Peru's Gross Domestic Product (GDP) by Economic Sector in Percentage, using the Economic Structure with a Base Estimate Year of 2007

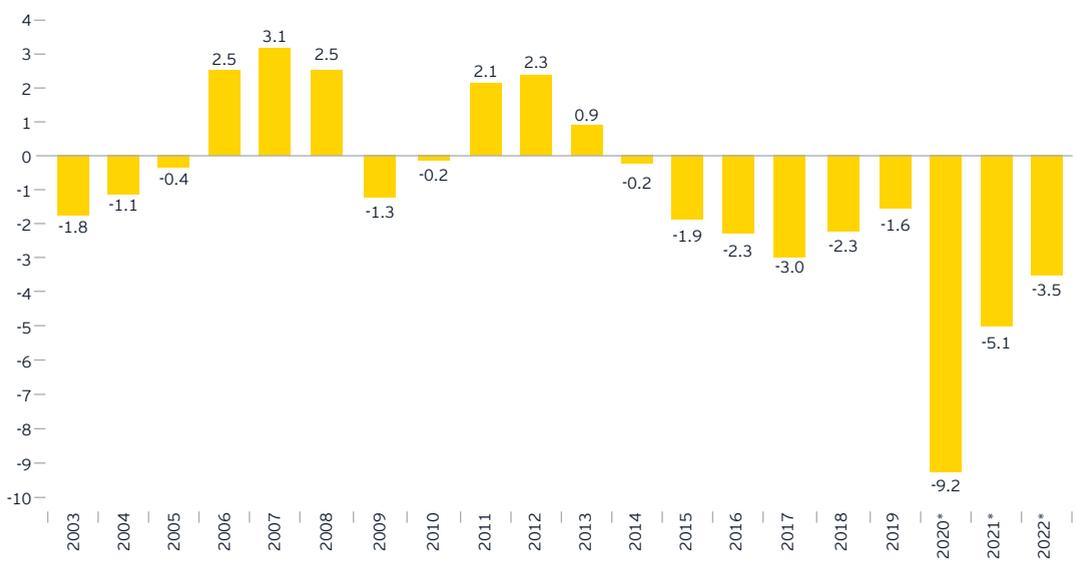


Source: National Institute of Statistics and Information (INEI)

The country's macroeconomic resilience has much to do with the competent monetary and fiscal policy pursued particularly over the past decade, with falling levels of public indebtedness (from 44.7% of GDP in 2004 to just 26.8% in 2019), among the lowest of

the region. Additionally, before the COVID-19 the fiscal balance remained stable without exceeding the 3% in recent years. The following charts present preliminary estimations of the COVID-19 impacts.

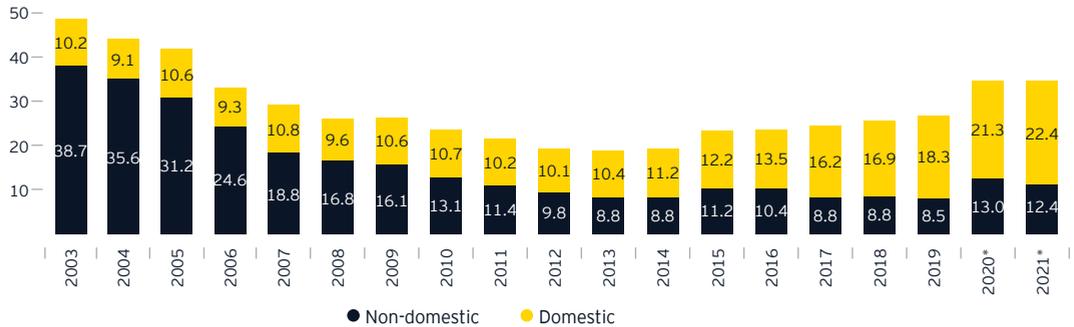
## Fiscal Balance (% of GDP)



\*Forecast. Inflation Report of September, 2020

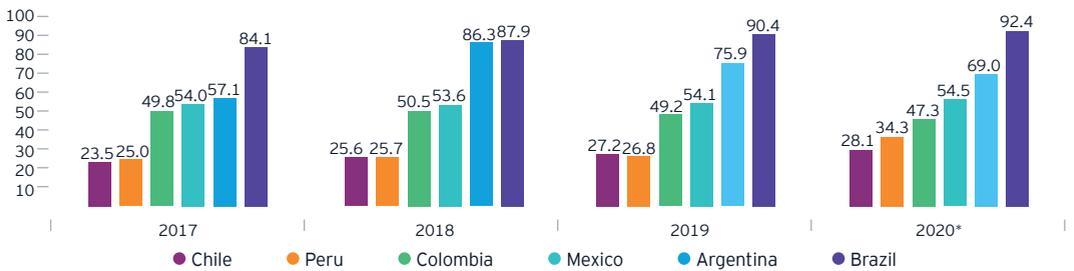
Source: Central Reserve Bank of Peru (BCRP)

### Government Gross Debt (% of GDP)



\*Estimated. Inflation Report of September, 2020  
 Source: Central Reserve Bank of Peru (BCRP)

### General Government Gross Debt in the Region (% of GDP)

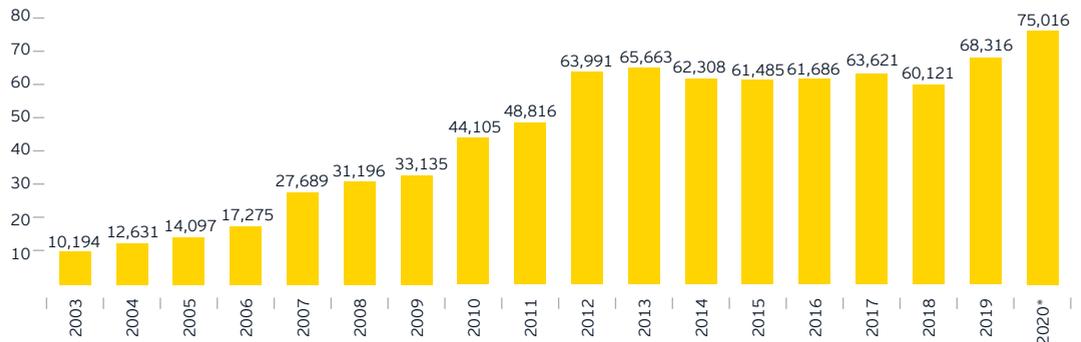


\*Forecast  
 Sources: International Monetary Fund (IMF), Central Reserve Bank of Peru (BCRP)

Furthermore, despite the world economy fluctuations and supply shocks, foreign reserves

represent approximately 37.8% of Peru's GDP reaching USD75.0 billion in September 2020.

### Foreign Reserves (in USD Millions)



\*As of September 17, 2020  
 Source: Central Reserve Bank of Peru (BCRP)

The main rating agencies - Standard & Poor's, Fitch and Moody's - upgraded Peruvian sovereign debt to investment grade a decade ago. Peru also benefits from strengths such as the fairly large size of its market and the sophistication and depth of the financial sector. This has gone hand in hand with the opening of trade and Foreign Direct Investment (FDI), operational independence of the Central Reserve Bank of Peru (BCRP) and maximization of the revenues from the country's rich natural and mineral resources, with expenditures keeping pace. Among the countries that invest the most in Peru are Spain, the United Kingdom, the United States and Chile. Nearly a quarter of the total FDI is attracted by the mining sector and nearly half is split among the financial, communications and energy sectors.

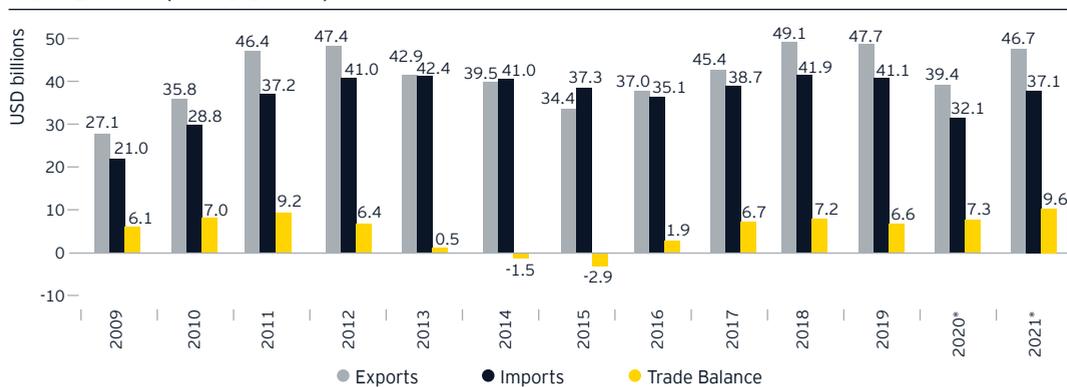
As a country endowed with natural resources, Peru exports goods that are highly subject to price volatility, whereas it imports industrial goods, prices of which are less volatile.

The country has benefited from a steady improvement in its terms of trade since 2000, which has had a positive impact on the trade balance. Moreover, the country has engaged in several bilateral and multilateral trade agreements that have opened new markets for its exports.

In 2019, Peru's total exports reached USD47.7 billion. The trade balance recorded a surplus of USD6.6 billion and USD7.2 billion in 2018.

Although the external sector's contribution to economic growth has been diminishing, exports have remained strong. Increased output of minerals, especially copper, allowed for the surge in exports in 2019. The main detraction from the external sector's contribution to growth stemmed from increasing imports, although capital goods imports have remained at healthy levels. Peru's imports are mainly consisting of final and intermediate goods, as opposed to exports, in which mineral and ore account for most overseas sales.

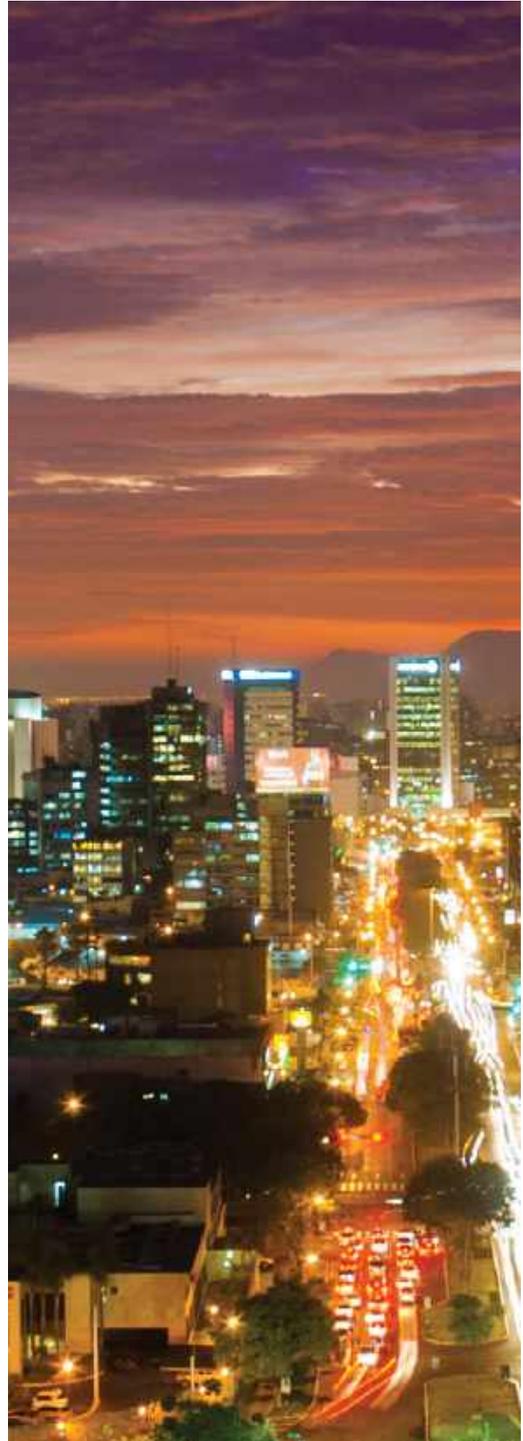
Trade Balance (in USD Billions)



Forecast. Inflation Report of September, 2020

Source: Central Reserve Bank of Peru (BCRP)

According to preliminary information published by the Central Reserve Bank (BCRP) Peru's economy will decrease in 2020 because of the impact of COVID-19. However, the economy is expected to remain on a solid footing in 2021, as internal and external demand will stimulate Peruvian production and exports, and the government's efforts to cut red tape should boost private investment. As in past external economic crises and recession episodes from which Peru's growth has recovered rapidly, the country stands out for its sufficient macroeconomic stability and strength to face the health and economic crisis. Proof of this has been the considerable economic rescue package for companies and families, one of the largest among the countries in the region, to revive the economy and ensure health attention to the population.



# BUSINESS ENVIRONMENT



## 1

# INFRASTRUCTURE INVESTMENT

Peru is expected to realize its full economic potential after reducing its infrastructure gap and bottlenecks. Over the past decade, Peru has begun to take the necessary measures to improve its infrastructure in transport facilities, electricity, water and communications in order to promote new investments, which will contribute to the development of the productive sectors of the country.

Peru is focused on promoting the development of infrastructure for its positive impact on the GDP through the production of transport services, the supply of water and electricity, sanitation and telecommunications. Infrastructure investments create positive externalities within the country that will accelerate long-term growth. Additionally, investment in infrastructure indirectly influences the productivity of businesses and the entire supply chain in the economy so that all production factors increase their productivity. Companies will benefit from the increase of competitiveness through the reduction of costs, an increase in economies of scale, efficiency in supply chains, expansion of storage, and facility of distribution. Not only will companies benefit but also the population will increase their quality of life by covering their basic needs and accessing better public services, necessary to permanently break out of poverty. The development of infrastructure has a positive impact on human capital and its competitiveness both in the medium and long term.

In 2019, the government presented the National Infrastructure Plan for Competitiveness (PNIC) a fundamental document in the management of closing gaps for the economic and social development of the country. The document includes a methodology for prioritizing projects that enhance Peru's productivity and competitiveness.

The PNIC estimates a long-term infrastructure gap of approximately USD110 billion: 44% is concentrated in the transportation sector, followed by the sanitation (20%), health (16%) and water (7%) sectors. Additionally, as part of the prioritization methodology, 52 projects are listed for a total of an estimated USD30 billion that will have a timely impact by developing the internal market, promoting access to the external market and improving the quality standards of the population.

The PNIC does not replace or substitute any other initiative of sectors or regions. There is still work to be done on social infrastructure projects that are not included in the PNIC. Project planning must be seen as a dynamic exercise where more initiatives can be included (See Section 3.1).

The government is also working to increase public and private investment in infrastructure and creating the mechanisms to ensure continuity of its policies. To close the infrastructure gap, different investment mechanisms must be used: public works, Public-Private Partnerships (PPP), Works for Taxes (WT), and Government to Government (G2G) agreements.

## 2

The effort to close the infrastructure gap requires the active participation of the private sector. Accordingly, the Peruvian government has become very proactive providing incentives to develop investment projects. Peruvian laws have incorporated Public-Private Partnerships (PPPs) a type of private investment participation. PPPs are executed under concessions, operations, management, joint ventures and any other type of PPPs admitted by Peruvian law to create, develop, improve, operate or maintain public infrastructure or provide public services. This type of investment can be requested as a private initiative or through a public tender. Another example of these incentives is the Works for Taxes (WT), in which Peru's tax system includes provisions to grant credits against income taxes and thus to allow third-party investors to recover capital investments made in public infrastructure.

Nowadays, Government to Government (G2G) agreements are a tool that the government intends to promote to benefit from technical assistance that meets international standards, as well as to increase its capacity in the management of large projects that Peru aims to execute.

Both public and private sectors are involved in the economic development and social welfare of the country. Peru is recognized in the international community for providing favorable conditions to take advantage of the opportunities available in the development of its infrastructure.

## INVESTMENT GRADE RATING AND COUNTRY RISK

Peru has maintained its investment-grade credit rating since Moody's Investors Services raised it to that level in December 2009, matching moves made by Standard & Poor's and Fitch Ratings the previous year. The country's stable, credible and consistent macroeconomic policies throughout several administrations are the key supporting factors for the investment-grade rating. The upgrade to investment grade has brought Peru positive attention worldwide. Above all, it has had a positive impact on the local economy and should help to boost the stock market and the appreciation of the Peruvian currency. For this reason, many multinational corporations have a better impression of Peru as more private investment is flowing into the country.

It is well known that countries with investment grade ratings gain a higher level of confidence, generating more foreign and domestic investment. The risk premium demanded by multinationals and foreign investors is reduced after the upgrade and, at the same time, the investment horizon is lengthened. The same occurs with domestic investment. Local investors gain more confidence, thus allowing themselves to consider opportunities with lower interest rates. The impact is immediate, as consumers gain access to credit with more favorable terms.

### Sovereign Credit Ratings in Latin American Countries

Country	S&P	Fitch	Moody's
Chile	A+	A	A1
<b>Peru</b>	<b>BBB+</b>	<b>BBB+</b>	<b>A3</b>
Mexico	BBB	BBB-	Baa1
Colombia	BBB-	BBB-	Baa2
Uruguay	BBB	BBB-	Baa2
Paraguay	BB	BB+	Ba1
Bolivia	B+	B+	B1
Brazil	BB-	BB-	Ba2
Argentina	SD	RD	Ca
Ecuador	SD	RD	Caa3
Venezuela	SD	WD	C

As at August 2020

Sources: Standard & Poor's, Fitch Ratings, Moody's

S&P / Fitch	Moody's	Feature
AAA	Aaa	Risk Free
AA+, AA, AA-	Aa1, Aa2, Aa3	High Grade
A+, A, A-	A1, A2, A3	High Repayment Capacity
BBB+, BBB, BBB-	Baa1, Baa2, Baa3	Moderate Repayment Capacity
BB+, BB, BB-	Ba1, Ba2, Ba3	Some Repayment Capacity
B+, B, B-	B1, B2, B3	Highly Uncertain Repayment Capacity
CCC+, CCC, CCC-, CC	Caa1, Caa2, Caa3	Extremely Vulnerable to Default
SD/RD	C	Default

Sources: Standard & Poor's, Fitch Ratings, Moody's

### COUNTRY RISK

As at September 17, Peru had a country risk of 158 base points, ranking as the lowest in Latin America. This score is nearly one-third of the regional average (450 points).

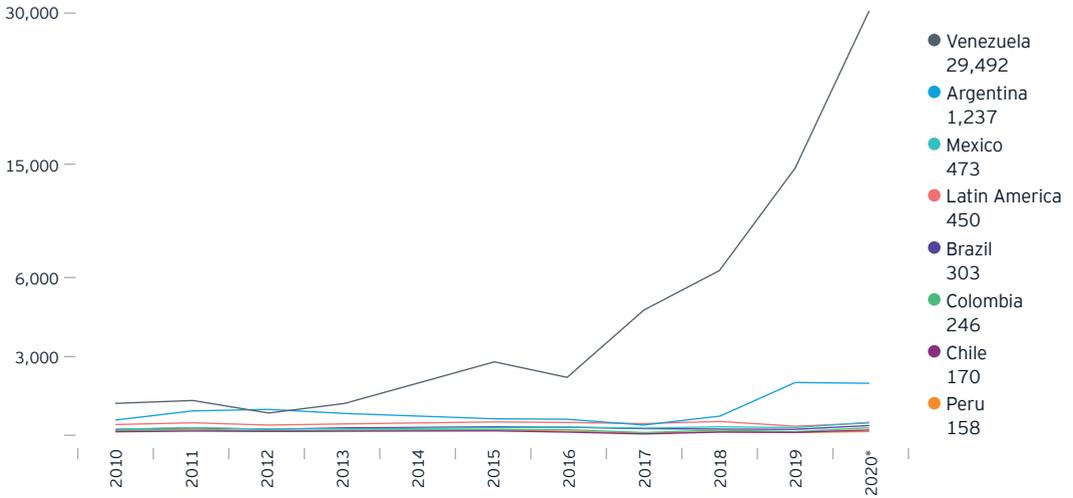
Peru achieved the position of the third most globalized country in Latin America, according to the Globalization Index established by EY. Five elements are considered within this index: openness to foreign trade, capital flows, exchange of technology and ideas, international movement of workers, and cultural integration.

Additionally, in early 2018, Bloomberg Markets positioned Peru as the ninth emerging market with the greatest international projection, based on the country's advantages, such as low share prices and their possible increase in the future.

As may be seen in the following charts, Peru's level of inflation is one of the lowest in Latin America, with a rate of 1.9% in 2019, and an estimated rate of 0.8% for 2020. In addition, over the past decade (2010-2019) the Peruvian economy had the lowest average annual inflation rate in Latin America, at 2.9%, below that of Chile (3.1%) Colombia (3.8%) and Brazil (5.9%).

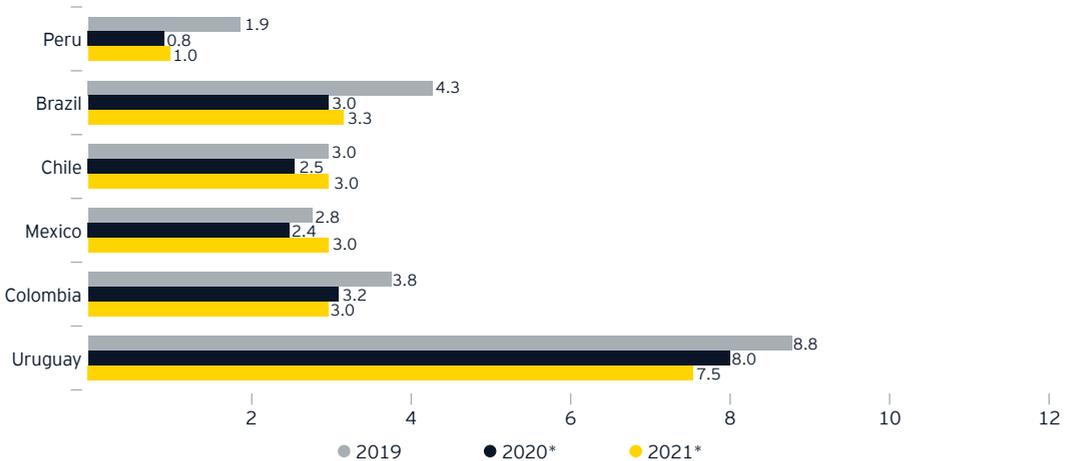


### Country Risk Indicator



\*Figures as at September 17, 2020  
Source: Central Reserve Bank of Peru (BCRP)

### Inflation Rates in Latin America



\*Forecast. World Economic Outlook Database, April 2020  
Sources: International Monetary Fund (IMF), Central Reserve Bank of Peru (BCRP)

## 3

# INVESTMENT PROMOTION CONDITIONS

## FOREIGN INVESTMENT LEGISLATION AND TRENDS IN PERU

Peru seeks to attract both domestic and foreign investment in all sectors of the economy. To achieve this, it has taken the necessary steps to establish a consistent investment policy that eliminates any barriers that foreign investors might face. As a result, Peru is considered a country with one of the most open investment systems in the world.

Peru has adopted a legal framework for investments that requires no previous authorization for foreign investment. Accordingly, foreign investments are allowed without restrictions in the large majority of economic activities. The activities with restrictions are very specific, such as air transportation, sea transportation, private safety and surveillance and the manufacture of war weaponry.

Additionally, Peru has a legal framework to protect the economic stability of investors and

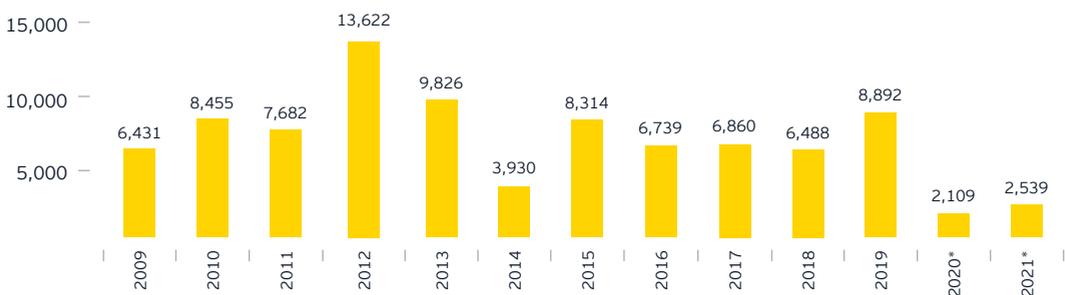
to reduce government interference in economic activities (See Section 4.1).

Peruvian government guarantees legal stability to national and foreign investors with respect to legislation governing income tax and, specifically, distribution of dividends. Foreign investors with the right to obtain legal and tax stability are those willing to invest in Peru for a period of no less than two years and for a minimum of USD10 million in the Mining and/or Oil & Gas sectors, or USD5 million in any other economic activity.

Peruvian laws, regulations, and practices do not discriminate between domestic and foreign corporations. There are no restrictions on repatriation of profits, international transfers of capital, or foreign exchange practices. The remittance of interest and royalties is not restricted in any manner. Foreign currency may be used to acquire goods abroad or cover financial obligations to the extent operators comply with the applicable Peruvian tax legislation.

As a result, the Central Reserve Bank (BCRP) reported that the stock of Foreign Direct Investment (FDI) inflow reached USD8.8 billion in 2019. FDI is concentrated in mining, communications, finance, manufacturing and energy.

### Foreign Direct Investment (in USD Millions)



\*Forecast as at September, 2020

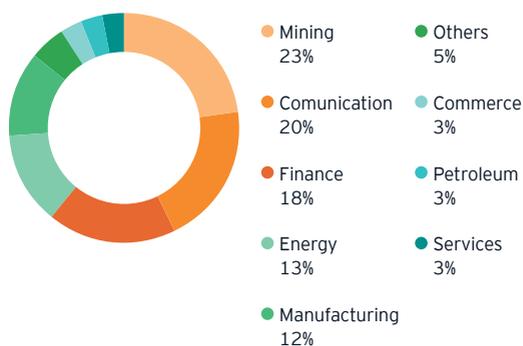
Source: Central Reserve Bank of Peru (BCRP)

Foreign Direct Investment (FDI) is largely seen as a catalyst for economic growth in the future. The United States, United Kingdom, The Netherlands, Spain, Brazil and Chile appear as Peru's leading investors. FDI is concentrated in the mining, financial, electricity, telecommunications and industry sectors.

### RECOGNITION OF FAVORABLE INVESTMENT CLIMATE

According to the World Economic Forum, Peru is among the top countries in Latin America in terms of macroeconomic stability, human capital, market size, financial system, among others.

Foreign Direct Investment (FDI) by Industry 2019



Source: ProInversión

### Global Competitiveness Index

	2018		2019	
	Ranking	Score	Ranking	Score
<b>Peru Total</b>	<b>63/140</b>	<b>61.3</b>	<b>65/141</b>	<b>61.7</b>
Enabling environment	64	64.1	70	64.2
- Institutions	90	50.2	94	48.9
- Infrastructure	85	62.4	88	62.3
- ICT adoption	94	43.9	98	45.7
- Macroeconomic stability	1	100.0	1	100.0
Human capital	43	75.5	44	77.4
- Health	32	93.3	19	94.6
- Skills	83	58.6	81	60.2
Markets	48	60.1	51	59.9
- Product market	50	59.5	56	57.1
- Labor market	72	58.8	77	59.0
- Financial system	63	60.5	67	61.4
- Market size	49	61.6	49	62.2
Innovation ecosystem	93	43.2	94	44.3
- Business dynamism	92	54.5	97	55.8
- Innovation capability	89	31.9	90	32.7

Source: World Economic Forum



Also, according to Doing Business 2020, Peru ranks 76th out of 190 countries in terms of ease of starting a company and doing business, and ranks sixth in Latin America.

#### Doing Business in Latin American Countries

Positon	Country
59	Chile
60	Mexico
65	Puerto Rico (United States)
67	Colombia
74	Costa Rica
<b>76</b>	<b>Peru</b>
86	Panama
91	El Salvador
96	Guatemala
101	Uruguay
115	Dominican Republic

Source: World Bank (WB) - Doing Business 2020

#### Forbes in Latin American Countries

Positon	Country
33	Chile
48	Costa Rica
54	Mexico
58	Uruguay
<b>64</b>	<b>Peru</b>
67	Colombia
73	Brazil
75	Panama
76	Argentina
91	Dominican Republic
97	Guatemala

Source: Forbes 2019



## Summary of Doing Business Indicators

Indicators	Peru	Latin America and The Caribbean	
Starting a business	▶ Number of procedures	8.0	8.1
	▶ Time (days)	26.0	28.8
	▶ Cost (% of income per capita)	9.4	31.4
	▶ Registration of minimum paid-up capital (% of income per capita)	0.0	0.4
Construction permits	▶ Number of procedures	19.0	15.5
	▶ Time (days)	137.0	191.2
	▶ Cost (% of warehouse cost)	1.7	3.6
Registration of property	▶ Number of procedures	6.0	7.4
	▶ Time (days)	9.5	63.7
	▶ Cost (% of property cost)	3.9	5.9
Electricity service	▶ Number of procedures	6.0	5.5
	▶ Time (days)	67.0	66.8
	▶ Cost (% of income per capita)	448.5	407.2
Granting of credits	▶ Strength of legal rights index (0-12)	7.0	5.3
	▶ Depth of credit information index (0-8)	8.0	5.1
	▶ Credit registry coverage (% of adults)	39.4	14.6
	▶ Credit bureau coverage (% of adults)	100.0	47.6
Protection of minority investors	▶ Extent of disclosure index (0-10)	9.0	4.1
	▶ Extent of shareholder rights index (0-6)	6.0	3.0
Payment of taxes	▶ Number of payments per year	8.0	28.2
	▶ Time (hours per year)	260.0	317.1
	▶ Total tax and contribution rate (% of profit)	36.8	47.0
Trading across borders	▶ Time to export - Documentary compliance (hours)	24.0	35.7
	▶ Cost to export - Documentary compliance (USD)	50.0	100.3
	▶ Time to export - Border compliance (hours)	48.0	55.3
	▶ Cost to export - Border compliance (USD)	630.0	516.3
Enforcement of contracts	▶ Time (days)	478.0	774.2
	▶ Cost (% of claim value)	41.2	32.0
	▶ Quality of legal proceedings (0-18)	9.5	8.8
Resolving insolvency	▶ Time (years)	3.1	2.9
	▶ Cost (% of assets)	7.0	16.8
	▶ Recovery rate (cents/dollar)	31.3	31.2

Source: World Bank (WB) - Doing Business 2020

## 4

## TRADE AGREEMENTS

Furthermore, in the 2020 Index of Economic Freedom prepared by The Heritage Foundation, Peru ranks among the top countries in the region. This index has been made by analyzing the financial, investment, trade, monetary, labor and business freedom. It also evaluates fiscal health, government expenditure, tax burden, government integrity, judicial effectiveness and property rights.

### Doing Business in American Countries

Economy	World Ranking	South American Ranking	Total Score
Singapore	1	-	89.4
China, Hong Kong	2	-	89.1
New Zealand	3	-	84.1
Canada	9	-	78.2
Chile	15	1	76.8
Colombia	45	2	69.2
Uruguay	47	3	69.1
<b>Peru</b>	<b>51</b>	<b>4</b>	<b>67.9</b>
Mexico	67	-	66
Paraguay	80	5	63
Brazil	155	6	53.7
Argentina	149	7	53.1
Ecuador	158	8	51.3
Bolivia	175	9	42.8
Venezuela	179	10	25.2

Source: The Heritage Foundation

Peru's development strategy is based on an economy open to the world and competitive in its export offer. It has been a successful strategy that has permitted the country to consolidate its foreign trade in goods and services as an instrument for economic development and reduction of poverty.

International trade negotiations, which have benefited from rigorous macroeconomic management and its consequent stability, have allowed the Peruvian economy to gradually tackle and reduce its external vulnerability in times of crisis, such as in the current international and local situation. Trade agreements are a valuable instrument for attracting direct foreign investment and boosting increased productivity in companies, as well as the transfer of technology through the lower cost of imports of capital goods and quality inputs; these agreements provide an incentive to the processes of convergence of international standards, which has enabled more Peruvian companies to improve their management and logistics practices.

Peru is a member of the World Trade Organization (WTO) since 1995 and in 1998 became a member of the Asia Pacific Economic Cooperation (APEC) forum. In 2011 it formed the Pacific Alliance with Chile, Colombia and Mexico. It is also a member country of the Latin American Integration Association (ALADI) and a State Member of the Southern Common Market (MERCOSUR). Peru has begun following a Country Program in its process of incorporation to the Organization for Economic Cooperation

and Development (OECD). This represents a key tool for Peru to succeed in the strategy and process towards its entry into the organization.

Today, Peru has 32 Bilateral Investment Treaties (BIT) with Argentina, Australia, Bolivia, Canada, Chile, China, Colombia, Cuba, Czech Republic, Denmark, Ecuador, El Salvador, Finland, France, Germany, Italy, Japan, Malaysia, The Netherlands, Norway, Paraguay, Portugal, Romania, Singapore, Republic of Korea, Spain, Sweden, Switzerland, Thailand, the Belgium-Luxembourg Economic Union, United Kingdom and Venezuela.

Additionally, Peru has in force 14 Free Trade Agreements and Economic Integration Agreements (FTA & EIA) with Canada, Costa Rica, European Free Trade Association (EFTA), the European Union, Japan, Panama, Australia, Chile, China, Honduras, Republic of Korea, Mexico, Singapore and the United States.

Peru maintains negotiations with Turkey, El Salvador and India, and has concluded negotiations with Brazil, Guatemala and the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (with Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Singapore and Vietnam) which incorporates the provisions of the Trans-Pacific Partnership Agreement.

Foreign investors are protected against inconvertibility, expropriation, political violence and other non-commercial risks through access to multilateral and bilateral conventions. It should be noted that Peru has signed an agreement with the Overseas Private Investment Corporation (OPIC) and a Constitutive Agreement with the Multilateral Investment Guaranty Agency (MIGA). Peru has also signed the International Convention for

Settlement of Investment Disputes (ICSID) of the World Bank as an alternative for resolving disputes that might arise between investors covered by the ICSID and the Peruvian State.

Additionally, eight agreements have been signed to avoid double taxation with Chile, Canada, the Andean Community of Nations (CAN), Brazil, Mexico, South Korea, Switzerland and Portugal. In 2019, Peru also signed a double tax treaty with Japan, which is still pending ratification by both contracting states to enter into force (See Section 7.2).



# INFRASTRUCTURE POTENTIAL

40



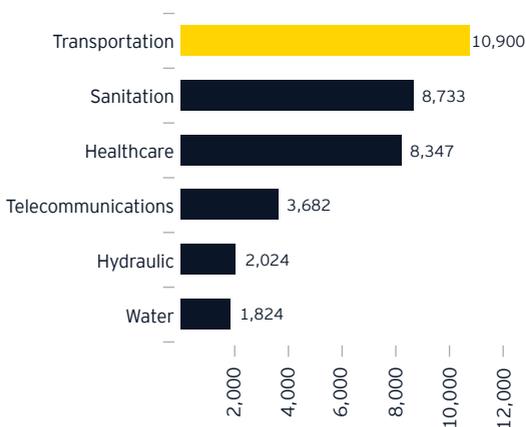
1

# INFRASTRUCTURE GAP

The National Infrastructure Plan for Competitiveness<sup>1</sup>, identifies a basic access infrastructure gap of approximately<sup>2</sup> USD110 billion (S/363 billion). This estimate does not consider qualitative elements such as quality of water, hours of electricity, school structure conditions, among others. Therefore, this infrastructure gap would be underestimated, assuming Peru aims to be a developed country.

## Infrastructure Gap - Short Term (in USD Millions)

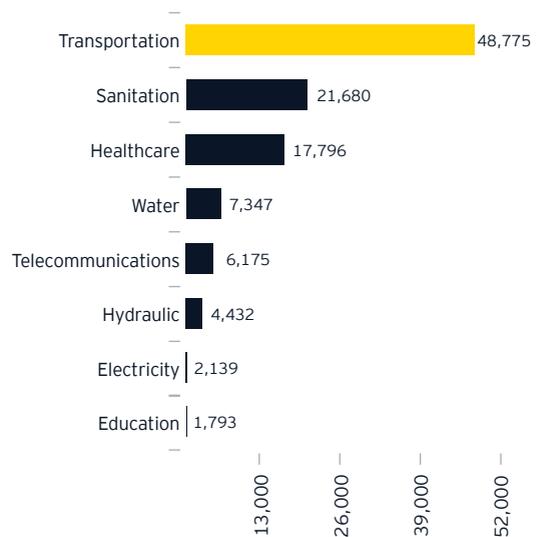
This has been calculated considering a five-year horizon, at approximately USD35 billion, distributed among the following sectors: Transportation (31%), Sanitation (25%), Healthcare (24%), Telecommunications (10%), Hydraulic (6%) and Water (5%).



Source: National Infrastructure Plan for Competitiveness (2019)

## Infrastructure Gap - Long Term (in USD Millions)

This gap considered a twenty year horizon and is estimated at approximately USD110 billion, distributed among the following sectors: Transportation (44%), Sanitation (20%), Healthcare (16%), Water (7%), Telecommunications (6%), Hydraulic (4%), Electricity (2%) and Education (2%).



Source: National Infrastructure Plan for Competitiveness (2019)

<sup>1</sup> National Infrastructure Plan for Competitiveness. Ministry of Economy and Finance (MEF).

[https://www.mef.gob.pe/contenidos/inv\\_privada/planes/PNIC\\_2019.pdf](https://www.mef.gob.pe/contenidos/inv_privada/planes/PNIC_2019.pdf)

<sup>2</sup> Exchange rate: USD1 = S/3.3, according to the National Infrastructure Plan for Competitiveness.

## 2

# OVERVIEW BY SECTOR

## 1. ROADS

Peru has a total road infrastructure of 168,474 km, distributed as follows:

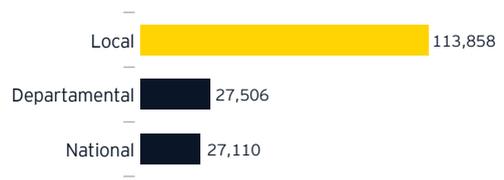
- Local roads: 113,858 km (67.6%)
- Departmental roads: 27,506 km (16.3%)
- National roads: 27,110 km (16.1%)

Specifically, 79% of the national roads (21,434 km) are paved, while only 13.17% (3,623 km) and 1.63% (1,859 km) of the departmental and local roads, respectively, are paved.

In total, 141,557 km were unpaved by 2018 which represents 86% of all existing roads. This situation explains part of the transport infrastructure gap previously explained, and that needs to be solved through public and private investment.

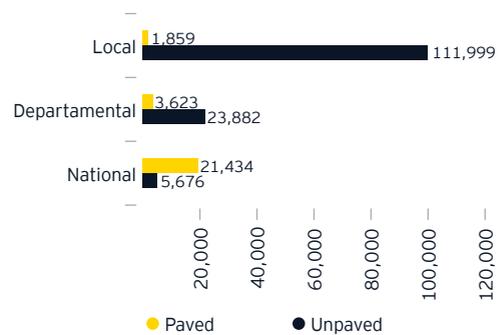
Regarding private investment participation, Peru has 16 concessions for 6,693 km, which are being supervised by OSITRAN<sup>3</sup>.

### Road per System (in Kilometers)



Source: Ministry of Transportation and Communications (2018)

### Paved and Unpaved Roads (in Kilometers)



Source: Ministry of Transportation and Communications (2018)

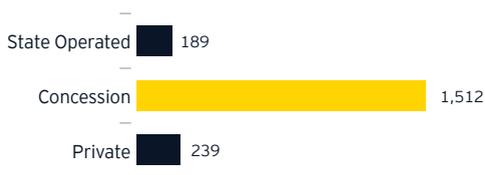


<sup>3</sup> Supervisory Agency for Investment in Public Use Transport Infrastructure (OSITRAN).  
<https://www.ositran.gob.pe/carreteras/>

## 2. RAILWAYS

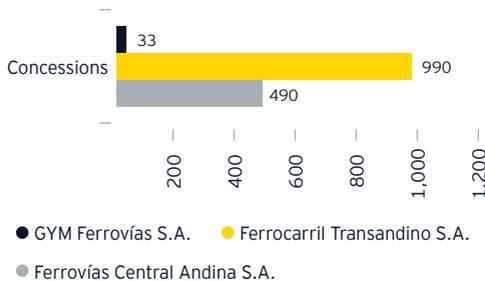
Peru has a total railway infrastructure of 1,939.7 km grouped by ownership as follows: Railway Concessions (78%) totaling 1,512.4 km, followed by Private Railways (12.3%) totaling 238.6 km, and State Operated Railways (9.73%) totaling 188.7 km.

### Railways by Property Regime (in Kilometers)



Source: Ministry of Transportation and Communications (2018)

### Railway Concessions (in Kilometers)



Source: Ministry of Transportation and Communications (2018)

Only 33.1 km of the total railway concessions are for urban transport (Line 1 of the Lima and Callao Metro System). The remaining are freight and tourist transport railways. It is worth mentioning that Peru has two experiences in railway infrastructure concessions in railway infrastructure concessions supervised by OSITRAN<sup>4</sup>.

However, Line 2 -first fully underground metro project- is not yet included, because it is currently under construction. Line 2 includes an extension of 35 km and 35 stations.

Additionally, of the State Operated railways, 128 km represent the Huancayo-Huancavelica Railway Project, which has been included in the Public-Private Partnership (PPP) project pipeline.

Recently, President Martín Vizcarra's National Independence Day holiday speech announced the development of Lines 3 and 4 of the Lima and Callao Metro System under the Government to Government mechanism.



<sup>4</sup> Supervisory Agency for Investment in Public Use Transport Infrastructure. (OSITRAN)  
<https://www.ositran.gob.pe/vias-ferreas/>

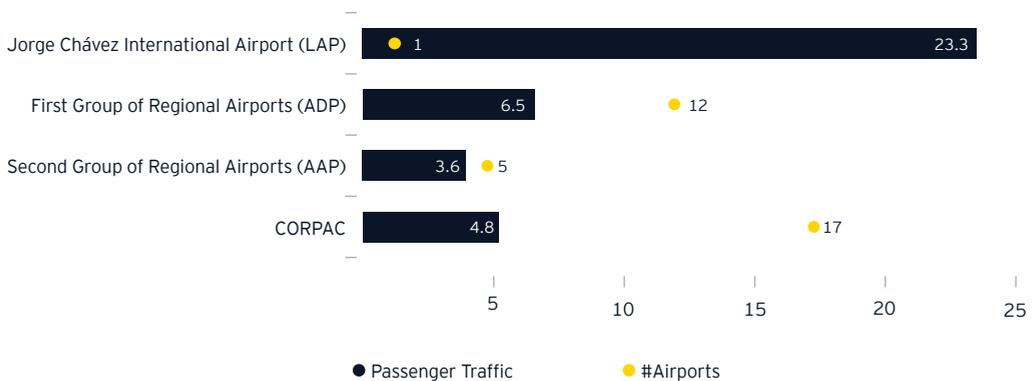
### 3. AIRPORTS

Peru has 35 airports. Its main Airport, the "Jorge Chávez International Airport" in Lima, has been granted in concession to Lima Airport Partners (LAP) currently owned by Fraport AG (80%) and International Finance Corporation (IFC) of the World Bank (20%). There are two more concessions, 12 regional airports as part of the "First Group of Regional Airports" awarded to Aeropuertos del Perú (ADP) and five regional airports as part of the "Second Group of Regional Airports" awarded to Aeropuertos Andinos del Perú (AAP). Lastly, there are 17 airports operated by CORPAC, the government entity in charge of airport operations in Peru.

In 2019, passenger traffic amounted to 38.1 million: LAP represented 61.1%, followed by ADP with 17%; AAP with 9.4% and CORPAC with 12.5%.

Peru has 18 airports granted in concession and 17 airports currently operated by CORPAC (government entity). From these government operated airports, eight airports will be granted in concession as part of the "Third Group of Regional Airports"<sup>5</sup>. In addition, Cusco city airport operated by CORPAC, will be replaced by the Chinchero International Airport, currently under construction through the Government to Government mechanism.

Airports Passenger Traffic (in Millions)



Source: Supervisory Agency for Investment in Public Use Transport Infrastructure (OSITRAN) (2019)

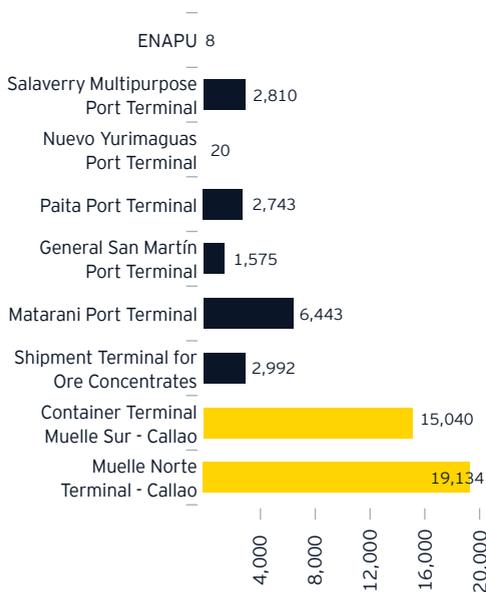
<sup>5</sup> Private Investment Promotion Agency, ProlInversión.  
<https://www.proinversion.gob.pe/ipctransportes/docs/Teaser-AEROPUERTOS.pdf/>

## 4. PORTS

Peru has 18 ports and a total movement of 50.7 million tons in 2019. The main port terminals in Peru are located in Callao. The government port operator, ENAPU, manages 10 ports in the country.

Peru has experience in the development of port projects, with a total of eight port concessions supervised by OSITRAN<sup>6</sup>. The development of new port projects is being evaluated and included in the Public-Private Partnership (PPP) project pipeline<sup>7</sup>.

TN Volume 2019 (in Thousands)



Source: Supervisory Agency for Investment in Public Use Transport Infrastructure (OSITRAN) (2019)

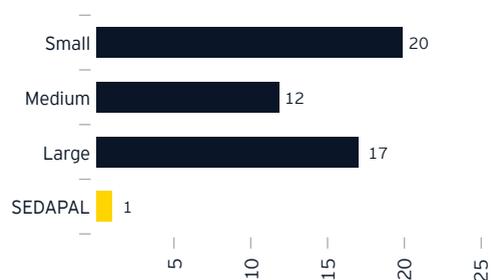
## 5. WATER AND SANITATION

### URBAN AREAS

There are 50 water and sanitation service provider companies that are grouped according to their management in National Government (2) and Regional or Local Government (48). The company that has the most connections is SEDAPAL (National Government) which operates in the capital city of Lima.

Companies providing water and sanitation services can also be grouped by connection size. In addition to SEDAPAL there are 17 large companies that have between 40,000 and 250,000 connections, 12 medium companies that have between 15,000 and 40,000 connections and 20 small companies with less than 15,000 connections.

Number of Companies by Size



Source: National Superintendence of Sanitation Services (SUNASS) (2018)

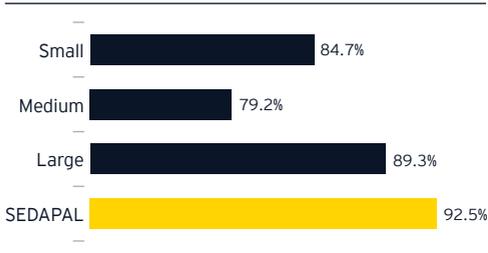
<sup>6</sup> Supervisory Agency for Investment in Public Use Transport Infrastructure. (OSITRAN) <https://www.ositran.gob.pe/puertos/>

<sup>7</sup> Private Investment Promotion Agency. ProlInversión. <https://www.proyectosapp.pe/modulos/JER/PlantillaProyectosResumenes.aspx?are=1&prf=2&jer=5961&sec=30>

The company with the highest coverage of drinking water by area of influence in 2018 was SEDAPAL with 92.5% in Lima. Medium-sized companies had an average coverage of 79.2%.

In summary, the national average for water coverage is 89.9%, while for sewerage coverage it is 83.8%.

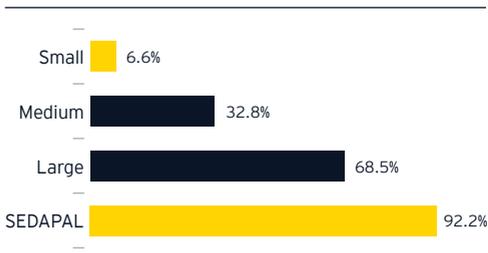
### Drinking Water Coverage



Source: National Superintendence of Sanitation Services (SUNASS) (2018)

SEDAPAL treats 92.2% of the collected wastewater, while on average small companies treat only 6.6%. The national average for wastewater treatment is 79.2%.

### Wastewater Treatment



Source: National Superintendence of Sanitation Services (SUNASS) (2018)

### RURAL AREAS

There are 450 Community Organizations that provide water services and are grouped according to ownership into Community Organizations (319), Municipal Providers (107) and Specialized Operators (9).

#### Number of Organizations



Source: National Superintendence of Sanitation Services (SUNASS) (2018)

It should be noted that 94% of the population in urban areas has access to the Public Water Network, while in rural areas access is only for 72% of the population.

Peru has experience in Public-Private Partnerships (PPPs) for the development of Wastewater Treatment Plants (WWTP) such as La Chira WWTP and Taboada WWTP projects that help to decontaminate the wastewater produced in Lima Metropolitan Area (Lima and Callao). In addition, the Titicaca WWTP has been awarded, which will have ten treatment plants for the Titicaca Lake in Puno (southern Peru).

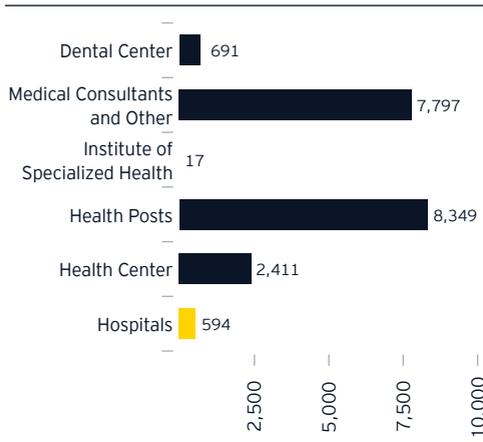
Additionally, Peru has developed projects in water and sanitation under the Works for Taxes mechanism, ranking as one of the most important sectors with respect to investment amount.



## 6. HEALTHCARE

Health infrastructure is made up of Hospitals (3%), Health Centers (12%), Health Posts (42%), Specialized Institutes (0.1%) and Medical and Dental Offices (42%).

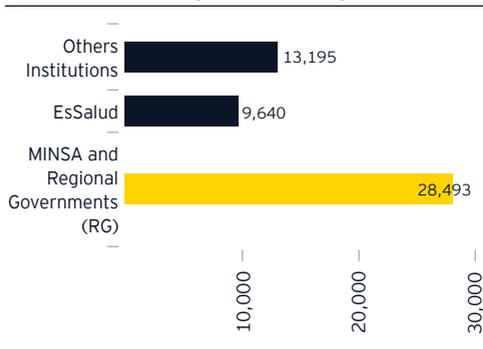
Number of Health Establishments



Source: National Superintendence of Health (SUSALUD) (2018)

It is estimated that there is only one doctor for every 390 habitants and one nurse for every 368 habitants nationwide.

Number of Beds by Health Entity



Source: Ministry of Health - MINSA (2018)

56% of beds are found in hospitals of the Ministry of Health (MINSA) and Regional Governments (RG), 19% in EsSalud and the remaining 26% in Other Institutions, such as private clinics.

Peru has 16 beds for every 10,000 habitants.

Peru has experience in Public-Private Partnerships (PPPs) in the Healthcare sector such as the Alberto Barton Hospital in the Constitutional Province of Callao and Guillermo Kaelin Hospital in the District of Villa María del Triunfo. Both projects improve the health network of Lima Metropolitan Area (Lima and Callao)<sup>8</sup>. Meanwhile, under the Works for Taxes mechanism, Peru has developed healthcare projects such as hospital construction, ranking as one of the most important sectors with respect to investment amount. It is worth mentioning that under the Government to Government mechanism some health infrastructure will be developed.

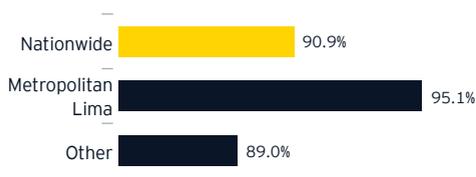


<sup>8</sup> EsSalud. <http://www.essalud.gob.pe/asociacion-publico-privada-contratos-vigentes/>

## 7. TELECOMMUNICATIONS

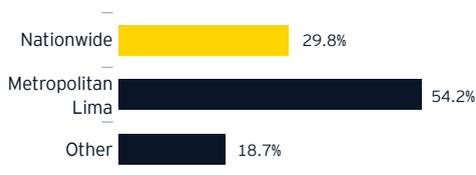
On average, 90.9% of households nationwide have at least one member who owns a telephone, while in Lima Metropolitan Area 95.1% own a telephone and in other parts of the country, 89%.

### Households with at Least One Member Owning a Telephone



Source: National Institute of Statistics and Information (INEI) (2018)

### Households with Internet Service



Source: National Institute of Statistics and Information (INEI) (2018)

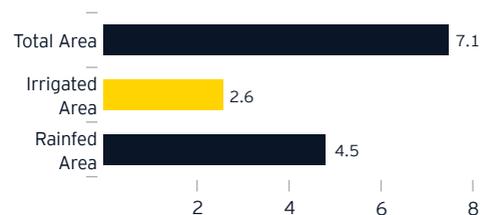
On average 29.8% of households nationwide have access to internet service, while in Lima Metropolitan Area access is 54.2% and 18.7% in other parts of the country.

Peru has experience with private participation in the telecommunications sector. Many of the awarded projects are now in operational phase, including the concession of high-speed internet broadbands.

## 8. IRRIGATION

Peru has 7.1 million hectares of agricultural land: 36.2% are under irrigation and 63.8% are rainfed crops. Only 0.5% (12,542 hectares) of agricultural land with irrigation is farmed using modern agricultural methods.

### Agricultural Area (in millions ha)



Source: National Institute of Statistics and Information (INEI) (2018)

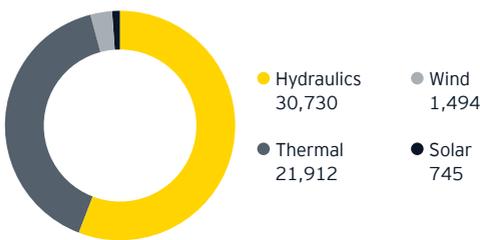
Regarding private participation Peru has experience in the development of irrigation systems such as the Chavimochic project, and has promoted the development of the Olmos and Majes-Siguas projects, including water transfer for hydroelectric and irrigation purposes (new agricultural land). Peru has also developed irrigation projects under the Works for Taxes mechanism.

## 9. POWER

Electrical energy production is estimated at 54,883 GWh.

Energy production in Peru consists mainly of Hydraulic Production (56%) and Thermal Production (40%).

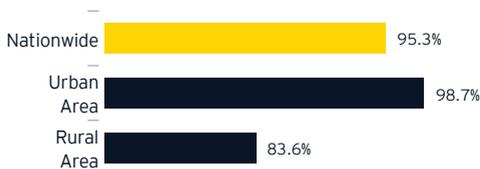
### Electrical Energy Production (GWh)



Source: National Institute of Statistics and Information (INEI) (2018)

On average, access to electricity systems in households nationwide is 95.3%, while in urban areas it is 98.7%, and in rural areas, 83.6%.

### Percentage of Households with Electricity



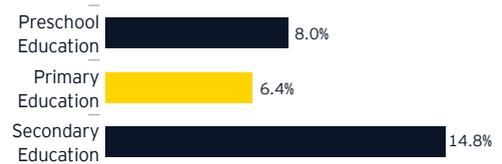
Source: National Institute of Statistics and Information (INEI) (2018)

Peru has experience in Public-Private Partnerships (PPPs) in the Power Sector such as transmission lines, substations, power generation, hydroelectric power plants, and others. Energy projects are also being promoted in the PPP pipeline.

## 10. EDUCATION

In the education sector, the rate of non-enrolled students of Regular Basic Education in 2018 was 8% for Preschool Education; 6.4% for Primary Education, and 14.8% for Secondary Education.

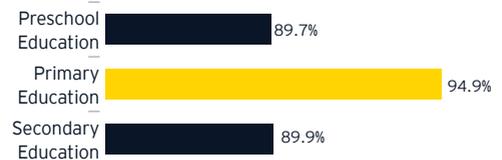
### Non Enrolled Students Rate



Source: Ministry of Education (MINEDU) (2018)

In Peru there are 101,229 Regular Basic Education Centers: 49,637 for Preschool Education, 37,888 for Primary Education and 13,704 for Secondary Education. Among them, the percentage of inadequate installed capacity levels is 89.7%, 94.9% and 89.9% respectively.

### Inadequate Installed Capacity in Regular Basic Education



Source: National Institute of Statistics and Information (INEI), Ministry of Education (MINEDU) (2018)

In recent years, Peru has been structuring Public-Private Partnerships (PPPs) projects, seeking to improve infrastructure in the sector and educational quality. Currently, the Ministry of Education (MINEDU) is developing projects such as High-Performance Schools (COAR) for students in the third, fourth and fifth years of secondary education. These COAR schools are currently administered by the National Government. In addition, some projects referred to as Schools at Risk

(CER) will be developed in the future under the same mechanism. Both COAR and CER projects are included in the Public-Private Partnership (PPP) pipeline.

Peru has also developed many educational projects under the Works for Taxes mechanism, mainly the construction of schools, ranking as one of the most important sectors with respect to investment amount.



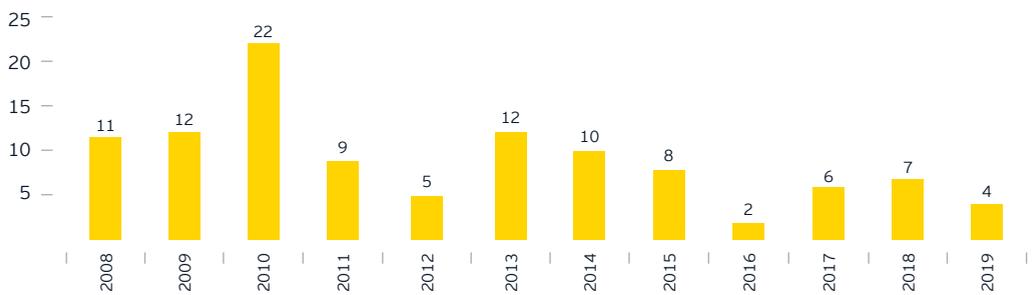
## 3

# PRIVATE INVESTMENT IN INFRASTRUCTURE

## 1. PERUVIAN EXPERIENCE IN PUBLIC-PRIVATE PARTNERSHIPS (PPPs)

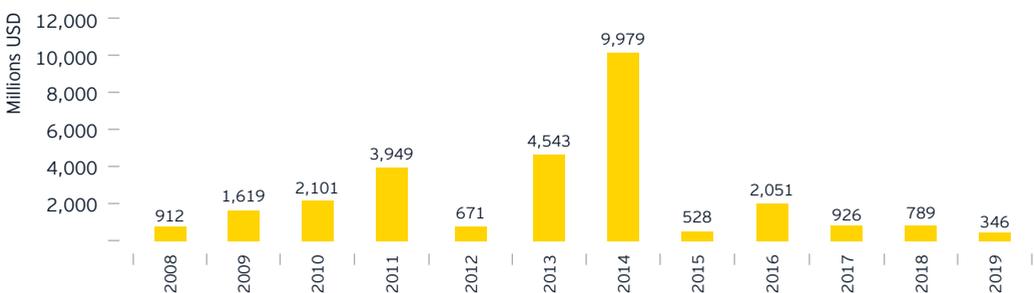
Between 2008 and 2019, 108 PPPs<sup>9</sup> infrastructure projects were awarded, and a total of USD28.4 billion in investment commitments.

Number of Awarded Projects, 2008 - 2019



Sources: ProInversión, EsSalud (2019)

Investment Commitments, 2008 - 2019



Sources: ProInversión, EsSalud (2019)

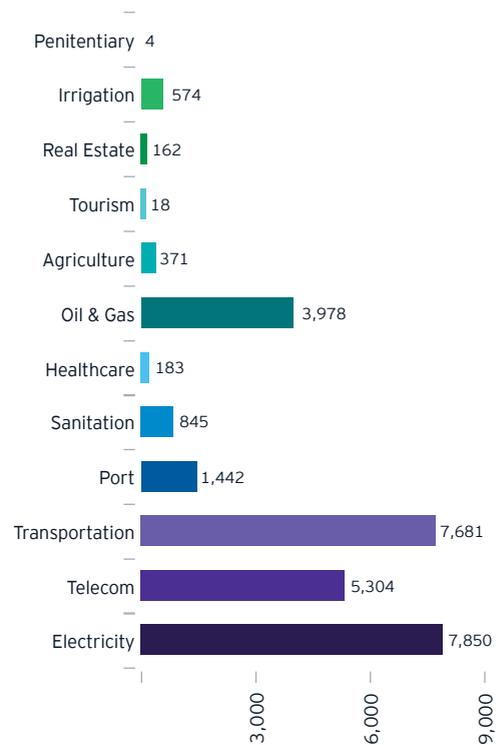
<sup>9</sup> This also includes the Project in Assets mechanism, which according to the Peruvian Law on Public-Private Partnerships is not a PPP but a private investment.

The sums awarded in Electricity and Transportation projects amounted to more than USD7.8 billion among 34 projects and USD7.6 billion among 12 projects, respectively. In addition, there are other important sectors such as Tourism, Healthcare and Real Estate, which evidence why Public-Private Partnerships (PPPs) are a powerful mechanism to promote the country's economic development.

## 2. PERUVIAN EXPERIENCE IN "WORKS FOR TAXES"

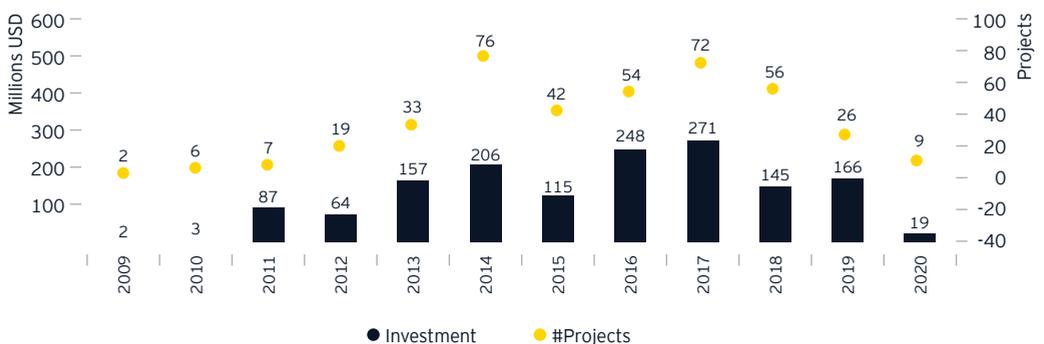
This is a relatively new mechanism in Peru; the first project was awarded in 2009. Until 2020, 402 infrastructure projects have been awarded under the Works for Taxes mechanism for a total of USD1.4 billion.

Investment by Sectors  
2008 - 2019 (in USD Millions)



Sources: ProInversión, EsSalud (2019)

Number of Awarded Projects and Investment Commitments, 2009 - 2020

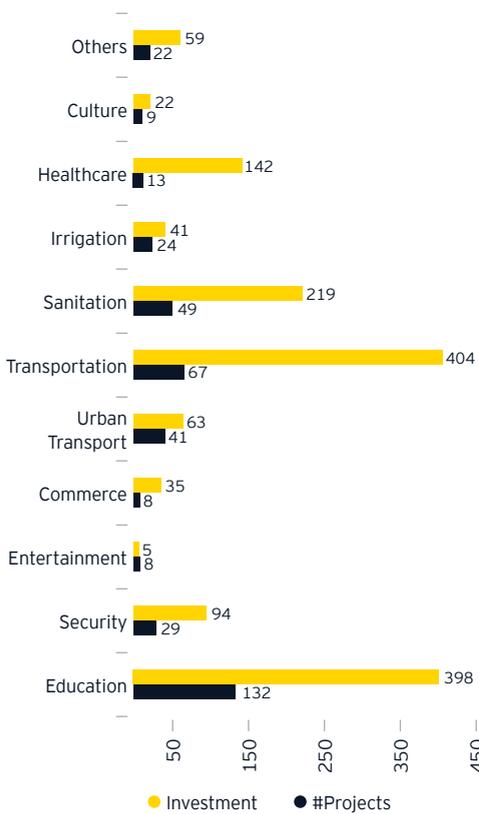


Source: ProInversión (2020)

During this period, the amounts awarded in Transportation and Education projects totaled more than USD404 million (67 projects) and USD398 million (132 projects) respectively. There are also other important sectors such as Sanitation, Healthcare and Security. In overall terms, this information shows how Works for Taxes represent an important mechanism to promote the economic development of the country through local projects.

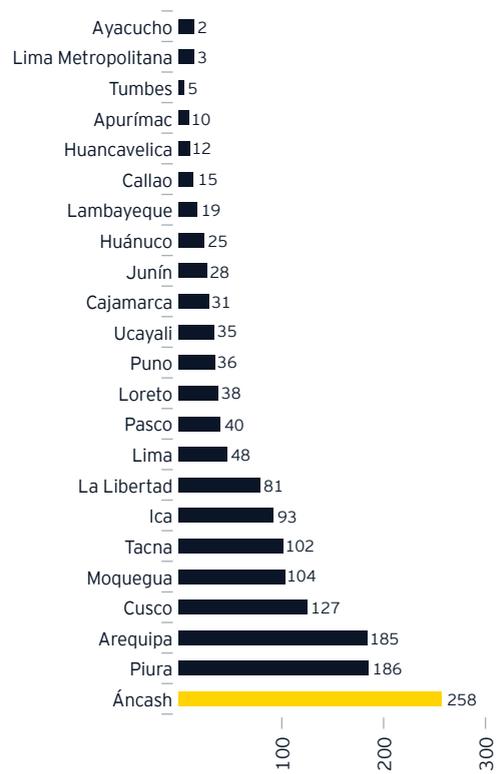
At a regional level, Áncash is the main region by executed investments, with a total of USD258 million, followed by Piura with USD186 million and Arequipa with USD185 million. The following graph shows that the Works for Taxes mechanism has allowed the development of projects in new sectors such as Security, Irrigation, Commerce, among others, for the benefit of the population of each region. One of the most important benefits is that it enhances transparency in the execution of public investment in regional and local areas.

Number of Projects by Sectors  
2009 - 2020



Source: ProInversión (2020)

Committed Investment by Region  
2009 - 2020 (in USD Millions)



Source: ProInversión (2020)



### 3. PERUVIAN EXPERIENCE IN GOVERNMENT TO GOVERNMENT (G2G) AGREEMENTS

Peru has recently signed agreements under the Government to Government (G2G) scheme with countries with proven experience in the infrastructure sector, as can be seen in the following chart:

Project	Country	Date Signature of Agreement	Project / Location	Estimated Investment (USD Millions)
Pan American and Parapan American Games Lima 2019 <sup>10</sup>	United Kingdom	April 2017	- Pan American Villa - National Sports Villa - Villa Maria del Triunfo Sports Complex - Yahuar Huaca Sports Complex - Gymnastic Sports Center	560
Reconstruction with Changes <sup>11</sup>	United Kingdom	June 2020	15 hospitals and 74 schools / North coast and highlands Integral solution for 17 rivers, 5 dams and a drainage system in 7 cities / North coast	640 1,400
Hospitals of Peruvian Health Ministry (MINSa) <sup>12</sup>	France	June 2020	Completion of works in Antonio Lorena Hospital / Cusco Improvement and extension of Sergio Bernales Hospital / Lima	70 220
Chincheró International Airport (Cusco) <sup>13</sup>	South Korea	October 2019	Chincheró Airport / Cusco	500

Sources: Central Reserve Bank of Peru (BCRP), El Peruano Official Gazette

<sup>10</sup> Central Reserve Bank of Peru (BCRP)

<https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2018/junio/ri-junio-2018-recuadro-4.pdf>

<sup>11</sup> El Peruano Official Gazette

<https://elperuano.pe/noticia-el-peru-y-reino-unido-firman-acuerdo-para-ejecucion-obras-reconstruccion-97623.aspx>

<sup>12</sup> El Peruano Official Gazette

<https://www.elperuano.pe/noticia-peru-y-francia-firman-contrato-para-mejorar-hospitales-antonio-lorena-cusco-y-sergio-bernales-98858.aspx>

<sup>13</sup> Government of Peru

<https://www.gob.pe/institucion/mtc/noticias/61363-firma-de-contrato-entre-peru-y-corea-para-la-construccion-del-aeropuerto-de-chincheró-marca-un-punto-sin-retorno>

#### 4. INFRASTRUCTURE BUSINESS CASES

Considering Peruvian Public-Private Partnerships (PPPs) experience, it is worth including some business cases to show how private investments in infrastructure can have a positive impact in society and improve the quality of life of Peruvian people. The following three projects are presented as examples of good performance and management within the Transportation, Water and Sanitation, and Tourism sectors.



#### 1. Line 1 of Lima and Callao Metro System

Line 1 of Lima and Callao Metro System started operations in January 2012. This 33.1 km urban railway considers 26 stations and travels through nine districts: Villa El Salvador, Villa María del Triunfo, San Juan de Miraflores, Santiago de Surco, San Borja, La Victoria, Cercado de Lima, El Agustino and San Juan de Lurigancho. Additionally, according to the Electric Train Autonomous Authority (AATE) Line 1 works with electric power, therefore, there is no emission of greenhouse gases, reducing more than 32,000 tons of carbon dioxide per year<sup>14</sup>.

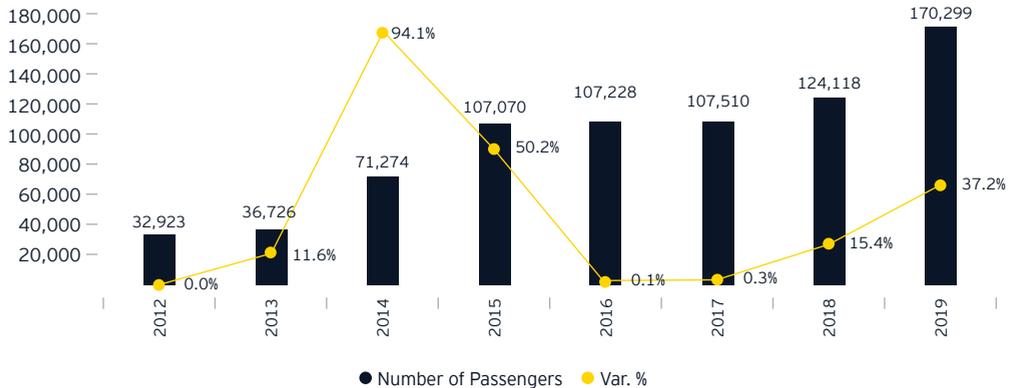
One of the main benefits of the project is to reduce travel time from Villa El Salvador to Villa Maria del Triunfo from 120 minutes to 54 minutes. This is very important because nowadays traffic congestion in Lima is a serious problem<sup>15</sup>. This project helps to decongest the traffic by creating a new alternative for mass public transport.

The following chart shows the passenger traffic evolution, with a compound annual growth rate of 26.5% over the past seven years. This rapid growth reflects public interest and the need for mass transport projects in the Lima Metropolitan Area.

<sup>14</sup> Ministry of Transportation and Communications (MTC). [https://portal.mtc.gob.pe/logros\\_metros.html#:~:text=La%20L%C3%ADnea%201%20ha%20permitido,dos%20horas%20a%2054%20minutos.](https://portal.mtc.gob.pe/logros_metros.html#:~:text=La%20L%C3%ADnea%201%20ha%20permitido,dos%20horas%20a%2054%20minutos.)

<sup>15</sup> According to Ipsos (2019), citizens' are of the opinion that this is the third worst problem, after the i) lack of public safety and ii) public cleaning and environmental pollution.

### Evolution of Passenger Traffic (in Thousands of Passengers)



Source: Supervisory Agency for Investment in Public Use Transport Infrastructure (OSITRAN) (2019)

In February 2015, GyM Ferrovías, the concessionaire of Line 1 of the Lima and Callao Metro System, issued S/629 million (around USD185 million) in bonds. The funds obtained were used to repay the debt that resulted from the acquisition of trains and for the construction of the metro's maintenance workshop. The issue's tenor was 25 years, at an annual rate of 4.75%<sup>16</sup>. According to public sources, the main participants were insurance companies and local pension funds. The structuring agent of the bond issue was CAF, the Development Bank of Latin America, which offers financial consultancy services including the structuring of financing operations for infrastructure projects in the region, and BNP Paribas.

In a second operation in August 2017, the project borrowed USD316 million from the Japanese financial institutions Mizuho Bank and Sumitomo Mitsui Banking for a period of 16 years, which were backed by the securitization of the payments guaranteed by the Peruvian government<sup>17</sup>. This loan allowed the concessionaire to continue with civil works on five stations and the acquisition of new rolling stock. In addition, these financial entities provided a revolving credit facility of USD80 million, for three years.

In conclusion, having appropriate financial guarantees improves access to financing and better financing conditions, which can be transferred to end-users in a competitive bid and by an appropriate risk assignment mechanism.

<sup>16</sup> CAF.

<https://www.caf.com/en/currently/news/2015/02/successful-financing-operation-for-line-1-of-lima-s-metro/>

<sup>17</sup> LEXLATIN.

<https://lexlatin.com/noticias/gym-ferrovias-obtiene-financiamiento-por-usd-316-millones-para-ampliacion-de-la-linea-1>

## 2. La Chira and Taboada Wastewater Treatment Plants

La Chira Wastewater Treatment Plant benefits more than 2.6 million people in Lima and Callao. It treats wastewater of 18 districts of the city of Lima. The main goal is to decontaminate the south coast of Lima, and, consequently, the advanced preliminary treatment of wastewater is carried out to improve the quality of life and marine ecosystem<sup>18</sup>.

Meanwhile, the Taboada Wastewater Treatment Plant has become the main treatment system in South America.

It treats 72% of the wastewater of 27 districts of Lima and Callao<sup>19 20</sup>.

SEDAPAL is the main water service company. In 2018, it removed 71% of total wastewater treated in Peru. Additionally, the wastewater removed by SEDAPAL has increased at a compounded annual growth rate of 7.9% in the last seven years. La Chira and Taboada Wastewater Treatment Plants are under the competency of SEDAPAL and both plants removed an average of 80.4% of the total wastewater treated by SEDAPAL between 2013 and 2019. Therefore, these plants play an important role in wastewater treatment in Peru.

### Volume of Collected and Treated Wastewater in Peru, 2018 (in Thousands of Cubic Meters)

	Collection of Wastewater	%	Treatment of Wastewater	%
SEDAPAL	712,781	61.0%	657,184	71.0%
Large Companies	349,873	29.9%	239,530	25.9%
Medium Companies	82,717	7.1%	27,121	2.9%
Small Companies	23,063	2.0%	1,512	0.2%
<b>Total</b>	<b>1,168,434</b>	<b>100.0%</b>	<b>925,347</b>	<b>100.0%</b>

Source: National Superintendence of Sanitation Services (SUNASS) (2018)



<sup>18</sup> GYM.

<https://www.gym.com.pe/nuestros-proyectos/proyecto/proyecto-ptar-la-chira>

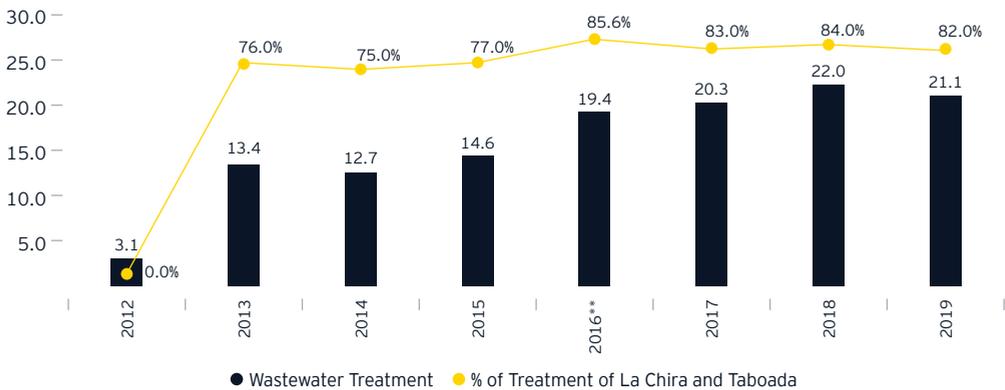
<sup>19</sup> Grupo Cobra.

<https://www.grupocobra.com/proyecto/planta-potabilizadora-aguas-residuales-ptar-taboada/>

<sup>20</sup> SEDAPAL.

[http://www.sedapal.com.pe/c/document\\_library/get\\_file?uuid=f6b973fb-e639-4be2-9945-9513cd2ee05c&groupId=124379606](http://www.sedapal.com.pe/c/document_library/get_file?uuid=f6b973fb-e639-4be2-9945-9513cd2ee05c&groupId=124379606)

### Evolution of Wastewater Treatment by SEDAPAL (in Cubic Meters / Second)



Source: SEDAPAL Annual Report <sup>21</sup>

In February 2012, a trust agreement was signed between La Chira S.A. Concessionaire and BBVA Sociedad Titulizadora S.A. in order to transfer RPICAO to this trust (Trust I). RPICAO are transferable certificates that support Peruvian government payment obligations. In this context, BBVA Peru, through a credit agreement, granted a loan of S/250 million (around USD92.6 million) to Trust I to be paid with RPICAO receivables.

In addition, in August 2016 a second trust agreement (Trust II) was established to issue S/400 million (around USD116 million) in securitized bonds. These bonds consider two issues for 20 years (each

one) at an annual rate of 4.75% and quarterly payments<sup>22</sup>.

In 2011, ACS closed the S/942 million (around USD340 million) local currency bond financing for its Taboada water treatment concession in Peru. The financing, led by BNP Paribas, received a AAA local and BBB global rating from Fitch. This issue consists of three tranches: S/572.089 million (around USD206.5 million) which matures in 2029, S/220 million (approximately USD79.5 million) due in 2033, and a delayed-draw series of S/150 million (around USD54 million) also due in 2033, which can be drawn after project completion<sup>23</sup>.

<sup>21</sup> Drinking Water and Sewerage System of Lima (SEDAPAL) - Lima Stock Exchange (BVL). [https://www.bvl.com.pe/inf\\_corporativa70340\\_UOVEQVBCQzE.html](https://www.bvl.com.pe/inf_corporativa70340_UOVEQVBCQzE.html)

\* Taboada Wastewater Treatment Plant started operations in 2013.

\*\* La Chira Wastewater Treatment Plant started operations in 2016.

<sup>22</sup> Moody's Local.

<https://www.moodylocal.com/resources/res-documents/pe/ratings/lachiraset19.pdf>

<sup>23</sup> Latin Finance.

<https://www.latinfinance.com/daily-briefs/2011/3/15/taboada-raises-wastewater-abs>

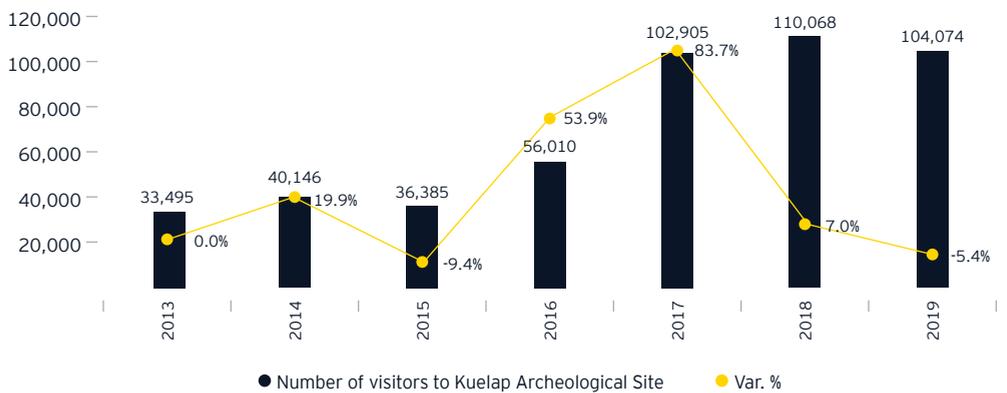
### 3. Kuelap Cable Cars

The Kuelap project comprises 26 cable cars, each one with a capacity for eight people. In addition, it can transport 500 tourists per hour. The project is located in Tingo, 43 km from the city of Chachapoyas. It is the first transport system by cable car operating in Peru to transport tourists from Tingo to the Kuelap archeological site. The cable cars travel 4 km in 20 minutes, instead of 37 km of road travel in 150 minutes<sup>24</sup>.

The following chart shows the Kuelap visitors' evolution. Considering project operation started in March 2017, this reflects how this transport project can promote tourism by facilitating access to the Kuelap archeological site.



Evolution of Number of Visitors to the Kuelap Archeological Site



Source: Ministry of Foreign Trade and Tourism (MINCETUR) (2019)

<sup>24</sup> Ministry of Foreign Trade and Tourism (MINCETUR)  
<https://www.mincetur.gob.pe/turismo/proyectos-de-asociaciones-publico-privadas-app-2/telecabinas-de-kuelap/>

## 4

# PROJECTS PIPELINE FOR CLOSING GAPS

Seeking to close the existing infrastructure gap, the Peruvian government has developed different mechanisms to promote and create incentive for private investment in infrastructure projects.

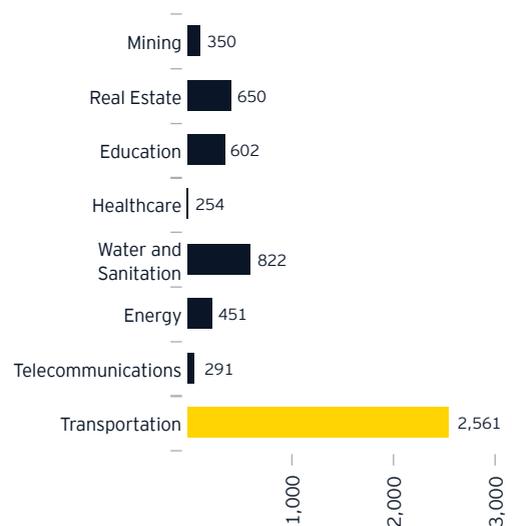
Through these mechanisms, diverse infrastructure projects have been implemented, including a vast number of sectors, different levels of competency (local, regional or national projects) and amount of investment (large, medium or small). All have in common their positive impact on the quality of life of Peruvian citizens. Bearing in mind the above, Peruvian institutions have developed their project pipelines for the coming years. These are not limited (unsolicited proposals can be presented) and are gradually updated for the incorporation of new projects as new studies are developed.



## 1. PUBLIC-PRIVATE PARTNERSHIP (PPP) PROJECTS PIPELINE

The Project Pipeline (2021 - 2022) under the Public-Private Partnership (PPPs) mechanism includes a total of 22 projects distributed in different sectors with a total estimated investment of USD5.9 billion<sup>25</sup>. The main sectors by investment are Transportation (3 projects), Water and Sanitation (3 projects), Real Estate (1 project), Education (5 projects) and Energy (4 projects).

### Project Pipeline Investment by Sector (in USD Millions)



Source: ProInversión (2020)

<sup>25</sup> Private Investment Promotion Agency, ProInversión.

[https://www.proyectosapp.pe/RepositorioAPS/1/2/JER/PROJECT\\_PRESENTATION/2020/Cartera-Proyectos-0308-ENG.pdf](https://www.proyectosapp.pe/RepositorioAPS/1/2/JER/PROJECT_PRESENTATION/2020/Cartera-Proyectos-0308-ENG.pdf)

# PUBLIC-PRIVATE PARTNERSHIPS (PPPs) PROJECTS PIPELINE

For the 2020-2021 period, 22 projects are being promoted, with an estimated investment amount of USD5.9 billion.



**click** on the colored dots for more information on the project



Source: ProInversión (2020)  
Elaboration: EY





## TRANSPORTATION (RAILWAY)

### "HUANCAYO - HUANCAMELICA" RAILWAY

This project includes the complete reconstruction of the Huancayo - Huancavelica railway, as well as the design, financing, execution of works, acquisition of rolling stocks, operation and maintenance.

#### ▶ INVESTMENT USD M

232

#### ▶ TERM

30 years

#### ▶ CONDITION

Co-financed Public Initiative

#### ▶ STAGE

Transaction

#### ▶ REGIONS

Junín, Huancavelica

#### ▶ MORE INFORMATION



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# TRANSPORTATION (ROADS)

## PERIPHERAL RING ROAD LIMA - CALLAO

It contemplates the design, construction, operation and maintenance of a highway that crosses 11 districts of the city of Lima, from the intersection with Av. Elmer Faucett with Av. Canta Callao to Av. Circunvalación.

### ▶ INVESTMENT USD BN

2.049

### ▶ TERM

30 years

### ▶ CONDITION

Co-financed Private Initiative

### ▶ STAGE

Structuring

### ▶ REGIONS

Lima, Callao

### ▶ MORE INFORMATION



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## HIGHLANDS ROAD - TRANCHE 4

This project consists of the improvement, rehabilitation, maintenance and operation works of approximately 970 km of the road in the Peruvian Highlands, which connects 12 departments and crosses the Andean regions from end to end.

### ▶ INVESTMENT USD M

280

### ▶ TERM

25 years

### ▶ CONDITION

Co-financed Public Initiative

### ▶ STAGE

Structuring

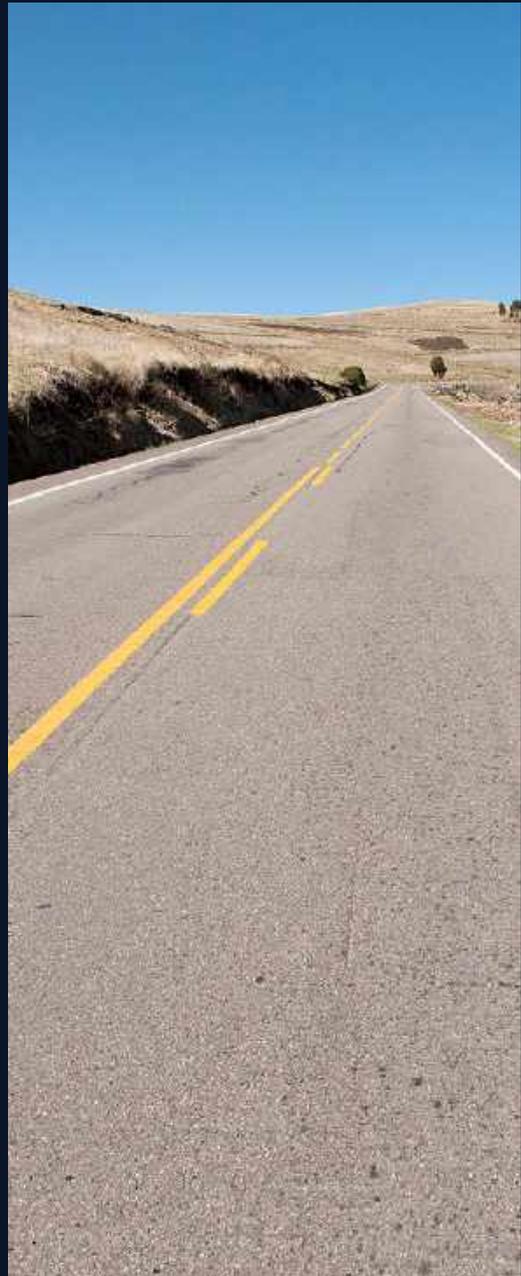
### ▶ REGIONS

Junín, Huancavelica, Ica, Ayacucho, Apurímac

### ▶ MORE INFORMATION



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# ENERGY (ELECTRICITY) page 1 / page 2

## SUBSTATION CHINCHA NUEVA OF 220/60 KV AND SUBSTATION NAZCA NUEVA OF 220/60 KV

The substation projects are intended to allow more reliability in the energy supply of the Department of Ica.

### ▶ INVESTMENT USD M

38

### ▶ TERM

30 years

### ▶ CONDITION

Self-financed Public Initiative

### ▶ STAGE

Transaction

### ▶ REGION

Ica

### ▶ MORE INFORMATION



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## TRANSMISSION LINE 500 KV PIURA NUEVA - FRONTERA

The Comprehensive Peru-Ecuador Interconnection project includes the construction of a 500 KW Transmission Line that will link the Chorrillos Station, in Ecuador, with the La Niña Substation in Peru, and includes the construction of two intermediate substations: Pasaje in Ecuador and Nuevo Piura in Peru.

### ▶ INVESTMENT USD M

163

### ▶ TERM

30 years

### ▶ CONDITION

Self-financed Public Initiative

### ▶ STAGE

Structuring

### ▶ REGIONS

Tumbes, Piura

### ▶ MORE INFORMATION



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# ENERGY (ELECTRICITY) page 1 / page 2



## TRANSMISSION LINE 138 KV PUERTO MALDONADO - IBERIA AND SUBSTATION VALLE DEL CHIRA 220/60/23 KV OF 100 MVA

This project for a transmission line, with a simple triplet and 160 km in length, aims to supply electricity to the city of Iberia, towns and industrial loads in the area, with energy from the National Interconnected Electrical System (SEIN). As part of the project, the Puerto Maldonado substation must be expanded to complete the connection cells of the existing transformer and install the output bay of the Puerto Maldonado-Iberia line. The substation project also aims to allow greater reliability in the supply of energy in the Department of Piura.

### ▶ INVESTMENT USD M

50

### ▶ TERM

30 years

### ▶ CONDITION

Self-financed Public Initiative

### ▶ STAGE

Transaction

### ▶ REGIONS

Piura, Madre de Dios

### ▶ MORE INFORMATION



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## ENERGY (OIL & GAS)

### MASSIFICATION OF THE USE OF NATURAL GAS FOR CENTRAL AND SOUTHERN PERU

This project includes the design, financing, construction, operation, and maintenance of natural gas distribution systems by pipeline network in seven regions of the center-south of the country, which will be transferred to the Peruvian State after the concession period.

#### ▶ INVESTMENT USD M

200

#### ▶ TERM

32 years

#### ▶ CONDITION

Self-financed Public Initiative

#### ▶ STAGE

Transaction

#### ▶ REGIONS

Ucayali, Junín, Cusco, Huancavelica, Ayacucho, Apurímac, Puno

#### ▶ MORE INFORMATION



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# WATER AND SANITATION page 1 / page 2

## WASTE WATER TREATMENT PLANT - WWTP PUERTO MALDONADO

This project includes the design, financing, construction, operation and maintenance of WWTP in Chapajal of 234 l/s, installation of nine collectors, construction of six pumping chambers and drive lines.

### ▶ INVESTMENT USD M

57

### ▶ TERM

23 years

### ▶ CONDITION

Co-financed Public Initiative

### ▶ STAGE

Structuring

### ▶ REGIONS

Madre de Dios

### ▶ MORE INFORMATION



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## WASTE WATER TREATMENT PLANT - WWTP HUANCAYO, EL TAMBO AND CHILCA

This project includes the new layout of six collectors, construction of four wastewater pumping stations and construction of a WWTP of 80,700 m<sup>3</sup> / h of average flow, in order to provide treatment to wastewater for reuse.

### ▶ INVESTMENT USD M

165

### ▶ TERM

To be defined

### ▶ CONDITION

Co-financed Private Initiative

### ▶ STAGE

Formulation

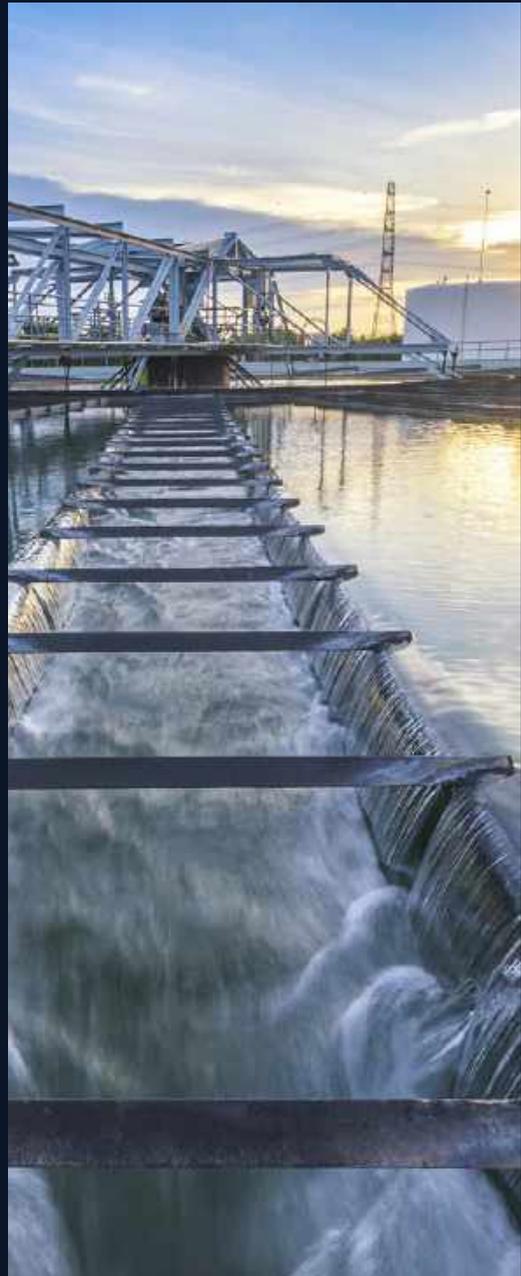
### ▶ REGIONS

Junín

### ▶ MORE INFORMATION



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# WATER AND SANITATION

page 1 / page 2

## HEADWORKS AND CONDUCTION FOR THE DRINKING WATER SUPPLY IN LIMA

This project includes the design, financing, construction, operation and maintenance of the following works: Regrowth of Pomacocha and Huallacocha Bajo Dams, Trans-Andean Tunnel (10 km), Huachipa II Water Treatment Plant (5 m<sup>3</sup>/s), supplementary reservoirs (137,000 m<sup>3</sup>), South Branch (40 km) including seven reservoirs and interconnection lines (90 km). It also includes the operation and maintenance of the following existing works: Huachipa Bocatoma, Huachipa I Plant (5 m<sup>3</sup>/s) and North Branch (27 km).

### ▶ INVESTMENT USD M

600

### ▶ TERM

30 years

### ▶ CONDITION

Self-financed Public Initiative

### ▶ STAGE

Structuring

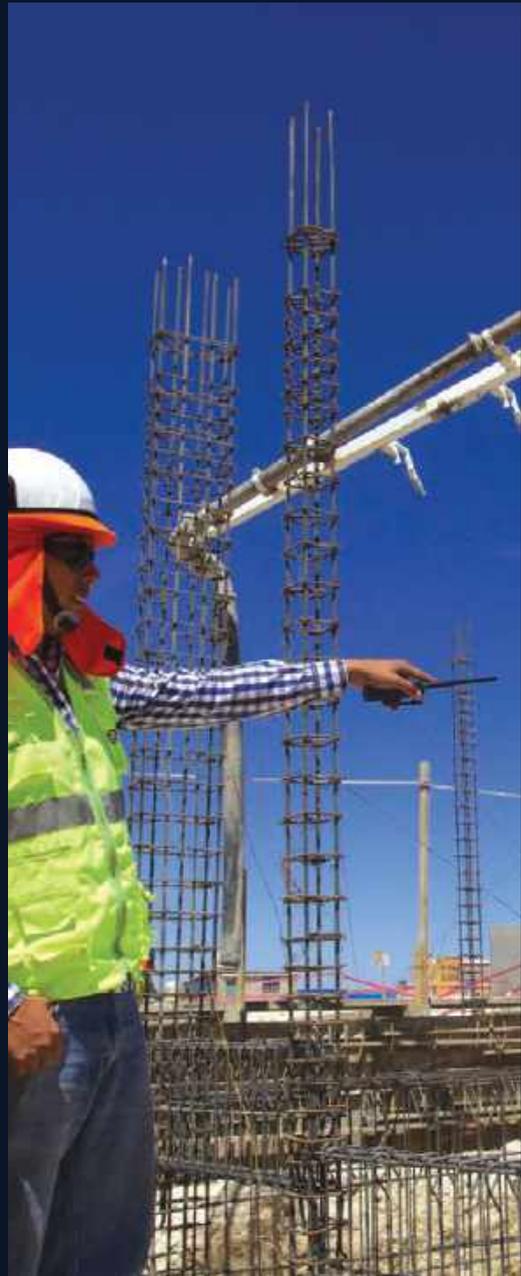
### ▶ REGIONS

Junín, Lima

### ▶ MORE INFORMATION



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# EDUCATION

page 1 / page 2 / page 3



## SCHOOLS AT RISK (CER) METROPOLITAN LIMA

This project includes the construction, equipment, operation of supplementary services and the maintenance of school infrastructure, furniture and equipment - 13 Projects.

### ▶ INVESTMENT USD M

227

### ▶ TERM

20 years

### ▶ CONDITION

Co-financed Private Initiative

### ▶ STAGE

Formulation

### ▶ REGIONS

Lima

### ▶ MORE INFORMATION



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## SCHOOLS AT RISK (CER) DISTRICTS OF ATE AND SAN JUAN DE LURIGANCHO

This project includes the construction, equipment, operation of supplementary services and the maintenance of school infrastructure, furniture and equipment - 14 Projects.

### ▶ INVESTMENT USD M

148

### ▶ TERM

25 years

### ▶ CONDITION

Co-financed Private Initiative

### ▶ STAGE

Formulation

### ▶ REGIONS

Lima

### ▶ MORE INFORMATION



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# EDUCATION

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## SCHOOLS AT RISK (CER) DISTRICTS OF COMAS AND SAN MARTÍN DE PORRES

This project includes the construction, equipment, operation of supplementary services and the maintenance of school infrastructure, furniture and equipment - 9 Projects.

### ▶ INVESTMENT USD M

95

### ▶ TERM

25 years

### ▶ CONDITION

Co-financed Private Initiative

### ▶ STAGE

Formulation

### ▶ REGIONS

Lima

### ▶ MORE INFORMATION

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## SCHOOLS AT RISK (CER) DISTRICT OF VILLA MARÍA DEL TRIUNFO

This project includes the construction, equipment, operation of supplementary services and the maintenance of infrastructure, furniture and equipment of schools - 5 Projects.

### ▶ INVESTMENT USD M

72

### ▶ TERM

19 years

### ▶ CONDITION

Co-financed Private Initiative

### ▶ STAGE

Formulation

### ▶ REGIONS

Lima

### ▶ MORE INFORMATION

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# EDUCATION

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## HIGH PERFORMANCE SCHOOLS (COAR) CENTER REGIONS

This project includes the construction, implementation, maintenance and operation of three high performance schools (COAR) in the Regions of Pasco, Huancavelica and Cusco.

### ▶ INVESTMENT USD M

60

### ▶ TERM

22 years

### ▶ CONDITION

Co-financed Private Initiative

### ▶ STAGE

Structuring

### ▶ REGIONS

Pasco, Cusco, Huancavelica

### ▶ MORE INFORMATION



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# HEALTHCARE

## HIGH COMPLEXITY HOSPITAL - CHIMBOTE

This project includes the design, construction, equipment, maintenance and operation of supplementary (nonclinical) services of a high-complexity hospital of the Social Security Health Administration (EsSalud) in Chimbote, Áncash, that will provide clinical services to almost 230,000 insured members of the region.

### ▶ INVESTMENT USD M

110

### ▶ TERM

17 years

### ▶ CONDITION

Co-financed Public Initiative

### ▶ STAGE

Structuring

### ▶ REGIONS

Áncash

### ▶ MORE INFORMATION



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## HIGH COMPLEXITY HOSPITAL - PIURA

This project includes the design, construction, equipment, maintenance and operation of supplementary (nonclinical) services of a high-complexity hospital of the Social Security Health Administration, in Piura, that will provide hospital services to almost 720,000 insured members of both Piura and Tumbes.

### ▶ INVESTMENT USD M

144

### ▶ TERM

17 years

### ▶ CONDITION

Co-financed Public Initiative

### ▶ STAGE

Structuring

### ▶ REGIONS

Piura, Madre de Dios

### ▶ MORE INFORMATION



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# TELECOMMUNICATIONS

## RADIO SPECTRUM BANDS:

1. 1750 - 1780 MHZ, AND 2150 - 2180 MHZ
2. 2300 - 2330 MHZ

This project includes the development of mobile broadband systems throughout the country, for technologies such as 4G, 5G, or higher. The AWS-3 and 2.3 GHz bands will offer better coverage features and more data capacity.

### ▶ INVESTMENT USD M

291

### ▶ TERM

20 years

### ▶ CONDITION

Project in Assets (public initiative involving state funds or assets)

### ▶ STAGE

Formulation

### ▶ REGIONS

Nationwide

### ▶ MORE INFORMATION



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# REAL ESTATE

## ANCÓN INDUSTRIAL PARK

This project consists of a modern space for industrial companies of different scale. It will operate under international standards, and become the new industrial development center in the northern area of Lima, as well as a benchmark for innovation, modernity, technology, sustainability, entrepreneurship and development. As part of the process of approval, the signing of a Cooperation Agreement with the Ministry of Industries and Production to start structuring the project is still pending.

### ▶ INVESTMENT USD M

650

### ▶ TERM

30 years

### ▶ CONDITION

Project in Assets (public initiative involving state funds or assets)

### ▶ STAGE

Structuring

### ▶ REGIONS

Lima

### ▶ MORE INFORMATION



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# MINING

## EL ALGARROBO - PIURA MINING PROJECT

This project includes the exploration, exploitation through an underground mine and the concentrate plant of an ore deposit located in the mining concessions of Tambo Grande n° 4, Tambo Grande n° 5, Tambo Grande n° 9 and Tambo Grande n°10, which make up the El Algarrobo Project. Design and execution of hydraulic infrastructure projects, applying a management model focused on the integral and sustainable development of mining activities, thus contributing to the supply of water to the population.

### ▶ INVESTMENT USD M

350

### ▶ TERM

5 years

### ▶ CONDITION

Project in Assets (involving private initiative)

### ▶ STAGE

Formulation

### ▶ REGIONS

Piura

### ▶ MORE INFORMATION



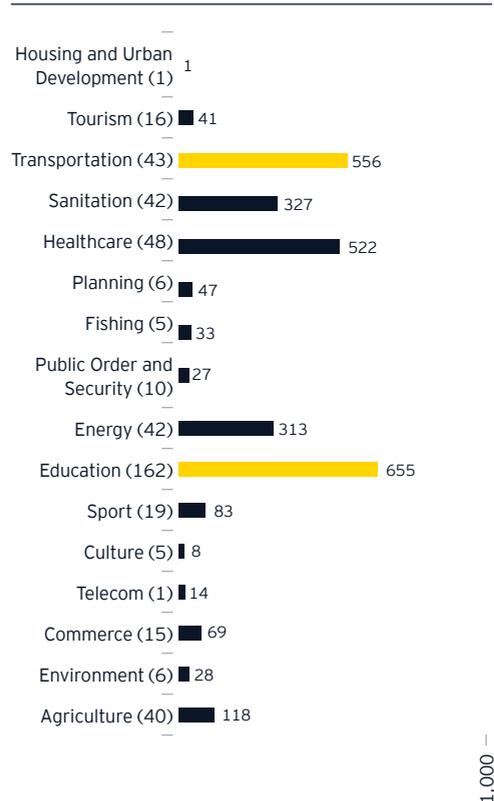
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## 2. WORKS FOR TAXES (WT) PIPELINE

The pipeline under the Works for Taxes mechanism has a total of 461 projects distributed in different sectors with a total investment of USD2.8 billion. The five main sectors are Education (162 projects), Health (48 projects), Transportation (43 projects), Sanitation (42 projects) and Energy (42 projects)<sup>26</sup>.

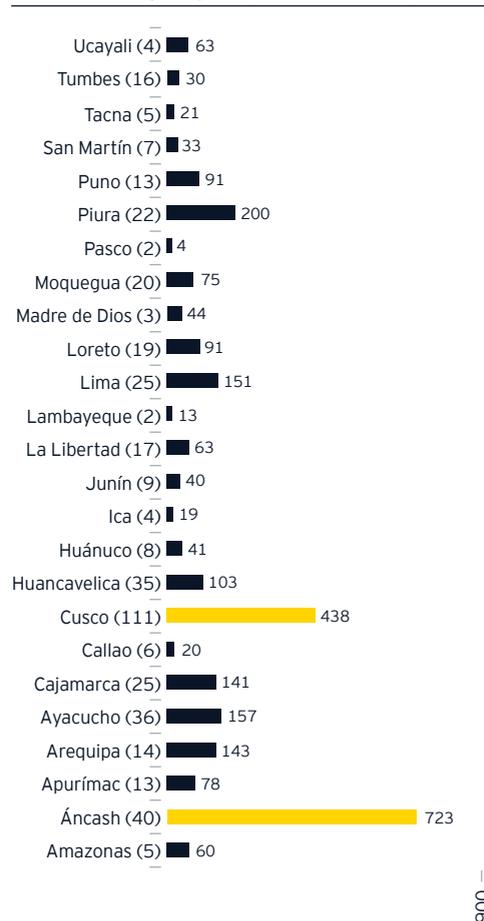
Investment by Sectors (in USD Millions)



Source: ProInversión (2020)

The regions with the highest estimated investment in Works for Taxes pipeline are Áncash with USD723 million within 40 projects, Cusco with USD438 million within 111 projects, Piura with USD200 million within 22 projects, Ayacucho with USD157 million within 157 projects, and Lima with USD151 million within 25 projects.

Investment by Region (in USD Millions)

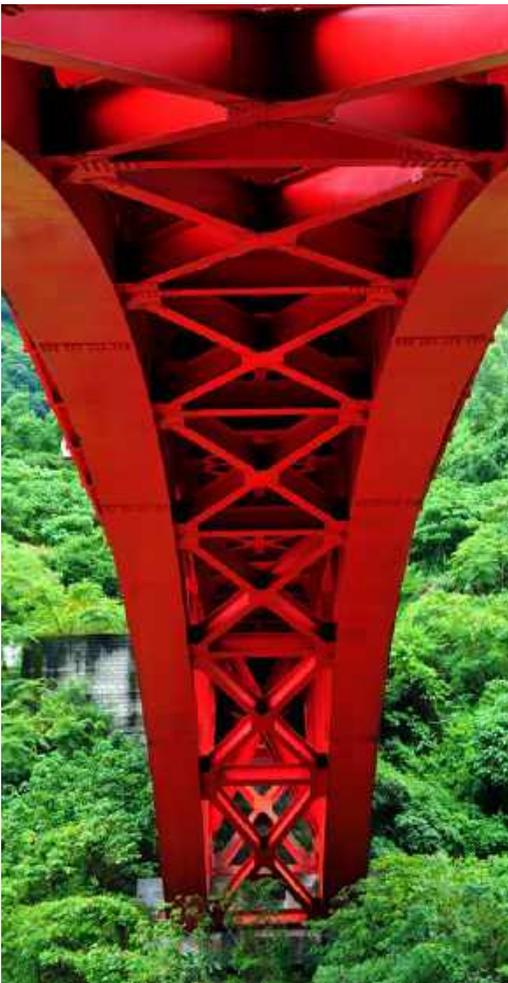


Source: ProInversión (2020)

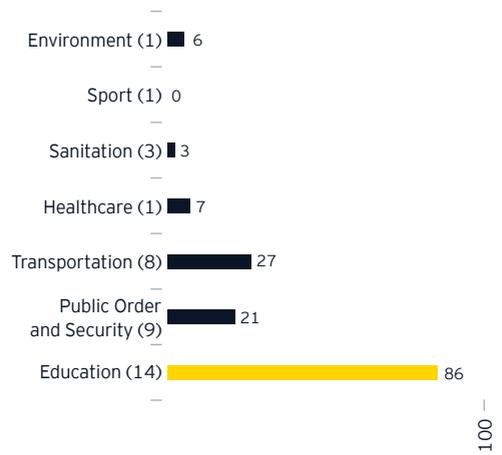
<sup>26</sup> Private Investment Promotion Agency. ProInversión. <http://www.proinversion.gob.pe/oxi2020/>

It should be noted that as at August 2020 there are 37 projects, with an estimated investment of USD150 million, expected to be awarded in 2020.

The regions with the highest estimated investment in Works for Taxes pipeline are Madre de Dios with USD22 million within one project, Loreto with USD22 million within two projects, Apurímac with USD18 million within one project, Lima with USD18 million within eight projects and Ucayali with USD13 million within two projects.

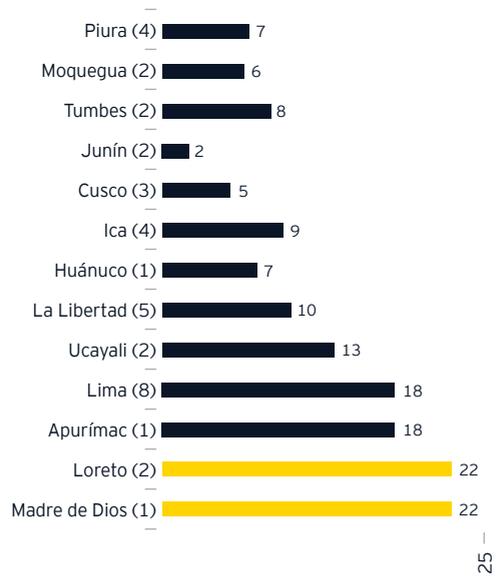


Investment by Sectors (in USD Millions)



Source: ProInversión (2020)

Investment by Region (in USD Millions)



Source: ProInversión (2020)



# WORKS FOR TAXES (WT) PROJECTS PIPELINE

For the 2020 period, 37 projects are being promoted with an estimated investment amount of USD150 million.



Projects Portfolio of Works for Taxes that will be awarded in 2020

Institution	Investment (USD)	# Project
MINEDU	63,209,336	3
MININTER	18,061,425	8
Provincial Municipality of Atalaya	11,885,993	1
Regional Government of La Libertad	9,942,903	5
MINSA	7,353,543	1
Regional Government of Ica	6,909,135	1
Provincial Municipality of La Convención	2,481,180	1
District Municipality of Lucre	2,060,926	1
District Municipality of El Carmen	2,031,325	2
Provincial Municipality of Coronel Portillo	1,365,505	1
National University of the Center of Peru (UNCP)	1,116,068	1
District Municipality of Sunampe	432,517	1
District Municipality of Cahuapanas	100,992	1
Regional Government of Tumbes	8,447,315	2
Provincial Municipality of Ilo	6,380,125	2
District Municipality of Tambogrande	4,621,474	3
MVCS	726,427	1
District Municipality of Castilla	2,144,555	1
"AltoAndina" National Autonomous University of Tarma (UNAAT)	1,021,780	1
<b>Total</b>	<b>150,292,524</b>	<b>37</b>

Source: ProInversión (2020)

### 3. GOVERNMENT TO GOVERNMENT PIPELINE

As announced in President Martín Vizcarra's Independence Day Speech, the Government to Government (G2G) mechanism will be used for the development of emblematic infrastructure projects. The approximate investment commitment is estimated at USD12 billion. .

#### Government to Government (G2G) Pipeline

Project	Sector	Location	Estimated Investment USD M
Line 3 and 4 of the Lima and Callao Metro	Transportation	Lima	8,501
Improvement of the Central Highway (Tranche Ricardo Palma Bridge - La Oroya)	Transportation	Lima	419
24 Sanitation and Drinking Water Projects	Sanitation and Water	Peru	1,417
44 Hospitals	Health	Peru	850
75 Schools	Education	Peru	850
<b>Total Investment</b>			<b>12,037</b>

Source: OSCE, Independence Day Presidential Speech (July 28, 2020)

## 5

# ACCESS TO INFRASTRUCTURE FINANCING

## 1. LOCAL AND INTERNATIONAL PLAYERS IN PERU

One of the key incentives for governments to promote and develop infrastructure projects through Public-Private Partnerships (PPPs) is the possibility of attracting alternative financing resources from different sources. The financing mechanisms most commonly used in PPP are:

1. Government funding or guarantees,
2. Traditional project finance, or a mixture of both.

In number one, government participates in funding capital investments or granting guarantees, among others, to support the country's infrastructure development and to encourage financial institutions to participate in the funding of these projects, while in number two third-party funding is supported by revenues generated solely by the project's operations. Thus, an evaluation of the project's bankability becomes crucial. Either way, a Special Purpose Vehicle (SPV) is created exclusively to develop the project, access funding and isolate project risks. In this context, during the early stages of the structuring phase, to ensure the viability of the projects it is essential to develop bankable infrastructure projects that will have the capacity of attracting capital. In addition, it is necessary to carry out a market

analysis to know how willing the financial market is to finance this type of projects in order to achieve financial closing. The concessionaire or SPV must secure the funds required to finance the costs of the project, which include civil works, procurement and initial expenses to accomplish the obligations of the construction phase.

As mentioned in the previous section, in the last few years the Peruvian government has increased the participation of the private sector in developing infrastructure projects through different mechanisms, including PPPs. Consequently, both government and private sector understand the dynamics of these projects and, therefore, most of the requirements demanded by local and international financial institutions. Primarily, these participants take into consideration the characteristics of the projects and the terms, guarantees and risk mitigation mechanisms established in PPP contracts. At the same time, concessionaires seek the best financing conditions available in the market, which will also depend on the macroeconomic conditions of the country, track record on PPPs, and financial variables such as the debt instruments used, interest rate, debt term, currency, among others.

Funding infrastructure projects in Peru has included the participation of two financing sources:

1. The traditional financial system, including banks, multilaterals and development institutions, and

2. The capital market. The chart below presents the financial institutions that have participated as direct lenders, mandated lead arrangers and bond

arrangers for achieving the financial closing in PPP projects, for diverse sectors, between 2008 and 2019, according to IJ Global:

### Financial Institutions Financing Infrastructure Projects

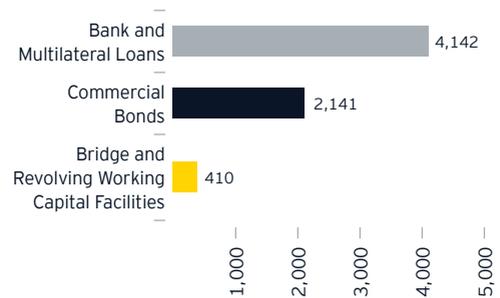
Local Financial Institutions	Sector	International Financial Institutions	Sector
Banco de Crédito del Perú (BCP)	Ports, Power, Railway, Roads	Bank of America Merrill Lynch	Healthcare, Railway
Banco Internacional del Perú (Interbank)	Power, Roads	BNP Paribas	Power, Water
Banco Continental del Perú (BBVA)	Oil&Gas, Ports, Power, Railway, Roads, Water	Cassa Depositi e Prestiti	Railway
Scotiabank	Ports, Power	Citigroup	Railway
		Credit Agricole Group	Power, Railway
		Credit Suisse	Telecommunications
		Deutsche Bank	Railway
		DnB NOR Bank	Ports, Power
		Goldman Sachs	Power, Roads
		HSBC	Ports, Power
		ING Group	Power
		Instituto de Credito Oficial	Railway
		Intesa Sanpaolo	Railway
		Itau BBA	Ports
		Mitsubishi UFJ Financial Group	Railway
		Mizuho Financial Group	Railway
		Morgan Stanley	Railway
		MUFG Bank	Power
		Natixis	Ports, Railway
		Novo Banco	Power, Telecommunications
		Santander	Ports, Railway
		Societe Generale	Ports, Power, Railway
		Standard Chartered Bank	Ports
		Sumitomo Mitsui Banking Corporation	Railway, Roads
		WestLB	Ports, Power

Source: IJ Global Database

The largest four banks that have been involved in these transactions in Peru<sup>27</sup> are: BCP, Interbank, BBVA and Scotiabank, mostly in Power, Oil & Gas, Water & Sanitation and Transportation sectors, which includes Ports, Railway and Roads sub-sectors. Multilateral development banks and development institutions such as the Inter-American Development Bank (IDB), International Bank for Reconstruction and Development (IBRD), Andean Development Corporation (CAF) and KfW Development Bank, have also played an important role in providing financial support for the development of infrastructure projects in Peru, specifically in Water & Sanitation, and Transportation sectors. Foreign institutions have also shown great interest in funding local projects in Power, Healthcare, Water & Sanitation, Telecommunications and Transportation sectors, including American, European and Asian financial institutions.

According to the IJ Global transaction database, between 2008 and 2019 the amount of debt financing transactions for financial closing purposes in infrastructure projects in Peru has been USD6,993.2 million, distributed as follows:

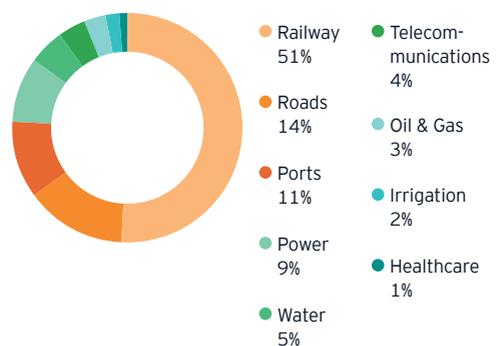
Debt Operations Used for Financial Closing Purposes, 2008 - 2019 (in USD Millions)



Source: IJ Global Database

Bank and multilateral loans represent 61.9% of total debt transactions, followed by commercial bonds with 32% and revolving facilities with 6.1%. The distribution among sectors is divided as follows:

Sector Distribution of Financing Transactions (in Percentages %)



Source: IJ Global Database

<sup>27</sup> Estimation according to the banking system total assets, calculated by the Superintendence of Banking, Insurance and Private Pension Fund Management Companies (SBS) Peru.

The Transportation sector, including Railway, Roads and Ports sub-sectors, represents the highest proportion of debt financing transactions with 76%, followed by the Power sector (9%), Water and Sanitation (5%), Telecommunications (4%), Oil & Gas (3%), Irrigation (2%) and Healthcare infrastructure (1%).

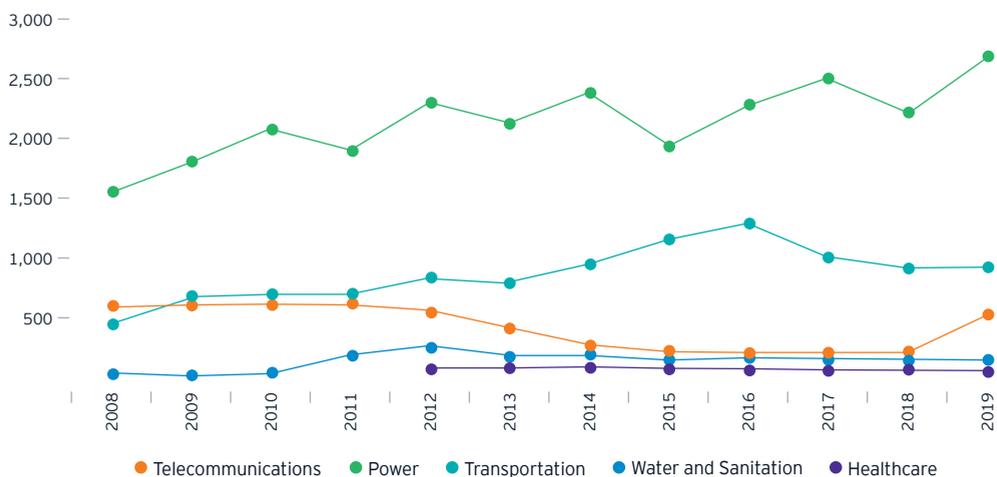
These results show the transactions executed by concessionaires for achieving the financial closing of PPP projects in Peru, in the banking system and capital markets. As it is well known, both markets provide funding alternatives with conditions and terms to be evaluated by the Special Purpose Entity (SPV) in order to find the best financing options for the projects, for the construction (financial closing) and operation and maintenance activities. For instance, the bond market has become an important funding source for infrastructure projects in Peru, taking into account that pension funds represent one of the key investors. Investors

seek this type of investment opportunities to generate long term returns compatible with their objectives.

According to the Superintendence of Banking, Insurance and Private Pension Fund Management Companies (SBS) in Peru, for the 2008 - 2019 period, pension fund investments in infrastructure projects have increased at a compounded annual rate of 5.3%, which represents the interest of institutional investors in long-term moderate risk investments. As of December 31, 2019, the investment portfolio in infrastructure projects of local pension funds was worth USD4,349 million. This comprises issue of companies (with infrastructure projects), infrastructure investment funds and infrastructure projects.

The following charts present the annual evolution of portfolios by sector and sub-sector for the period 2008 - 2019:

Evolution of Investment Portfolios of Pension Funds in Infrastructure Projects by Sector 2008 - 2019 (in USD Millions)



Sources: Superintendence of Banking, Insurance and Pension Fund Management Companies (SBS) Peru

## Investment Portfolios of Pension Funds in Infrastructure Projects, 2008 - 2019 (in USD Millions)

Sector /Sub-sector	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Telecom-munications	575	608	617	598	562	419	270	213	200	218	205	528
Telecom-munications	575	608	617	598	562	419	270	213	200	218	205	528
Electric Power Distribution	379	434	458	399	479	436	496	365	534	553	514	799
Electric Power Generation	667	723	932	829	1,123	1,217	1,407	1,097	1,326	1,523	1,303	1,404
Electric Power Transmission	86	73	65	66	85	96	122	127	162	148	135	160
Hydroelectric Power Projects	57	67	65	68	79	66	60	48	51	52	47	48
Oil & Gas	360	507	569	552	551	313	310	314	211	250	231	296
Power	1,550	1,805	2,089	1,914	2,317	2,127	2,396	1,951	2,283	2,526	2,229	2,706
Roads	433	616	649	648	750	702	878	1,122	1,220	965	867	903
Railway	3	2	3	3	4	4	3	2	2	2	2	-
Airports and Ports	18	53	44	46	80	83	77	66	74	42	48	24
Transportation	453	672	696	697	834	788	959	1,190	1,296	1,009	917	927
Water and Sanitation	22	10	32	190	270	184	180	146	156	156	140	138
Water and Sanitation	22	10	32	190	270	184	180	146	156	156	140	138
Healthcare Infrastructure	-	-	-	-	76	69	77	70	66	61	53	50
Healthcare	-	-	-	-	76	69	77	70	66	61	53	50
<b>Total</b>	<b>2,601</b>	<b>3,095</b>	<b>3,434</b>	<b>3,398</b>	<b>4,059</b>	<b>3,588</b>	<b>3,882</b>	<b>3,570</b>	<b>4,002</b>	<b>3,970</b>	<b>3,544</b>	<b>4,349</b>

Sources: Superintendence of Banking, Insurance and Pension Fund Management Companies (SBS) Peru

The charts above show the evolution of investment in different sectors, led by Power and Transportation, which in 2019 jointly represented 62.2% and 21.3%, respectively, of the total portfolio. As to the sub-sector distribution, in 2019 a significant amount of pension funds has

been invested in Electric Power Generation (32.3%) and Roads projects (20.8%). The next chart presents the bond issuers as of December 31, 2019, which include companies, infrastructure investment funds and infrastructure/PPP projects.

## Bond Issuers as of December 31, 2019

Telecommunications	
Telecommunications	Telefónica Móviles, América Móviles, Telefónica del Perú, Red Dorsal
Power	
Electric Power Distribution	Luz del Sur, Edelnor, Fondo de Inversión Energético Americano de Larraín Vial
Electric Power Generation	Cahua, Duke Egenor, Edegel, Enersur, Electroandes, Inkia Energy, Fondo de Inversión Energético Americano de Larraín Vial, Kallpa, Southern Cone, Energía Eólica, Engie Energia P, Chinango, Fondo de Inversión Energético Americano de Larraín Vial, Fondo de Inversión en Infraestructura de AC Capitales
Electric Power Transmission	Abengoa, Consorcio Transmantaro, Fondo de Inversión Energético Americano de Larraín Vial, Red de Energía del Perú, Aguaytía, Redesur-Tesur, Fondos de Inversión en Infraestructura: AC Capitales, Sigma, and Macrocapitales
Hydroelectric Power Projects	Consorcio Trasvase Olmos, Fondo de Inversión Energético Americano de Larraín Vial
Oil & Gas	Relapasa, Transportadora de Gas del Perú, Perú LNG, Plus Camisea, Fondo de Inversión Energético Americano de Larraín Vial, Maple, Hunt Oil, Calidda, Plus Lote 56, Fondo de Inversión en Infraestructura de AC Capitales
Transportation	
Roads	IIRSA Sur (Tramos 2, 3 y 4), IIRSA Norte, Interoceánica V, CRPAO PEN Trust, CRPAO VAC Trust, Rutas de Lima, ICCGSA, GyM Ferrovias, Fideicomiso de Infraestructura, Línea 2, Norvial, Cosapi, Fideicomiso de Infraestructura 2, Fondo de Inversión en Infraestructura de Sigma
Railway	Fondo de Inversión en Infraestructura de AC Capitales
Airports and Ports	Terminales Portuarios Euroandinos - Paita, Lima Airport Partners, Andino Investmen Holdings and Fondo de Inversión en Infraestructura de AC Capitales
Water and Sanitation	
Water and Sanitation	H2Olmos, Consorcio Agua Azul, Fondo de Inversión en Infraestructura de AC Capitales and Fideicomiso de Infraestructura
Healthcare	
Healthcare Infrastructure	Peru Payroll Deduction Finance Limited

Source: Superintendencia of Banking, Insurance and Pension Fund Management Companies (SBS) - Peru

Some of the projects included in this list are: Red Dorsal Nacional de Fibra Optica (Telecommunications), IIRSA Sur (Roads), IIRSA Norte (Roads), Rutas de Lima - Vías Nuevas de Lima Project (Urban Roads) and

Lima Metro - Line 2 (Railway). Therefore, the information presented shows the important role of pension funds in financing infrastructure projects in Peru.

## 2. FINANCIAL CLOSING - RECENT SUCCESSFUL EXPERIENCES

In this section, two examples of recent successful financing transactions are presented:

1. The financial closing of the Salaverry Port Terminal, which was achieved in 2020, and
2. The financial closing of the San Martín Terminal Port, having EY the financial advisory role.

The Salaverry Port Terminal is a self-financed PPP project that includes the design, finance, construction, operation and transfer of the port. It was awarded to Salaverry Terminal Internacional S.A.<sup>28</sup> for 30 years, with an estimated investment of USD270.1 million. The financial closing was achieved in February 2020 after the approval by ProInversión of the financing documentation presented by the concessionaire. The transaction involved a syndicated loan of USD132 million for eight years to finance the construction of Stages 1 and 2. The financial institutions that participated in this negotiation included local and international banks: Banco Santander, Itaú Corpbanca New York Branch and BBVA Perú.

The San Martín Port Terminal is a project developed under a self-financed PPP scheme that includes the design, finance, construction, operation and transfer of the port, awarded to Consorcio Paracas<sup>29</sup> for 30 years, with an estimated investment of USD215 million. The concessionaire presented the required financial closing documentation for its approval in February 2018. The transaction involved a term loan of USD183 million provided by Banco Santander and the Andean Development Corporation (CAF) under the following conditions: a term loan of USD41.5 million for 10 years, and two term loans of USD50 million and USD91.50 million for 18 years. In this transaction, EY played a key role as financial advisor of the public bidding process (which resulted in its client becoming the successful bidder) and subsequently seeking the financing.

This included helping the concessionaire explore funding alternatives in the market and closing the funding with the alternative selected. The evaluation included the review of the contract conditions, risk analysis and mitigation mechanisms available, as well as the development of the project's financial model.

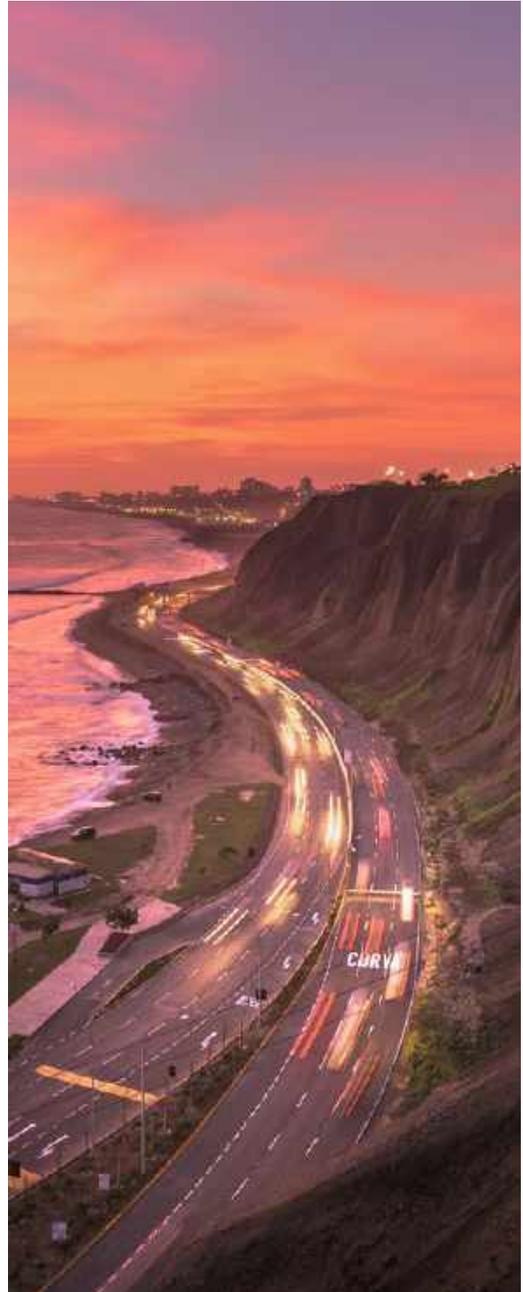
The financial viability and development of infrastructure projects requires a complete understanding of how financial markets work. In the early stages of the project evaluation, an optimal risk analysis is crucial in order to include the most efficient allocation arrangements between the parties and establish mitigation mechanisms to reduce any effect in the project.

<sup>28</sup> Salaverry Terminal Internacional S.A. is a subsidiary of Trabajos Marítimos S.A. (TRAMARSA), a maritime and port operator based in Peru belonging to Grupo Romero.

<sup>29</sup> Consorcio Paracas is comprised by Servinoga S.L., Pattac Empreendimentos e Participacoes S.A., Tucumán Engenharia e Empreendimentos Ltda., and Fortesolo Servicios Integrados Ltda.

In addition, the regulations and conditions established in the contracts must provide guarantees to the potential lenders to ensure the repayment of debt obligations and mechanisms to avoid interruptions in the project operations, such as the “step-in rights” regulated in the Peruvian Law on Public-Private Partnerships. Therefore, it is important to ensure an efficient risk allocation between the parties to avoid problems in the future.

Market soundings are also necessary to anticipate the information and requirements that will be demanded to the potential lenders and thus evaluate the best sources of funding for each project, such as banks or capital markets. The feedback provided by the market will help ensure the viability of the projects throughout a long-term contract. Therefore, having a complete and updated understanding of local financial and capital markets, as well as the current appetite for financing infrastructure investments in Peru is an important factor for raising the required funding.





# LEGAL FRAMEWORK



## 1

# PROMOTION OF THE PRIVATE INVESTMENT

Since 1993, the Peruvian government has focused on promoting national and foreign private investment. This path began with our Constitution (1993) which is a cornerstone to encourage and guarantee private investment in every field within one of the most attractive legal frameworks in the region.

One of the main principles for promoting investment under the Peruvian legal framework is the non-discrimination principle in the treatment of foreign and local (Peruvian) investments.

Peru seeks to attract both domestic and foreign investment in all sectors of the economy. To achieve this goal, it has taken the necessary steps to establish a consistent investment policy that eliminates any barriers that foreign investors may encounter. As a result, Peru is considered to provide one of the most open investment systems in the world.

Peru has adopted a legal framework that requires no previous authorization for foreign investment. In this regard, foreign investments are allowed without restriction in the large majority of economic activities. The activities with restrictions are very specific. In addition, Peru has a legal framework to protect the economic stability of investors and to reduce government interference in economic activities.

## 1. THE CONSTITUTION OF THE REPUBLIC OF PERU

- ▶ Peruvian and foreign investment are subject to the same conditions. As a consequence of this constitutional provision, Peru's legal provisions, regulations, and practices do not discriminate between domestic and foreign corporations.
- ▶ Property rights are guaranteed by the Peruvian government.

No one shall be deprived of their property, except, exclusively, due to national security or public need established by law and previous cash payment to the titleholder of the appraised property, which shall include compensation for potential damages.

Foreign individuals and/or entities are granted the same treatment as Peruvians. However, within fifty kilometers from the national borders, foreigners may not acquire or possess under any title, directly or indirectly, mines, lands, woods, water, fuel, or energy sources, whether individually or in partnership, under penalty of losing that acquired right in favor of the Peruvian government. The only exception to this provision involves cases of public need expressly established by an Executive Order (Decreto Supremo).

- ▶ The Peruvian government guarantees the free possession and disposition of foreign currency. Therefore, there are no restrictions on remittance of profits, international transfers of capital, or foreign exchange practices.

- ▶ Freedom of economic private initiative.
- ▶ The freedom of contract guarantees that the parties may negotiate without restriction, according to the regulations in effect at the time of the contract. Contract terms and conditions may not be amended by laws or any other provision whatsoever.

## 2. REGULATIONS AND RULES THAT ENCOURAGE PRIVATE INVESTMENT

Our Constitution is not the only regulation that encourages private investment. Peru offers a favorable legal framework that protects foreign investors' interests by offering them:

- ▶ Equal and non-discriminatory treatment
- ▶ Unrestricted access to the majority of economic sectors
- ▶ Free capital transfer

Peruvian and foreign investors are also provided with:

- ▶ Right to free competition
- ▶ Guarantee of private property (no expropriations or nationalizations)
- ▶ Freedom to purchase shares in Peruvian corporations
- ▶ Freedom to access internal and external credit
- ▶ Freedom to transfer abroad profits from their investments in Peru and to pay royalties to non-domiciled entities
- ▶ Simplicity for most operations, whether in local currency (Sol) or U.S. Dollars, without foreign exchange controls.

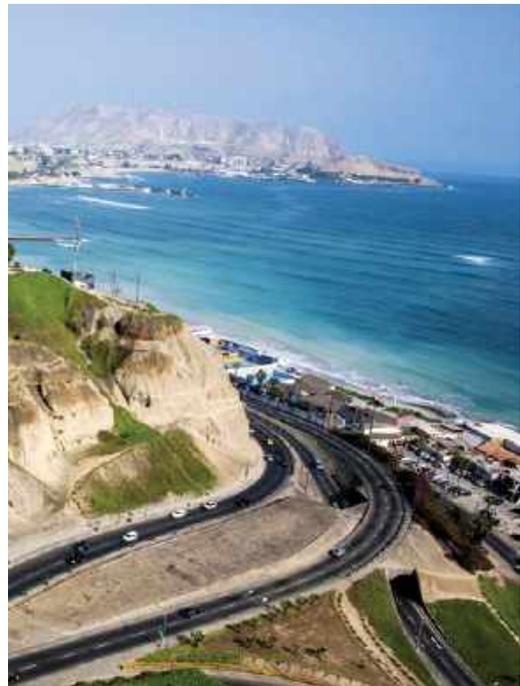
The main legal provisions and regulations related to the promotion of foreign private investment are:

### ▶ **Legislative Order (Decreto Legislativo) 662, Legal Stability Scheme for Foreign Investments:**

According to this law, the Peruvian government encourages and guarantees foreign investment in all sectors of economic activity and in any of the business or contract forms permitted by local legislation.

### ▶ **Legislative Scheme 757. Legal Framework for Private Investment Growth:**

This law seeks to guarantee free initiative and private investments, already made or to be made, in all sectors of economic activity. It establishes rights, guarantees and obligations that are applicable to all individuals or entities, national or foreign, that invest in Peru.



## 2

# PUBLIC-PRIVATE PARTNERSHIPS (PPPs)

A Public-Private Partnership (PPP) is a form of private investment participation that involves expertise, knowledge, equipment, technology and distribution of risks and resources, preferably private, with the purpose of creating, developing, improving, operating or maintaining public infrastructure to provide public services, only rendering public services and/or services related to those required by the government, and to develop projects of applied research and/or technological innovation.

## 1. LEGAL FRAMEWORK

PPPs and Private Initiatives are in general governed by the provisions of:

- The Legislative Order (Decreto Legislativo) 1362 (hereinafter, the “PPP Law”) and
- The regulations of the PPP Law approved by Executive Order (Decreto Supremo) 240-2018-EF (hereinafter the “Regulations of PPP Law”).

This legal framework is applicable to all entities of the non-financial public sector, at all levels of government.

It is important to mention that a PPP can be developed both through a government or private initiative (the latter is also known as unsolicited proposal) which depends on whether the project is envisaged in the public or private sector.

PPPs enable the private sector to contribute with expertise, knowledge, equipment and technology to the financing, construction, operation and maintenance of public

infrastructure. The government maintains property rights to the project infrastructure, including any new facilities built by the private investor. Usually, at the end of the contract, the property is transferred to the government.

## 2. PHASES OF THE PPPs

The PPPs are carried out in five phases, as described in the following chart:

- 1** Planning and Programming
 

Includes the planning of projects and commitments (firm or contingent). This planning is articulated with the Multi-annual Investment Program and it is materialized in the PPP Multiannual Investment Report (IMIAPP).
- 2** Formulation
 

Comprises the design and/or evaluation of the project, and is materialized in the Evaluation Report. This phase ends with the incorporation of the project to the promotion process.
- 3** Structuring
 

Includes the approval of the Promotion Plan, consultation with government entities and the design of the PPP contract.
- 4** Transaction
 

Entails the public bidding. This phase ends with the signing of the PPP contract.
- 5** Contract Performance
 

Includes the financing, construction, operation and maintenance of the project by the private investor.

### 3. TYPES OF PPPs

The PPPs may be self-financed or co-financed<sup>1</sup>.

- ▶ **Self-financed:** A PPP project with its own income-generating capacity that does not require co-financing from the government.
- ▶ **Co-financed:** A PPP project that requires, by the Government, co-financing or the granting or contracting of financial guarantees or non-financial guarantees that have a significant probability of requiring co-financing, where:

Guarantee	Self-financed	Co-financed
Financial Guarantees	Those guarantees that do not exceed 5% of the total investment cost or the total cost of the project (if there are no investment activities).	Those guarantees that exceed the limit of 5% of the total investment or the total cost of the project (if there are no investment activities).
Non-Financial Guarantees	The probability of requesting the use of public resources is minimal or nonexistent, meaning that the probability of using public resources does not exceed 10% for any of the first 5 years of project guarantee period.	This probability exceeds the limit of 10% for any of the first 5 years of project guarantee period.

A PPP can also be classified considering its inception in government initiatives and private initiatives (unsolicited bids).

▶ **Government initiatives:**

The government (through one of its levels) identifies and launches a project.

▶ **Private initiatives (unsolicited bids):**

The private sector identifies and proposes the project to the government.

In private initiatives, the government evaluates the unsolicited proposal submitted by the private sector. First, the government reviews if the unsolicited proposal has been drawn up according to private initiative regulations. Then, if the private initiative is admitted by the government, it shall issue an opinion on whether the private initiative is relevant and consistent with the entity's plans.

Finally, the entity can declare interest in the project submitted through a private initiative. In this case, the entity gives 90 days to other companies to participate in a bidding process with the company that submitted the private initiative. If, after the 90 days there are no more companies, the company that submitted the private initiative will be awarded the execution of the project without competing against third parties.

<sup>1</sup> <https://www.investinperu.pe/modulos/JER/PlantillaStandard.aspx?are=1&prf=0&jer=5932&sec=17>

Private initiatives have two main benefits for the private sector, specifically for the company that submits the private initiative:

- In the case of an opening to competition through a bidding process, if the company submits a valid technical and economic proposal, it is entitled to tie with the proposal that obtains first place. Afterwards, the submitter and the first-place company can submit another proposal in a tiebreaker mechanism.
- If the competition is opened through a bidding process, and the submitter has presented a valid economic proposal, and if the project is awarded to a third party, the costs of the private initiative can be reimbursed in favor of the submitter up to 2% of the Total Cost of the Project or the Total Cost of the Investment.

#### 4. ADVANTAGES OF THE PPPs

- ▶ The risks are allocated considering the party that is in the best position to manage the risk.
- ▶ The provision of public services to the citizens benefits from the expertise of the private sector.
- ▶ By integrating the operation and maintenance of the infrastructure through a long-term contract, the private sector is given adequate incentives to design and build such infrastructure efficiently.

- ▶ Public infrastructure can be provided without spending government resources (in the case of the self-financed PPPs) or -in the case of co-financed PPPs- government payments to the private sector for the construction of the infrastructure are distributed over a longer period of time because the private sector will finance the project.

#### 5. TYPES OF COMMITMENT OF THE PERUVIAN GOVERNMENT

According to the PPP legislation, the government may assume two types of commitment:

##### ▶ Firm commitments:

The firm commitments are the payment obligations of specific or quantifiable amounts made by the government in favor of the private company. It is a consideration for the performance of the PPP contract.

##### ▶ Potential commitments:

These are potential payment obligations made by the government in favor of the private company, set forth in the PPP contract, arising from the occurrence of one or more events corresponding to the risks of the PPP project. The payment of this obligation is subject to the occurrence of a certain event established in the PPP contract. Therefore, only if such event occurs, the Peruvian government will comply with its commitment.



## 6. ROLE OF AUTHORITIES

### Private Investment Promotion Body:

The public entity responsible for the operation, management, and allocation of a PPP project is the Private Investment Promotion Body (OPIP). Depending on the scope, the OPIP may be:

OPIP	Scope
Pro-Inversión	<ul style="list-style-type: none"> <li>▶ PPP projects of national competence originated by government initiative that are multi-sectoral.</li> </ul>
	<ul style="list-style-type: none"> <li>▶ PPP projects of national competence originated by a government initiative that have a total investment cost, or a total cost of the project (in case of a project without investment component) greater than 40,000 Tax Units - UIT<sup>2</sup> (S/172 Million).</li> </ul>
	<ul style="list-style-type: none"> <li>▶ PPP projects of national competence originated by self-financed private initiative.</li> </ul>
	<ul style="list-style-type: none"> <li>▶ PPP projects under public entity competence authorized by an express legal provision, originated by self-financed private initiative.</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Projects regarding any level of government and projects under public entity competence authorized by an express legal provision, originated by self-financed private initiative.</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Projects developed through Competitive Dialogue.</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Projects that by an express legal provision are assigned to ProInversión.</li> </ul>

OPIP	Scope
OPIP of the pertinent Ministry	The probability of requesting the use of public resources is minimal or nonexistent, i.e. the probability of using public resources does not exceed 10% for any of the first 5 years of the guaranteed project period.
OPIP of the respective regional government	Projects within its competence that cover more than one province.
OPIP of the pertinent local government	Projects within its own competence.

### MINISTRY OF ECONOMY AND FINANCE:

Ministry of Economy and Finance (MEF) is the governing body and the highest technical-regulatory authority of the PPP system and its function is to ensure and articulate compliance with the National Policy for the Promotion of Private Investment in PPP.

### OTHER AUTHORITIES:

The Ministries (for projects within their specific sectors), the Regulatory Agencies and the Office of the General Comptroller of the Republic of Peru, also have specific roles in the PPP system.

<sup>2</sup> Tax Unit (UIT) amounts to S/4,300 for the year 2020.

## 3

## PROJECTS IN ASSETS (PA)

This mechanism develops the cases in which the private investor seeks to carry out a project on an asset owned by the government, either as owner, possessor, lessee, or other kind of real estate permitted by law. However, such projects will be carried out without compromising government resources.

The private investment on assets owned by the Peruvian government is promoted through the pertinent OPIP (considering that this OPIP can belong to ministries, regional and local governments) deeming the following scenarios:

- ▶ Disposal of assets, including transfer in whole or in part.
- ▶ Use, lease, usufruct, surface or other mechanism permitted by Peruvian legislation.

The Peruvian Legal Framework of the Projects in Assets is the same as that to PPPs. It is the PPP Law and the Regulations of the PPP Law.

The main difference between a PPP and a PA is that while in the former the government can use its own resources and there is a risk allocation between the private sector and the government, in the latter the private sector assumes all risks related to the project and the project will never use government's resources.

## 4

## WORKS FOR TAXES (WT)

The Works for Taxes (WT) regime is an efficient tool of Corporate Social Responsibility, allowing the application, as a credit against corporate income tax, of the amount on the projects undertaken by private companies on behalf of regional governments, local governments, public universities and national government entities in several sectors (such as Education, Health, Security, Tourism, Agriculture, Irrigation, Culture, Sanitation, Sports and Environment, among others).

This regime is a "win - win" because the government wins with the projects' construction or implementation, the citizens improve their quality of life through the projects and private companies directly improve their brand as socially responsible by undertaking these projects.

The Works for Taxes (WT) regime consists of the participation of a private company jointly with a government entity to develop and execute a public investment project. Upon the signature of an agreement (the "Investment Agreement") the private company is committed to implement a public investment project in exchange for the recognition of the investment as a credit against Corporate Income Tax (CIT) through the issue of an investment certificate (called CIPRL or CIPGN) depending if the agreement is entered, in the first case, with regional and local governments, public universities or, in the latter case, agreements with a national governmental entity.

## 1. LEGAL FRAMEWORK

- ▶ Consolidated Text of Law 29230 - Law on Regional and Local Public Investment with Private Sector Participation, approved by Executive Order (Decreto Supremo) 294-2018-EF.
- ▶ Consolidated Text of the Regulations of Law 29230 - Law on Regional and Local Public Investment with Private Sector Participation, approved by Executive Order (Decreto Supremo) 295-2018-EF.
- ▶ Legislative Order (Decreto Legislativo) that authorizes Petroperu to, exceptionally, finance projects under Law 29230.
- ▶ Consolidated Text of Law 30556 - Law that approves extraordinary provisions to face disasters, and authorizes and extends the scope of Law 29230, approved by Executive Order 094-2018-PCM.
- ▶ Consolidated Text of the Regulations of Law 30556- Regulations that approve extraordinary provisions to face disasters, and authorizes and extends the scope of Law 29230, approved by Executive Order 003-2019-PCM.

In order to understand the advantages provided by the regime, it is necessary to understand the following:

- ▶ **Public Investment Projects:**  
Public Investment Projects are granting of government funds to create, expand, improve or recover the production or supply of goods or services for the community. This means that all Public Investment Projects should have a social purpose.

Public Investment Projects may include all pre-investment studies, architectural studies or engineering, infrastructure construction, implementation and maintenance of works.

Operating expenses, replacement of assets and third-party consulting or advice expenses will not be deemed as part of the budget of the Public Investment Project.

- ▶ **Public Investment Agreement:**

It is an agreement signed by the private company and the government entity, whereby the private company agrees to execute a particular Public Investment Project.

The private company may execute the project directly or may sign a construction contract with a constructor in order to execute the project.

## 2. TYPES OF PUBLIC INVESTMENT PROJECTS

In order to carry out the Works for Taxes (WT), there are two types of Public Investment Projects:

- ▶ **Government Initiative:**

By recognizing a need, the government entity formulates a Public Investment Project to address the emerging need.

- ▶ **Private Initiative (Unsolicited Proposal):**

The private sector submits a proposal for a Public Investment Project, which must be evaluated by the government entity.



### 3. ADVANTAGES OF THE WORKS FOR TAXES (WT) REGIME

This regime has several benefits:

► **From a private perspective:**

The Works for Taxes (WT) regime enhances the development of social responsibility programs, improving the reputation of companies, and, hence, the relationship between the company and the community.

► **For the community:**

This regime reduces the infrastructure gap, creating more jobs. Coverage of public services is also increased.

► **From the government perspective:**

This regime contributes to the acceleration of projects.



### 4. ANNUAL CAPACITY CAP<sup>3</sup>

In 2020, regional governments have a joint annual capacity (CAP) to invest in the Works for Taxes (WT) regime that is equivalent to S/3,748,340,143 (approximately USD1.07 billion). The annual capacity (CAP) for each regional government is included here.

In that same period, local governments have a joint annual capacity (CAP) to invest in the Works for Taxes (WT) regime that is equivalent to S/11,322,835,113 (approximately USD3.23 billion). The annual capacity (CAP) of each Local Government is included here.

Also in 2020, public universities have a joint annual capacity (CAP) to invest in the Works for Taxes (WT) regime that is equivalent to S/948,858,891 (approximately USD270.24 million). The annual capacity for each university is included here.

Usually, and according to Legislative Order (Decreto Legislativo) 1275, entities are required to meet some mandatory fiscal provisions. However, due to the current COVID-19 pandemic, Emergency Order 081-2019 has suspended, as a temporary exception, compliance with these fiscal provisions for the fiscal year 2020.

<sup>3</sup> The Tax Unit - UIT is S/4,300 for the year 2020.

## 5. REGIONAL AND LOCAL PUBLIC INVESTMENT CERTIFICATE (CIPRL) AND NATIONAL GOVERNMENT PUBLIC INVESTMENT CERTIFICATE (CIPGN)

### ISSUE OF CERTIFICATES (CIPRL AND CIPGN)

An approval of the reception and quality of the whole or milestones of the project are required in order to issue a CIPRL or a CIPGN.

In the case that the execution of the project takes more than five months, the private company may request that the public entity issue quarterly certificates.

CIPRL are limited to resources obtained from the Canon by every regional and local government as well as public universities, which are listed by the Ministry of Economy and Finance (MEF). CIPGNs are limited to ordinary resources of the national government signing the agreement.

The Canon is the share, attributed to the local and regional governments, of the total income obtained by the Peruvian government for the economic exploitation of natural resources. Currently, Peruvian legislation regulates the Mining Canon, the Hydro-energetic Canon, the Gas Canon, the Fishing Canon, the Forestry Canon and the Oil Canon.

It should be mentioned that the Canon is the base for determining the annual capacity (CAP) of investments through the Works for Taxes (WT) regime for regional and local governments as well as public universities.

### FEATURES OF THE CERTIFICATES (CIPRL AND CIPGN)

These certificates have the following features:

- ▶ The issue of the CIPRL and CIPGN requested by the government entities is carried out electronically through the platform of Valued Documents contained in the following URL: <https://apps4.mineco.gob.pe/ciprlapp/>
- ▶ The CIPRL and CIPGN may only be used against prepayments and annual Corporate Income Tax (CIT).
- ▶ The CIPRL and CIPGN may be used with a limit of 50% of Corporate Income Tax (CIT) paid in the previous fiscal year.
- ▶ If, by the end of the year, the CIPRL or CIPGN are not used, the private company may request a new certificate that will include the amount of the previous certificates plus an increase of 2%. This new issuance may also be requested when there are credits or remaining balances as a result of partially used certificates.
- ▶ If the certificate has not been used within 10 years, the private company may claim a refund to the Tax Administration.
- ▶ The certificates are negotiable so they can be transferred to third parties, except when the private company that signed the Investment Agreement has executed the works directly as a constructor.



## 5

# GOVERNMENT TO GOVERNMENT AGREEMENTS (G2G)

Under G2G Agreements, a government contracts the provision of goods, services (including construction) through a direct agreement with another government. This latter government can perform the agreement through its own government bodies or agencies, government companies, national private companies and/or foreign private companies.

The most representative of these agreements, in terms of investment and closing social gaps, is the one related to the Reconstruction with Changes (RCC) signed with the United Kingdom (UK)<sup>4</sup>. Through this G2G, Peru would receive technical assistance services, supervision and Project Manager Officers (PMOs) from the UK government<sup>5</sup>, which would act through its “delivery team”: UK private companies with an excellent track record in the field.

Furthermore, Peru has recently signed many agreements under the Government to Government (G2G) scheme with countries with broadly proven experience in the infrastructure sector (See Section 3.3.3).

## 1. LEGAL FRAMEWORK

Law 30556, which approves extraordinary provisions for interventions by the National Government to face disasters and provides for the creation of the Authority for Reconstruction with Changes (ARCC) allows the ARCC and Ministries to enter into G2G agreements for complex interventions and conglomerates.

Further, Legislative Order (Decreto Legislativo) 1248, through its Article 4, authorized the subscription of G2G agreements for hiring management and for the provision of goods and/or services to carry out the Pan American and Parapan American Games Lima 2019.

## 2. NEW ENGINEERING CONTRACTS (NEC)

For the Pan American and Parapan American Games Lima 2019, the New Engineering Contracts (NEC) were used (specifically the NEC3 version). The NEC are a very flexible standard contracts created by the UK Institution of Civil Engineers (ICE) in England, similar to other standard contracts such as FIDIC, ICC, AIA, among others.

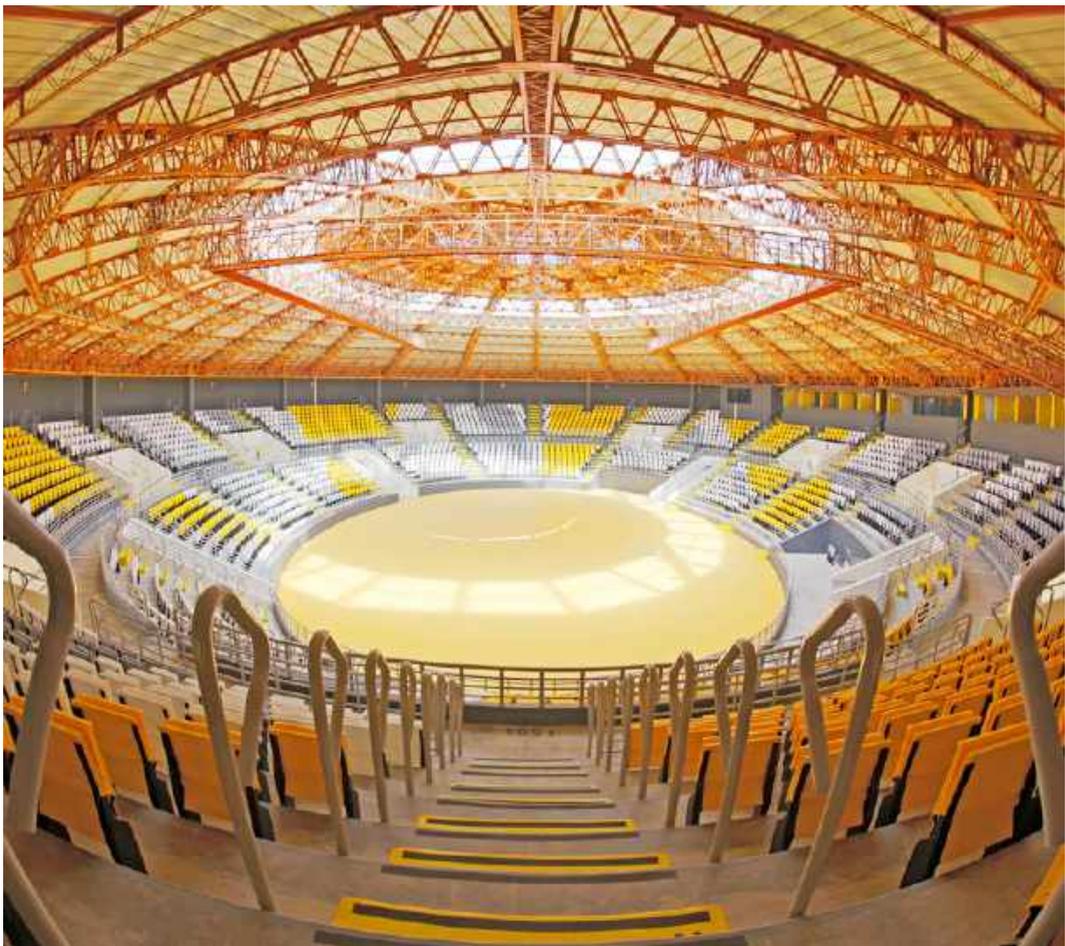
<sup>4</sup> In 2017, there was a natural disaster (flood) in Northern Peru (el “Niño Costero”) which caused serious damages to public infrastructure. The government created the Authority for Reconstruction with Changes (ARCC) to supervise and execute the public works, which include important prevention measures.

<sup>5</sup> Note that the construction of the works of the ARCC itself (investment of approximately USD 2 billion) would not be part of the G2G. Such works will be publicly bid to interested investors. Peruvian companies, UK firms and companies from any other market may participate in the public bids. Even though the Terms of Reference (TR) for the public bids have not yet been published, it is expected that projects would be packaged to provide integral solutions, generating synergies and offering attractive amounts of investment to the international market.

The NEC3 have been used to provide goods, services and works, considering all phases of a project cycle, from planning, design and project management to construction, maintenance and facilities management. Besides, NEC3 promotes the delivery of projects:

1. On time
2. On budget
3. To the highest standards<sup>6</sup>

According to the Peruvian experience in NEC3, the main feature of this agreement is the simplicity of the language, adequate allocation of risks and collaborative work.



<sup>6</sup> <https://www.neccontract.com/About-NEC/How-NEC-Contracts-Works>



# TAX FRAMEWORK

## 1

# PERUVIAN GENERAL TAX CONSIDERATIONS

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[www.ey.com/pe](https://www.ey.com/pe)

## 1. TAX REGIME APPLICABLE TO PERUVIAN ENTITIES (PRINCIPAL TAXES)

### a. Corporate Income Tax (CIT)

#### ► General considerations:

Peruvian domiciled entities are subject to Corporate Income Tax (CIT) on their worldwide taxable income. Branches and permanent establishments of foreign companies are taxed only on their Peruvian source income. The general CIT rate is 29.5%. This rate is applied to the taxpayer's net income, which is determined by deducting costs and expenses from the revenues obtained. The tax year starts on January 1 and ends on December 31. Annual CIT returns are filed around March 31 of the following year.

#### ► Advanced payments:

Domiciled companies are under obligation to make advance payments determined by comparing the monthly installments resulting from the application of one of the following methods, whichever is highest:

- Percentage method: apply 1.5% to the total net income of the month

- Coefficient method: divide the CIT calculated in the previous fiscal year by the total net income from the same period and apply the resulting coefficient to the net income for the month. Should the prepayments exceed the annual tax determined, the excess may be carried forward as a credit against subsequent CIT payments or a refund may be requested.

#### ► Deduction of expenses:

The expenses incurred in the generation of revenues or in maintaining its source (so-called "causality principle") are generally deductible for determining the CIT base. Some expenses are disallowed, as expenses incurred in transactions with residents in tax havens, non-cooperative jurisdictions as well as entities subject to preferential tax regimes (some exceptions apply).

#### ► Tax loss relief:

Taxpayers can choose between the following systems to obtain relief for their tax losses:

- Losses can be carried forward for four consecutive years, beginning with the first subsequent year in which the losses arise (as an exception, five years in case of tax losses obtained in 2020); or,
- Losses can be carried forward indefinitely, but with an annual limit equivalent to 50% of the taxpayer's taxable income of each subsequent year.

#### ► Permanent establishment:

A foreign company has a permanent establishment in Peru whether:

- It has a fixed place of business in the country whereby it carries out business activities in whole or in part;



- A building site, construction or installation project in Peru, as well as the supervision activities related to them, that exceeds 183 calendar days within any period of 12 months;
- The provision of services rendered in Peru for the same (or related) project for a period or periods that exceed 183 calendar days within a 12 month period;
  - ▶ A person acting in Peru on behalf of a non-domiciled entity and has authority to:
    - Enter into contracts on behalf of the non-domiciled entity;
    - Transfer property of goods owned by the non-domiciled entity; or
    - For the provision of services by the non-domiciled entity.
  - ▶ In this case, exceptionally, a permanent establishment will not be set up when the person acting on behalf of the non-domiciled entity carries out an economic activity within the country as an independent agent and acts for the latter in the ordinary course of that activity.

## b. Value Added Tax (VAT)

An 18% VAT applies to the following operations:

- ▶ Sale of goods within Peru
- ▶ Services performed within Peru and services performed by non-domiciled economically used within Peru (“import” of services)
- ▶ Construction contracts
- ▶ First sale of real estate by the constructor, and
- ▶ Import of goods

VAT applies a debit/credit monthly system whereby input VAT derived from the acquisition of goods and services is used as tax credit against output VAT arising from taxable transactions.

The main requirements that have to be met for considering input VAT as a tax credit are the following:

- The acquisitions must be considered as expenses or costs for CIT purposes
- Such acquisitions must be allocated to transactions that are subject to taxation with VAT.

Any credit not used in a specific month may be carried forward in order to be utilized against future output VAT. It should be noted that VAT refunds in cash are only available for exports and for certain entities in pre-operating stages that meet specific conditions (See Section 3.c).

## c. Temporary Tax on Net Assets (TNAT)

TNAT is applicable to domiciled entities (including branches and permanent establishments of foreign companies) that are not in pre-operating stage. It is equivalent to 0.4% of the value of total net assets over S/1 million (approximately USD285,700).

The basis is the value of the assets set forth in the taxpayer's balance sheet as of December 31 of the previous year, adjusted for deductions and repayments accepted by the regulations.

Note that goods delivered by the Peruvian government to the concessionary used for the rendering of public services as



well as the constructions made by the concessionary do not form part of the tax basis.

The amount of TNAT paid by taxpayers can be used as a tax credit against the CIT (even against advanced payments). If it is not totally offset, the remaining TNAT may be refunded by the Tax Authority.

#### d. Financial Transaction Tax (FTT)

This tax levies all debits and/or credits on bank accounts held by the taxpayers, among other similar transactions, by the application of a 0.005% rate. The following operations are exempted, among others: transactions carried out between accounts of the same holder and credits to bank accounts for concept of salaries. The FTT is deductible for CIT purposes.

## 2. TAX REGIME APPLICABLE TO NON-DOMICILED ENTITIES

Non-domiciled entities are subject to Withholding Income Tax (WHT) only on their Peruvian source income. Income Tax Law considers as a Peruvian source, among others:

- ▶ Services provided in Peruvian territory (general regulations): 30% of WHT rate.
- ▶ Technical assistance (economically used in Peru): 15% of WHT rate.
- ▶ Digital services (economically used in Peru): 30% of WHT rate.
- ▶ Dividends distributed by a Peruvian entity: 5% of WHT rate.

- ▶ Interest paid by a Peruvian entity or when the capital is economically used or placed in Peru: 4.99% if the following requirements are met:
  - In the case of cash loans, the entrance into Peru of the foreign currency must be duly accredited
  - The interest rate must not exceed Libor plus 7 points; and,
  - There is no economic relationship between lender and borrower. In the case that the loan granted does not comply with the requirements mentioned above, a 30% WHT rate would apply.

It is important to mention that, until December 31, 2020 (probably to be extended) interests on development loans granted directly or through suppliers or financial intermediaries by international organizations or foreign government institutions are exempt from Income Tax Law (IT). Development loans are defined as debt operations intended to finance, among others, projects or programs for the development of the country in public infrastructure works and the provision of public services.

- ▶ Those obtained from credit transfers (factoring, etc.) in which the acquirer assumes the debtor's credit risk, when the transferor of the credit or the debtor assigned is a domiciled taxpayer: 30% WHT rate.

However, since 2019, Income Tax Law (IT) does not apply to the income for services obtained for the transfer of the receivable rights of the investor in the Public-Private Partnership contracts, when the acquirer assumes the risk of the debt.



A reduction of the above mentioned WHT rates would apply if a Tax Treaty to Avoid Double Taxation (DTT) has been signed by the Peruvian government. Peru has currently a DTT with the following countries: Brazil, Chile, Canada, Portugal, South Korea, Switzerland and Mexico. Peru is also part of the Andean Community (along with Colombia, Ecuador and Bolivia) whereas a sort of DTT is in force (Decision 578).

### 3. TRANSFER PRICING REGULATIONS

Peruvian tax legislation states that transactions between related parties (and with tax havens, non-cooperative jurisdictions or entities subject to preferential tax regimes) must be carried out on an arm's length basis.

The prices of the transactions subject to transfer pricing regulations shall be determined in accordance with any of the internationally accepted methods. The value agreed by the parties must only be adjusted when a lower tax payment has been generated in the country.

There are formal obligations for the taxpayers:

- Filing returns according with OECD standards (local report, master report and country-by-country report); and,
- Making available to the Tax Authority sufficient evidence to support the agreed amount.

### 4. THIN CAPITALIZATION AND "TAX EBITDA" REGULATIONS

Peruvian Corporate Income Tax Law (CIT) establishes limits to the amount of interest that can be deducted in order to determine CIT:

- ▶ Thin Capitalization Regulations (2019 and 2020): The interests of indebtedness with related or unrelated parties will be deductible for the portion of debt not exceeding three times the debtor's net equity according to the balance sheet of the previous year.
- ▶ "Tax EBITDA" Regulations (since 2021): Under this regulation, interests of indebtedness with related or unrelated parties can be deducted up to 30% of Tax EBITDA (net income after offsetting losses plus net interest, depreciation and amortization) of the preceding year. Non-deductible interest exceeding the limit may be carried forward to the following four years but will again be subject to the 30% of EBITDA limitation of the correspondent year.

It must be highlighted that these regulations are not applicable to taxpayers who, through Public-Private Partnership (PPPs) carry out public infrastructure projects, public services, related services, applied research and/or technological innovations.



# SPECIAL TAX REGULATIONS: CONSTRUCTION SERVICES

## 1. CORPORATE INCOME TAX (CIT)

Corporate Income Tax (CIT) Law grants special treatment to construction companies with contracts covering more than one taxable year. In this case, the taxpayer may opt for one of the following methods for recognition of income for tax purposes (the advance payments should be determined based on the chosen method):

### ► First Method (Cash Method):

This consists of assigning to each taxable year the gross income resulting from applying to the amounts collected for each work, during the business year, the percentage of gross profit calculated for the entire works.

### ► Second Method (Accrual Method):

It consists on assigning to each taxable year the gross income established by deducting from the amounts collected or invoiced for the works performed during the business year, the corresponding costs and expenses to such works.

The method chosen must be the same for all the works performed by the taxpayer.

## 2. VALUE ADDED TAX (VAT)

The construction services have certain special regulations in the Value Added Tax (VAT) Law. In this case, the tax must be paid when the invoice is issued or the retribution is received, whichever occurs first (in other type of services, the tax recognition takes place at other moments, such as at the end of the service or the deadline of the payments).

Also, construction services are subject to the advance VAT withholding system (SPOT), whereby payers are forced to deposit a percentage of the price (4% instead of higher percentages applicable to other services) in an account opened in the, national bank (Banco de la Nación) in favor of the providers, instead of making the total payment to them (the amount collected can be used to pay tax obligations or can be refunded a maximum of four times a year within the first five (5) working days of January, April, July and October).

## 3. CONTRIBUTION TO THE NATIONAL TRAINING SERVICE FOR THE CONSTRUCTION INDUSTRY (SENCICO)

Taxpayers whose core business is the development of construction activities according to ISIC (International Standard Industrial Classifications) of the United Nations make contributions to the National Training Service for the Construction Industry (SENCICO).

The applicable rate is 0.2% of the total company income for labor, general expenses, technical management, profits, and any other concept billed to the client, irrespective of the construction contract executed.



The obligation to pay the contribution to SENCICO originates with the date of invoicing or the date on which the income is received, whichever occurs first.

#### 4. CONSORTIUM AGREEMENTS

It is common in the sector that companies develop projects through a consortium agreement (contract where two or more entities associate to participate in a certain business with the purpose of obtaining an economic benefit but maintaining their own legal autonomy).

As a rule, consortium agreements must have independent accounting except:

- (i) If due to the conditions of the operation it is not possible to keep independent accounting; or,
- (ii) if the term of the contract is less than three (3) years.

##### a. Consortium with independent accounting

- ▶ When considered an independent taxpayer, subject to the fulfillment of formal and substantial tax obligations (obtaining a Tax ID Number - RUC- determining taxes, filing tax returns, among others).
- ▶ Operations between the consortium and the contracting parties qualify as operations with third parties subject to the applicable taxes (CIT and VAT).
- ▶ If a contracting party has more than 30% of the rights over the contract profits, it would be considered a related party with the contract (among other situations established by the Income Tax Law-IT). In this case, transfer pricing regulations would apply.

##### b. Consortium without independent accounting

- ▶ This type of contract does not generate a taxpayer independent from its contracting parties.
- ▶ Each part must account for their respective transactions (income, expenses/costs, input and output VAT) and determine their own taxes (CIT, VAT, etc.)
- ▶ Alternatively, contracting parties may choose an operator. In this case, the operator shall allocate income, costs and/or expenses, as well as VAT, to the contracting parties by means of an "Allocation Document", so that the parties may determine their own taxes.



## 3

# SPECIAL TAX REGULATIONS: PUBLIC-PRIVATE PARTNERSHIPS (PPPs)

As previously mentioned, the Peruvian government promotes private investments through concession agreements. It grants to the holder of the concession the execution and exploitation of public infrastructure works and/or the provision of public services.

The concession may be granted under any of the following alternatives:

## 1. Self-sustainable agreement

Special regulations are applicable (mainly related to the concession assets):

- ▶ Depreciation of the concession goods: The holder of the concession may annually depreciate the concession goods applying one of the following methods: (i) according to its useful life, up to a 20% annual rate, or (ii) during the concession period, under a straight-line method.
- ▶ Amortization of the intangible assets: The holder of the concession may annually amortize the intangible assets: i) according to the useful life, up to 20% annual rate; or ii) during the concession period, under a straight-line method.
- ▶ The transfer of the concession goods made by the holder of the concession in favor of the Peruvian government, during or at the end of the concession term, is exempt from any tax (created or to be created), as CIT and VAT.

- ▶ The holder of the concession must apply the CIT and the VAT to the revenue of the activities granted under the concession agreement entered into with the Peruvian government (i.e. tolls, tariffs, etc.)

## 2. Co-financed agreement

The holder of the concession has to apply CIT and VAT to the payments made by the Peruvian government under the regulations applicable to the services in general and/or construction services (depending on the activities agreed with the government).

Some benefits of the Peruvian tax regime regularly applied in PPPs are:

### a. Tax stability agreement:

The Agency for the Promotion of Private Investment (ProInversión) on behalf of the Peruvian State, can enter into stability agreements guaranteeing foreign investors, among others, a freeze on Corporate Income Tax (CIT) and Withholding Tax (WTT) dividends during the entire period of a PPP project, according to the regulations stated at the date of signing of the agreement.

For that purpose, contributions are required to the capital of an incorporated company or a company to be incorporated in Peru for an amount of no less than USD5 million. The investment can be made within a maximum two-year period.

The term of the stability agreement is subject to the time period of the concession contract for the construction and use of public infrastructure works and/or the provision of public services.



### b. Foreign currency accounting

Business transactions must be recognized in compliance with International Financial Reporting Standards (IFRS). The accounting books and records must be maintained in Spanish and must be expressed in Peruvian currency.

However, under certain requirements, companies may keep their accounting books in US Dollars for tax purposes. In this case, the taxpayer must receive foreign investment or realize foreign investment in foreign currency; sign an agreement with the Peruvian government; use the amounts in the execution of the contract and communicate the decision to the Tax Authority.

Under a US Dollars accounting, operations in this currency would not generate a foreign exchange difference subject to CIT (or deductible if it is related to operations that generates taxable income).

### c. VAT Early Recovery

Legal entities developing projects currently in the pre-operational stage (which shall be longer than or equal to two years) may request the early recovery of the VAT before starting operations.

For such purpose, the company must file an application to ProInversión in order to obtain a Ministerial Resolution that will be published by the specific sector to which the developing projects is related. The Ministerial Resolution grants the qualification as “beneficiary” to the company. Then it can request the VAT recovery to the Tax Authority. The investment must be made during the pre-operational stage and may not be less than USD5 million.

This regime provides liquidity to the company by avoiding having an unused tax credit during the implementation period of the project.



# LABOR FRAMEWORK



## 1

# GENERAL LABOR REGIME

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The civil construction regime is only applicable to those workers who are engaged in construction work, classified as operators, officers and laborers.

For workers who are not under this regime, the general labor regime is applied, as follows:

## a. Employment Contracts:

Employment contracts may be signed for an indefinite period of time or for a fixed period of time (subject to conditional provisions). A fixed term contract must be entered into in writing and must expressly state the reason for the temporary nature of this type of contract.

## b. Remuneration and Benefits:

Workers not subject to the civil construction regime are entitled to the following fringe benefits which are borne by the employer:

- ▶ **Vacation:** Workers are entitled to thirty (30) calendar days of paid vacation leave for each full year of service, provided they have worked the minimum number of days required by law.
- ▶ **Legal gratuities:** Workers receive two bonuses during the year, the first one in July and the second one in December.
- ▶ **Extraordinary bonus:** equivalent to 9% of the legal bonus, and is paid at the same time as the legal bonus. If the workers are affiliated to the Health Care Provider (EPS) the bonus amounts to 6.75% of the legal bonuses.
- ▶ **Compensation for Time of Service (Severance Pay) (CTS):** This is a fringe benefit for the provision of contingencies arising from the termination of employment and the promotion of the workers and their families. Payment is made through a deposit in the workers' bank account in May and November. Workers are authorized to dispose of part of the CTS before the end of their employment relationship, subject to certain conditions.
- ▶ **Distribution of Profits:** Companies with more than twenty (20) workers engaged in business income generating activities must distribute a percentage of their annual income before taxes among all their workers. The percentage of participation is established by law.
- ▶ **Household Allowance:** Workers who have one or more children under the age of 18 or, if older, that are pursuing superior or university studies, are entitled to this benefit until they reach the age of 24. This allowance is equivalent to 10% of the Minimum Basic Salary, currently S/930.



## 2

# SPECIAL LABOR REGIME FOR CIVIL CONSTRUCTION

In Peru, there is a general regulation applicable to private sector workers. However, certain sectors are governed by a special regulation.

One of these sectors is civil construction, which due to its particular characteristics determined by the possibility of the labor relationship (since its term is subject to the duration of the work or part of it), and by the relative location (since there is no fixed and permanent place where the construction work is performed), a special regulation is necessary.

## Requirements:

The application of the civil construction regime is only possible when the following requirements are met:

1. Companies that are engaged in or promote construction activities.
2. The activity must be included in Major Division 5 of the United Nations International Standard Industrial Classification (ISIC).
3. Companies that, exclusively, execute works whose individual costs exceed 50 Tax Units<sup>1</sup> (UIT in Peru) equivalent to S/215,000 (approximately USD63,235).

## CATEGORY OF WORKERS

Once the requirements are met, the regime applies only to those workers involved in the development of civil construction activities. These are classified as follows:

- ▶ **Operator:**  
Personnel who has obtained qualifications in a certain specialty, such as bricklayers, carpenters, electricians, painters, gasfitters, plumbers etc.
- ▶ **Officers:**  
Personnel who has not reached certain qualifications (semi-qualified) and who perform the same trade or occupation as the operator, but works as assistants to the operator.
- ▶ **Laborers:**  
Unqualified personnel who carry out auxiliary construction tasks.

## REMUNERATION AND BENEFITS

The remuneration and benefits of the workers are governed by collective agreements, concluded between employers and workers, each represented by their respective federations.

The collective agreements are signed each year, and the 2019-2020 Collective Labor Convention for Civil Construction is currently in force<sup>2</sup>.

It is important to mention that the remuneration of civil construction workers consists of a daily wage plus the Unified Construction Bonus (BUC) as well as the following benefits, if applicable:

<sup>1</sup> Tax Unit (UIT) amounts to S/4,300 for the year 2020.

To calculate individual cost of works, all expenses will be taken into account, including wages and materials.

<sup>2</sup> At the close of this edition, the Collective Agreement 2020-2021 was adopted, which runs from 01 June 2020 to 30 May 2021. Agreeing on an increase for operators of S/1.50, officers S/1.15 and laborers S/1.10.



Table of salaries with social benefits (per day's wage)\*

Category	Operator	Official	Laborers
Daily Wage	70.30	55.40	49.70
Sunday Wage	11.72	9.23	8.28
Unified Construction Bonus (BUC)	BUC 32%: 22.50	BUC 30%: 16.62	BUC 30%: 14.91
Transportation Bonus	Monday to Friday 8.00	Monday to Friday: 8.00	Monday to Friday: 8.00
	Saturday and Sunday: 5.00	Saturday and Sunday: 5.00	Saturday and Sunday: 5.00
Vacations 10%	7.03	5.54	4.97
Christmas Bonus	18.75	14.77	13.25
Extraordinary Bonus (Law 29351) for Christmas Bonus	1.69	1.33	1.19
National Holiday Bonus	13.39	10.55	9.47
Extraordinary Bonus (Law 29351) for National Holiday Bonus	1.21	0.95	0.85
Compensation 12% + Profitability 3%	10.55	8.31	7.46
Bonus for Special Working Condition - altitude sickness (from 3000 m.a.s.l.)	2.50	2.50	2.50
Household Allowance	5.86	4.62	4.14
Education Allowance	0.26	0.14	0.13
Extra Hour	8.79	6.93	6.21
Extra Hour (holidays and special requirements) 60%.	14.06	11.08	9.94
Extra Hour 100%.	17.58	9.94	12.43
H.S. Compensation 15%.	1.32	1.04	0.93
Highly Specialized Bonus (BAE)	Medium Equipment Operator BAE 8%: 5.62	Not Applicable	Not Applicable
	Heavy Equipment Operator BAE 10%: 7.03		
	Electromechanical Operator BAE 15%: 10.55		
	Operator Surveyor BAE 9%: 6.33		
Health Insurance, paid by the employer (EsSalud)	9%	9%	9%
Complementary Risk Work Insurance	Yes	Yes	Yes
Life Insurance (Law)	Yes	Yes	Yes

\*The amounts are considered on a daily basis and are expressed in Soles.

Source: [https://conafovicer.com/images/tablas\\_salariales/tablas-salariales-2019-2020.pdf](https://conafovicer.com/images/tablas_salariales/tablas-salariales-2019-2020.pdf)

## 3

# INTERMEDIATION AND OUTSOURCING SERVICES IN CIVIL CONSTRUCTION

Peruvian law has regulated two mechanisms to organize productive activities in civil construction works:

- Intermediation services
- Outsourcing with continuous posting of workers.

The difference between both mechanisms and their application is shown below.

## Differences Between Intermediation and Outsourcing Services

Intermediation	Outsourcing
Intermediation service involves the posting of employees from the intermediary company to the contracting company (user company). Intermediation can be used on a temporary basis and only if is related to the company's main activities (on contracts subject to conditional provisions or on substituted contracts) as well as in supplementary activities of the user company.	Outsourcing is an integral service. It is provided, in such a manner that the outsourcing company undertakes part of the production process of the contracting company. To do so, it is required to constantly transport workers to the facilities or places designated by the contracting company (main company).
Under no circumstances can workers render services that involve the permanent execution of the main corporate activity.	Services are provided in relation to the most important specialization activities or those activities supplementary to the contracting company. The contractor is responsible for the service provided.
Workers who temporarily perform main corporate activities may not exceed 20% of the total workers of the contracting company.	It is not subject to percentage limits.
Companies that provide this service and carry out intermediation activities for which the Labor Authority is responsible must.	No registration is required.
The user company has control and management powers over the personnel.	User companies do not have control nor managerial powers over the workers.
Service companies must provide a mandatory deposit to guarantee compliance with its obligations, with respect to its posted employees.	Companies are not required to provide a deposit.
Service companies can only be incorporated to post workers. They have a minimum capital of no less than 45 Tax Units (UIT).	Contracting companies are incorporated to provide an integral service.

In the civil construction sector outsourcing contracts are entered into with contractors and subcontractors.

It is important to point out that the main company, the contractor and the subcontractor are all jointly and severally liable for the period of time that workers are on the job and up to one year following completion of this period, in the event of failure to comply with the law:

1. Payment of Remunerations and Fringe Benefits.
2. Obligations towards the Social Health System: Contributions to EsSalud (9%).
3. Obligations with respect to social security: Withholding and payment of contributions to the National Pension System or to the Private Pension System (AFP) as well as contracting a Statutory Occupational Life and Disability Insurance (SCTR) and a Life Insurance.
4. Obligations with respect to Occupational Safety and Health: Compensation for damages and services as a result of occupational accidents or illness.



## 4

# SURVEILLANCE, PREVENTION AND COVID-19 CONTROL OBLIGATIONS - CIVIL CONSTRUCTION WORKERS

## OBLIGATIONS

1. Due to the spread of COVID-19, employers must comply with seven guidelines for the surveillance, prevention and control of workers health who are exposed to COVID-19, in accordance with Ministerial Resolution 448-2020-MINSA.

Employers must guarantee the following:

- ▶ Cleaning and disinfection of workplaces.
- ▶ Assessment of the workers' health condition prior to return or re-entry into the workplace.
- ▶ Mandatory hand washing and disinfection.
- ▶ Awareness of infection prevention in the workplace
- ▶ Preventive measures for collective application.
- ▶ Personal protection measures.
- ▶ Workers health surveillance in the context of COVID-19.

2. The Housing, Construction and Sanitation Health Sector Protocol was approved for the gradual resumption of activities, in accordance with the provisions of Ministerial Resolution 087-2020-PRODUCE.

Employers who carry out construction works must implement the following during the Public Health Emergency:

- ▶ A surveillance, prevention and control plan of COVID-19 in the workplace.
- ▶ Preventive measures during the startup phase
- ▶ Preventive measures in the implementation and closure phase.
- ▶ Protective measures at work.
- ▶ Preventive measures for off-site personnel.
- ▶ Measures for the operation of heavy machinery.
- ▶ Preventive measures in salesrooms.
- ▶ Protective measures for workers with signs of infection.



## 5

# EMPLOYMENT CONTRACTS FOR INDIVIDUALS WORKING IN PERU

## 1. EMPLOYMENT CONTRACTS FOR PERUVIAN CITIZEN

The laws of the Republic of Peru establish that indefinite-term contracts are the legal default scheme for hiring personnel in Peru. However, as an exception, fixed-term contracts can also be signed. Fixed-term contracts require by law an objective cause that supports a fixed hiring period (for example, to start-up of a new business, to start working or for specific services, to sign a substitute contract, etc.) and its effectiveness is subject to compliance with certain formal requirements.

This type of contract must comply with the rights and benefits granted to employees by law.

## 2. EXPATRIATES EMPLOYMENT CONTRACTS

### a. General Information:

Expatriate contracts in Peru are regulated by a specific law that governs the hiring of specialized foreigners to cover positions that cannot be filled by Peruvian workers. These are renewable contracts of up to three years' duration.

The contracts can:

- Consider percentage restrictions or
- Be exempt from percentage restrictions

As a general rule, foreign employees should not exceed 20% of the company's personnel. Salaries paid to expatriates should not exceed 30% of the total payroll. An exception to these limits are professionals and specialized technicians or management personnel of a new entrepreneurial activity or in cases of a business reconversion substantiated with the corresponding documentation.

This type of contract must be approved by the Ministry of Labor. At present approval is automatic at the time the document is registered.

### b. Specific regulation for certain nationalities:

There are some exceptions for hiring personnel of certain nationalities such as:

- Andean Community: Bolivia, Colombia, Ecuador; Spain (Double Nationality Agreement)
- Mercosur: Argentina, Bolivia, Brazil, Paraguay, Uruguay, Chile, Colombia, Ecuador. Also, in the event the expat is a first generation descendant of a Peruvian citizen or has Peruvian descendants. In this case, hiring will be considered under the scheme of Peruvian personnel and, consequently, employment contracts will not require approval by a Labor Authority (but will need to be notified) or comply with the conditions provided by law for contracting foreign personnel.

## 6

# MIGRATORY ISSUES

## 1. WORK VISA

A Work Visa allows foreign workers who intend to live in Peru to perform subordinate activities for a local employer or independent activities in the private or public sectors through an employment contract approved by the Labor Authority or a service contract.

This visa can be temporary, for less than one year, or resident, for one year, renewable or more. In the event of its renewal, the employment contract must be in effect during the same time period as the visa.

### Application Procedure:

#### a. Application while the expatriate is abroad - To be collected at the Peruvian Consulate:

This entails having all the required documents in Peru when applying for a visa. The documents need to be authenticated by the Peruvian consulate abroad and then legalized at the Ministry of Foreign Affairs, or apostilled abroad (Hague Convention) to be accepted in Peru. Translation into Spanish will be required by a Peruvian state certified translator, including the employment contract in case it is in a foreign language. As the expatriates will be abroad during the process, once the visa is approved

the applicants will need to collect the visa at the previously selected Peruvian Consulate according to their place of residence. Once the visa is stamped in the passport, the entrance to Peru can be scheduled. Once in Peru, additional actions need to be taken until the alien registration card (C.E.) is issued (in the case of a one-year visa). This process usually takes thirty (30) business days as from the date the application is filed with Immigration Services.

#### b. Application once the Expatriate is in Peru - Change of Migratory Status:

In Peru expatriates can start performing their activities once their visa is approved. Entering Peru with a business visa is recommended, to avoid inspection risks. In case permanence in the country is as a tourist, a special permit to subscribe contracts will be needed to sign the employment contract duly approved by the Ministry of Labor.

All the documents to process the visa will be obtained in Lima. Once the visa is approved, the assignee is registered as a resident to coordinate the collection of the alien registration card. Otherwise, if the stay is temporary, the visa is stamped in the assignee's passport. This process usually takes sixty (60) business days as from the date the application is filed with Immigration Services. If during the evaluation process the expatriate needs to travel abroad, a special travel permit will be required.



## 2. ASSIGNMENT WORK VISA:

An Assignment Work Visa allows assignees employed by a foreign company to perform highly specialized technical assistance in Peru. For this visa, a service contract must be signed between the foreign company and the local company (receptor) specifying the technical assistance required from the company, among other documents (assignment letter, authorization letter or a letter from the local company). This visa can be temporary for less than one year or resident for one year or more.

The activities that can be performed with an Assignment Work Visa are for a specific task or activities that require professional, commercial or technical know-how. The entity that will receive the service is the local company; in fact an agreement will be entered between the foreign and local companies as a backup document. The foreign company will provide a service to the local company and will send its employees to provide this service. There will be no labor relationship between the expatriates and the local entity.

### Application Procedure:

#### a. Application while the expatriate is abroad - To be collected at the Peruvian Consulate:

This entails having all the required documents in Peru when applying for a visa. The documents need to be authenticated by the Peruvian consulate abroad and then legalized at the Ministry of Foreign Affairs, or apostilled abroad

(Hague Convention) to be accepted in Peru. Translation into Spanish will be required by a Peruvian state certified translator. As the expatriates will be abroad during the process, once the visa is approved the applicants will need to collect the visa at the previously selected Peruvian Consulate according to their place of residence. Once the visa is stamped in the passport, the entrance to Peru can be scheduled. Once in Peru, additional actions need to be taken until the alien registration card (C.E.) is issued (in the case of a one-year visa). This process usually takes thirty (30) business days as from the date the application is filed with Immigration Services.

#### b. Application once the expatriate is in Peru - Change of migratory status:

In Peru expatriates can start performing their activities once their visa is approved. Entering Peru with a business visa is recommended, to avoid inspection risks. Documents to process the visa will be obtained in Lima and others from abroad.

Once the visa is approved, the assignee is registered as a resident and will be given an alien registration card. Otherwise, if the work is temporary, the visa will be stamped in the assignee's passport. This process usually takes sixty business days as from the date the application is filed with Immigration Services. If during the evaluation process the expatriate needs to travel abroad, a special travel permit will be required.



## 7

## INDIVIDUAL AND LABOR TAXES

### 3. BUSINESS VISA:

A Business Visa allows the holder to carry out business, as well as to provide legal, contractual, specialized technical assistance for short periods, or other similar activities.

#### Application Procedure:

This visa is granted at the Peruvian Consulate for a maximum of 183 calendar days. Exceptions include the granting of a Business Visa at the airport in Peru. i.e.: Schengen community countries (for 90 calendar days only, and permanence in the country for a maximum of 180 days); Pacific alliance countries for 183 days. Chinese nationals are also exempted from requesting a business visa at a Peruvian Consulate for a maximum of 183 calendar days if they can prove one of the following:

- ▶ They hold a valid visa of minimum six (6) months from the United States of America, Canada or UK, Australia or a State of the Schengen Community.
- ▶ They hold a valid permanent residence from the United States of America, Canada or UK, Australia or a State of the Schengen Community.

### 1. INCOME TAX

#### a. Residence for Tax Purposes:

Income tax treatment depends on whether an individual is considered resident or non-resident for tax purposes. According to the Income Tax Law, individuals are considered as tax residents in Peru when they have spent more than 183 calendar days in the country during any 12-month period. This change will only become effective as of January 1 of the following year when compliance with this requirement is evident.

Foreign individuals remain as tax residents in Peru for tax purposes, until they meet the permanence requirement detailed above.



## b. Labor and Individual Taxes:

According to the Income Tax Law, the compensation received for services rendered within Peruvian territory will be considered as Peruvian Source Income irrespective of the location of the legal entity or individual paying for the income. Hence, the remuneration received by the employees or expatriates for services rendered in Peru, will be taxable as Peruvian income tax.

It must be noted that the employers will be liable to withhold and remit to the Tax Authority the employee's income tax. For this purpose, it must determine the employee's income tax debt and withhold the appropriate amount on a monthly basis, and then pay the income tax to the Tax Authority, based on the tax resident condition of the individuals and the procedure provided by law.

In the event employees are considered nonresidents for tax purposes, a fixed tax rate of 30% will be applicable over the remuneration received for their work in Peru, as of the first day of service, regardless of where payment is effected.

In case of tax residents, a cumulative bracketed income tax rate is applicable:

First S/30,100 per year	0%
First S/21,500, after initial deduction	8%
S/21,500 to S/86,000	14%
S/86,000 to S/150,500	17%
S/150,500 to S/193,500	20%
In excess of S/193,500	30%

The tax unit in force during fiscal year 2020 is S/4,300.

Further to the deduction of seven tax units to be applied on the resident's gross income, an additional three tax units can be deducted from the calculation basis, subject to specific limits and requirements, for expenses incurred as a result of lease/sublease agreements, hotel, restaurant and bar expenses, professional fees for doctors and dentists, payment for services rendered that qualify as self-employed remuneration (fourth income tax bracket) for specific professionals and payments made to EsSalud (Social Health System) in favor of domestic workers, if reported in an Annual Income Tax Return.

It is important to mention that all the expenses mentioned above must be paid through the financial system using the methods approved by the Tax Authority (bank transfers, credit and/or debit cards, but not cash).



### c. Tax Exemptions:

Nonresident individuals temporarily entering the country to perform the following activities will not be taxed for revenues obtained in their home country, since they are not considered as Peruvian source income:

- ▶ Actions that precede a foreign investment or any other business.
- ▶ Supervision or control of an investment or business (i.e. gathering data or information, meeting public or private sector personnel, etc.)
- ▶ Hiring local personnel
- ▶ Signing agreements or similar documents

Additionally, the following are not subject to taxation in Peru:

- ▶ Amounts paid to non-domiciled employees, their wives/husbands and children for the items set forth below:
  - Flight tickets at the inception and termination of the employment contract.
  - Housing and food allowances paid during the first three (3) months of residence in Peru.
  - Shipment of household goods to the country, at the beginning of the contract.
  - Flight tickets to the employee's home country due to vacations, during the term of the employment contract.
  - Shipment of household goods to the employee's home country, at the termination of the contract.

All the expenses referred to above must be included in the employment contract approved by the Peruvian Labor Authority establishing that the costs will be at the employer's cost and expense.

- ▶ Amounts that users of technical assistance pay to nonresident individuals hired to provide services in Peru, for flight tickets inside and outside the country, as well as housing and food allowances in Peru.
- ▶ Expenses and contributions related to health benefits granted to all employees.
- ▶ Remuneration assigned to a sole proprietor that is considered as third income tax bracket - Income related to any business activity.

### d. Tax Treaties:

If foreigners come from countries that have entered into agreements with Peru to avoid double taxation (Chile, Canada, Brazil, Mexico, South Korea, Switzerland and Portugal) or from countries in the Andean Community (Ecuador, Colombia and Bolivia) other tax regulations are applicable.

Finally, note should be taken that tax resident individuals will be liable to file a tax return, provided they receive income other than employment income. The law establishes this obligation (i.e. a domiciled individual who receives remuneration and interest from a bank account abroad). Hence, there is no obligation to file a tax return if tax resident individuals receive only employment income.



## 2. SOCIAL SECURITY CONTRIBUTIONS

### a. Pension Systems and Contributions:

Employees can alternatively join the Public Pension System (GPS) or the Private Pension System (PPS). In the GPS, employees must make contributions equal to 13% of their remuneration. In the PPS, employees must make contributions equal to an average of 12.93% of their monthly remuneration paid only in cash. Irrespective of the system chosen by the employees (GPS or PPS), the employer is responsible for withholding employees' contributions from their remuneration.

### b. Health Contribution:

This contribution is paid by the employer and its purpose is to finance the Social Health System (EsSalud), which provides health care services and pays subsidies in case of employees' disability. It is collected by the Peruvian Tax Authority (SUNAT). The amount is equal to 9% of the employees' remuneration.

If the company provides health coverage to its employees using its own resources or through an EPS (Private Health Care Provider) it can request a credit of up to 25% of the health care contribution, subject to certain limits provided by law.

### c. Statutory Life and Disability Insurance:

This is a mandatory insurance paid by the employer. Premiums depend on the number of insured employees, occupational risks, and in general, on the terms agreed with the insurance company.

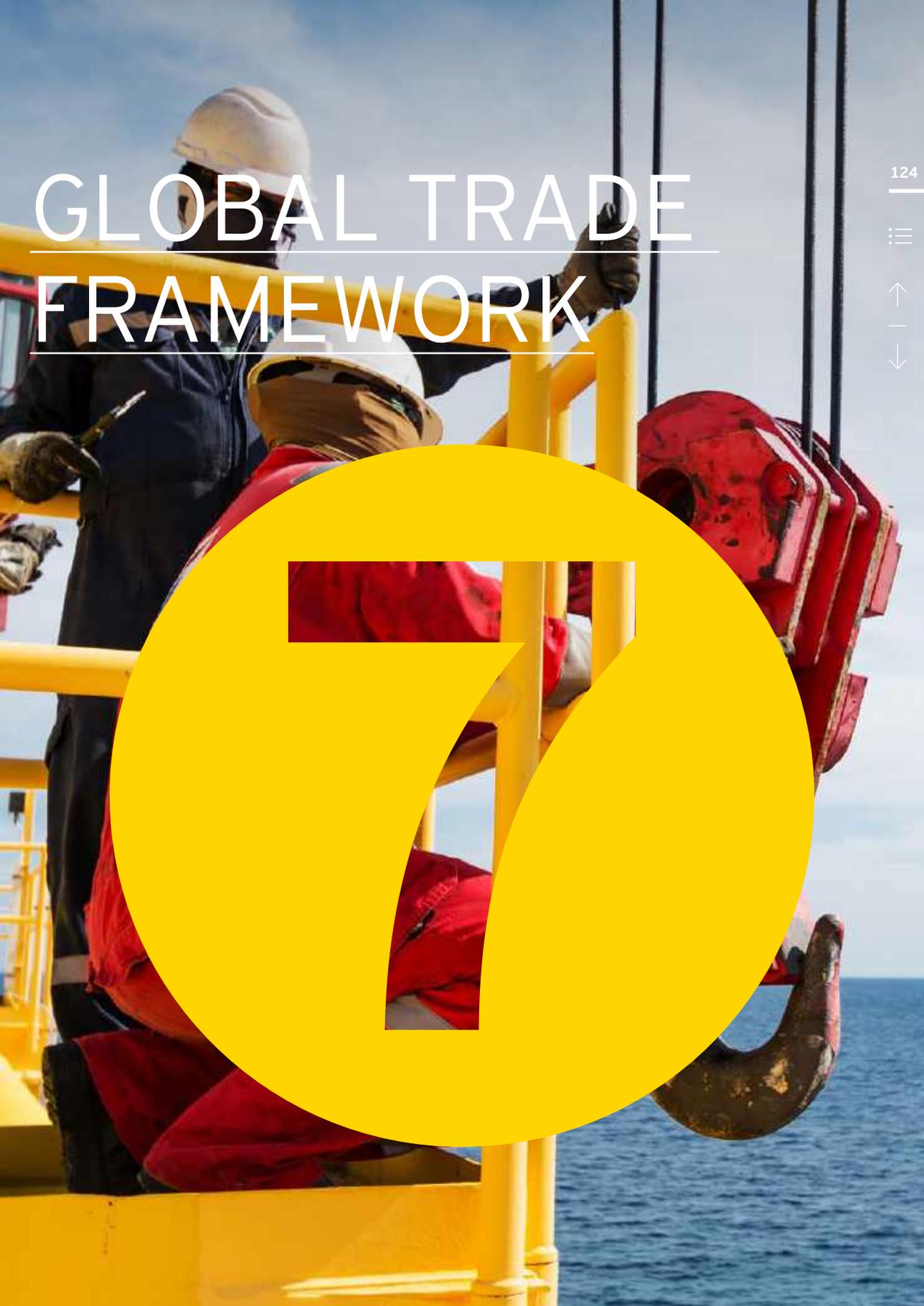
### d. Occupational Life and Disability Insurance (SCTR):

This is a mandatory insurance to be paid by companies whose activities have a certain level of risk such as, fishing, construction, air transportation, manufacturing, among others described in Appendix 5 of Executive Order (Decreto Supremo. 009-97-SA and provides additional coverage for health and pension plans. The health service agreement may be entered into with EsSalud or with a Private Health Care Provider (EPS). A pension agreement can be entered into with the Government Pension Fund Agency (ONP) or with a private insurance company. The rates depend on the type of activity and/or the terms agreed on with the insurance company.

### e. Other Contributions:

Additional contributions are applicable based on the company's activities, such as the Retirement Fund, which applies to mining, metal and steel companies, among other contributions.





# GLOBAL TRADE FRAMEWORK

## 1

# CUSTOMS TAXES

## 1. IMPORT OF GOODS

Imported goods are subject to import tariffs with currently ad valorem rates of 0%, 6% and 11%<sup>1</sup>. Likewise, the Value Added Tax (VAT) of 18% is applied to imported goods.

Additionally, and depending on the type of goods, imports may be taxed with the Excise Tax or Luxury Tax (ISC), Antidumping Duties, Countervailing Duties, or others.

The usual customs taxes and duties applied are summarized as follows:

Tax	Rate	Taxable Base
Customs Duties <sup>(a)</sup>	0%, 6% y 11% <sup>2</sup>	CIF value (WTO Customs Value)
Value Added Tax (VAT) <sup>(b) (c)</sup>	18%	CIF Value + Customs Duties + Excise Tax (if applicable)

(a) Customs duties rates depend on the type of goods being imported. Capital goods (fixed assets) are generally subject to a 0% rate.

(b) Value Added Tax (VAT) can be used as tax credit by the importer.

(c) Certain goods are additionally subject to Excise Tax or Luxury Tax (ISC).

Some imported goods can also be charged with anti-dumping measures or countervailing duties. The first are applied to some imported goods when the price discrimination could harm or threaten to harm a branch of local production, as a result of the investigation by authorities. Countervailing duties are applied to imported goods that are subsidized in their country of origin and can harm or threaten to harm local production via the importation thereof, after the authorities perform the proper investigations.

World Trade Organization (WTO) rules are applicable to determine the customs value of imported goods. One of the rules indicates that, when a buyer imports a manufactured good and the purchase price does not already include the value of any engineering, development, artwork, design work, plans or sketches; then it must be added to the customs value for import tax base of said manufactured good.

Since the amount of certain services provided, regarding an EPC (Engineering, Procurement and Construction) or EPCM (Engineering, Procurement, Construction and Management) Contract, would be part of the customs value of related imported goods, a certain legal procedure must be followed in order to avoid double taxation on VAT (1 - import VAT and 2 - local VAT charged for the services used within Peruvian territory, rendered by a non-resident).



<sup>1</sup> An ad valorem rate of 4% is charged in the case of Express Shipment (goods with an FOB value of USD200 or more, up to a maximum of USD2,000 per shipment).

<sup>2</sup> For Express Shipments, an ad valorem rate of 4% is charged.

The importation of goods is subject to the Prepaid VAT System, wherein the tax is determined by applying a percentage to the CIF customs value plus all taxes levied on the import and other surcharges, where applicable. The applicable tax rates are 3.5%, 5%, or 10%, depending on the situation of the importer and/or the goods to be cleared through customs. Like VAT, the amount paid may be used by the importer as a tax credit. However, there are certain cases in which the prepaid VAT is not applicable; for example, when the import is performed by VAT withholding agents, or in the case of certain goods excluded from this system. Additionally, there are some sensitive products that need further analysis.

When importing goods worth more than USD2,000, the services of a customs agent/broker authorized by Peruvian Customs will be necessary, to undertake the documentary and electronic procedures for importation. It should be noted that the importer will be required to produce the necessary documents that support the entry of goods, such as commercial invoices, shipping documents, etc.

In addition to the formalities of customs clearance procedures, there are local regulations that establish additional requirements for the entry of goods that are considered restricted, and conditions to be taken into account if goods are prohibited entry to Peruvian territory. Further details are provided below.

## 2. EXPORT OF GOODS

The exportation of goods is not subject to the payment of Value Added Tax (VAT).

The Value Added Tax Law defines the export of goods as the sale of real property performed by a taxpayer domiciled in the country to a non-domiciled party, regardless of whether the transfer occurs abroad or in Peru, provided that said goods are subject to a customs process for definitive export.

If the transfer of ownership of the goods occurs in the country prior to loading, the classification as export of goods is conditional upon the goods being shipped within a term of no more than 60 calendar days after the date of issue of the respective commercial invoice.

When the sale involves documents issued by a bonded warehouse that guarantee the purchaser's right to dispose of said goods, the classification shall be conditional upon the shipment being made within a term of no more than 240 calendar days after the date on which the warehouse issues the document.

If the established terms expire without the goods having been shipped, it shall be understood that the operation has been performed in national territory, and shall be levied with or exempted from VAT, as applicable.



## 2

# FREE TRADE AGREEMENTS AND OTHER COMMERCIAL AGREEMENTS

The main agreements in force, executed by the Peruvian government in order to gain access to international markets, are the following:

► **Andean Community (CAN):**

Peru, together with other South American countries (Bolivia, Colombia and Ecuador) is a member of the Andean Community (CAN) since 1997. Within this framework, there are agreements related to zero customs duties rate for goods, to customs value determination rules, regulations for land, air and water transportation, etc. An important part of Peruvian trade regulations is governed by the commitments made under this forum.

► **Southern Common Market (Mercosur):**

Economic Complementation Agreement 58 (ACE 58) was signed between Peru and the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) on December 30, 2005 and became effective in January 2006. The Agreement establishes a legal framework for integration, to facilitate business trade between member countries, through the elimination of tariff and non-tariff measures affecting trade in certain goods and services.

► **Pacific Alliance:**

The Pacific Alliance is a trade block consisting of four Latin American countries: Chile, Colombia, Mexico and Peru. This proposal was unveiled in Peru, on April 28, 2011, through the Declaration of Lima and the Framework Agreement and Commercial Protocol entered into force on July 20, 2015 and May 1, 2016, respectively. The aim of this partnership is to encourage regional integration and further growth, development, and competitiveness of its member countries' economies, and to progressively move closer to the goal of achieving the free movement of goods, services, capital, and people.

► **Bilateral Free Trade Agreements:**

Bilateral Free Trade Agreements with the United States, Australia, Canada, China, Chile, EFTA States (Iceland, Liechtenstein, Norway and Switzerland), Mexico, Japan, Singapore, Republic of Korea, Panama, European Union, Costa Rica and Honduras are already in force. Additionally, Peru has in force Economic and Trade Agreements with Cuba, Thailand and Venezuela. These agreements grant the parties customs duty preferential rates on originating imports and other benefits.

In May 2019, Peru together with Colombia and Ecuador; signed a Trade Agreement with the United Kingdom of Great Britain and Northern Ireland. Also, Peru and the UK have made temporary arrangements to continue preferential trade benefits that applied when UK was part of the European Union, until the UK-Andean Trade Agreement comes into effect (on December 31, 2020).



## 3

## RESTRICTED OR PROHIBITED GOODS

Also, Peru has concluded Free Trade Agreement negotiations with Brazil and Guatemala; as well as the Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP) with Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Singapore and Vietnam, which incorporates the provisions of the TPP.

Furthermore, Peru currently maintains negotiations with Turkey, El Salvador and India in order to subscribe bilateral Free Trade Agreements.

Lastly, it is important to mention that Peru is a founding member of the World Trade Organization (WTO). Therefore, the WTO's regulations regarding antidumping practices, subsidies, countervailing duties and service market liberalization, among others, are applicable in Peru.



Some goods that are imported into the country may be considered by legal mandate to be restricted or prohibited, for reasons of national security or public health, among other reasons.

Restricted goods are those that require special authorizations, licenses, permits, etc., from the pertinent institutions, depending on the goods to be imported. These goods must have the required documentation at the time of importation, prior compliance with the requirements established by the control units of the competent sector.

Some of the entities and types of restricted goods are as follows:

- ▶ National Superintendence of Tax Administration (SUNAT) through the National Intendence of Chemical Supplies and Supervised Goods for controlled chemical inputs.
- ▶ Ministry of Health (MINSA) through the Medicines, Supplies and Drug Administration (DIGEMID), with respect to medicines and medical devices; and through the Bureau of Environmental Health (DIGESA) with regard to food and beverages, etc.
- ▶ Ministry of Energy and Mines (MINEM) in the case of goods (products, machinery and equipment) that use radioactive sources.



- ▶ Ministry of Internal Affairs (MININTER) through the National Superintendence for the Control of Security Services, Arms, Ammunition, and Explosives for Civil Use (SUCAMEC) for goods such as firearms, explosives, etc.
- ▶ Ministry of Agriculture and Irrigation (MINAGRI) through the National Agricultural Sanitation Service (SENASA) as the institution in charge of protecting agricultural and animal health, etc.
- ▶ Ministry of Transportation and Communications (MTC) for radio-electric transmitters in general and/or communications equipment/devices.
- ▶ Ministry of Foreign Affairs (MRE) for texts and/or publications that include geographical-cartographical and historical material.

Furthermore, the prohibited goods are not allowed to enter or leave the country. Certain goods are considered restricted or prohibited for export as well.



4

## TEMPORARY ADMISSION FOR RE-EXPORTATION IN THE SAME STATE

This customs regime allows for the temporary entry of certain goods into the national territory, with the suspension of customs duties and other taxes levied on the importation thereof (for a maximum period of 18 months) duly guaranteed, destined for a specific purpose in a specific place and which will be re-exported within the established term without having undergone any modification whatsoever, with the exception of the depreciation as a consequence of normal wear and tear.

5

## BONDED WAREHOUSES

This system allows for goods entering national territory to be stored in a bonded warehouse for such purpose, for a given period (maximum term of 12 months) under the control of the Customs Administration, without paying customs duties and other taxes applicable to import for consumption, provided that the goods were not requested within a prior specific customs regime and they are not in a situation of legal abandonment.



# ENVIRONMENTAL ISSUES



## 1

## OVERVIEW

Environmental protection has gained special importance over the past few years, and this has been reflected in the evolution of global and local legal frameworks.

During the 90s, the Peruvian legal framework was weak, there was no real supervision and there were only a few experts on the area. However, during the past two decades governments have gained awareness of the necessity for strong regulations related to environmental matters, and this has been reflected in the changes and improvements in the legal framework as well as direct actions. These improvements imply the need to comply with strict obligations that cannot be overlooked or dismissed, not only because of the possible monetary consequences, but also in order to protect the environment and natural resources.

Social conflicts have also played an important role through the years, delaying projects or placing them at risk, which has been reflected in the evolution of the related regulations as well as the active participation of local stakeholders.

## 2

## LEGAL FRAMEWORK

Peru has a large and diverse set of environmental regulations that require compliance. These obligations are distributed according to distinct specialties and monitored by the pertinent authorities. The regulations can be divided in two groups, the first one consisting of general obligations that are bound to be complied with by every actor, and a second group that encompass specific obligations related to the individual activities enlisted in the project, contractual compromises, environmental effects and the project's location.

The General Environmental Act, Law 28611, provides the main framework as well as general obligations that require compliance by project executors regarding environmental protection.

A team of regulators is in charge of authorizing and supervising projects according to each type.

Peru's Environmental Licensing Agency - SENACE, was created in 2012 by Law 29968 as a specialized and independent agency that conducts environmental impact assessments of the largest investment projects in Peru. Currently, most of the major projects require SENACE approval of their correspondent environmental impact assessments. However, SENACE is not the only regulator on these matters. Depending on the size of the project, environmental impact assessments maybe required from the pertinent ministry. During recent years the government has been making efforts to unify its regulators according to

categories. This unification is not an easy task and has to be done progressively, especially because of setbacks that can be found in the process. Even though the most important projects are under SENACE surveillance, it is always important to verify the main regulator.

Additionally, when a project involves different aspects as water use or disposal, energy generation, restricted products, transport, and others, there are different authorities involved that authorize and regulate each specific aspect.

Besides the regulators, there are also a series of inspectors and authorities that verify compliance of the different obligations. The Environmental Evaluation and Oversight Agency (OEFA) monitors environmental compliance, waste management, environmental complaints, as well as solid waste infrastructure and environmental consulting services among other matters. The OEFA can carry out audits at any moment, start an administrative process, impose fines, and also has the authority to suspend projects.

The OEFA is also qualified to receive any kind of environmental complaint from any person, even if it is not the direct inspector, and has the obligation to refer it to the competent authority. It can also follow up a complaint to verify that it is being processed.

Local governments are also involved in the regulation and surveillance of specific matters in their areas of influence. Besides issuing the necessary operating licenses, they can also approve special environmental certifications or close down projects in the event they identify a breach. The government is strengthening the power and resources of environmental prosecution offices in order to guard environmental rights and enforce the use of criminal law when necessary in the case

of grave damage to the environment. These government agencies work individually but they collaborate with each other when a non-compliance is identified.

A breach or noncompliance of any environmental obligation can lead to a direct consequence, such as the temporary closure of the project or the start of an administrative process.

Compliance is highly important in order to protect the environment and guarantee the continuance of operations.

The most common breaches are related to the noncompliance of Environmental Management Instruments, lack of environmental monitoring, deficient waste management, excesses in permissible water limits, among others.

If an inspection concludes that there is evidence or indication of noncompliance, then an administrative process is initiated. This process is managed by the authority in charge, with established guidelines, instances and opportunities for the project holders to present disclaimers and execute their legitimate defense.

The usual consequences include high monetary fines, suspension or closure of the project, or obligation to improve or change specific parts of the project. In some cases, if there is evident environmental damage, a criminal action can also be initiated.

Local stakeholders also play an important role, since the Peruvian legislation establishes that they can participate in the prior consultations when required. If the communities surrounding the project believe they can be affected, if there is a setback in negotiations or the commitments are not met, social conflicts can develop as a consequence, which can delay the projects.



When managed correctly, projects are also subject to incentives and recognitions by the government. The National Environmental Prize recognizes those who contribute with environmental protection through specific projects, correct waste management, recovery of natural areas, among others. The OEFA also has different incentives like the Annual Ranking of Environmental Excellence (REAL); Green Leaf, also known as Qumir Rapi, Green Life or Qumir Kawsat; and a Fine Discount Certificate. To be eligible for any of these recognitions, projects must be under the Good Practices Registry and aid a sustainable practice in operation.

#### a. Environmental Management Instruments

The National Environmental Impact Assessment System (SEIA) was created as a unique and coordinated system to identify, prevent, supervise and correct any possible negative environmental impact, including national policies and plans, by Law 27446, with its regulations approved by Executive Order (Decreto Supremo) 019-2009-MINAM. The SEIA establishes the projects that are required to have an Environmental Impact Study (EIA). It also regulates the categorization of said studies according to their impact. Those who want to start a project of any kind are subject to the established procedures for obtaining the corresponding Environmental Certification through SENACE or the competent Ministry. In the event a project is not listed, the holder can consult the Ministry of the Environment (MINAM) to verify if certification is required. In the case that an Environmental Certification is not required, the project might still need to present an Environmental Management Report, depending on the Ministry in charge of the project.

Ministerial Resolution 157-2011-MINAM, as amended, lists the projects that are subject to the SEIA regulations, including projects related to agriculture, tourism, electricity generation, malls, road infrastructure, telecommunications infrastructure, health establishments, waste management infrastructure, multifamily housing, parking buildings, water and sanitation projects, among others.

These instruments must be followed and updated when necessary. The obligations set out by environmental certificates range from monitoring environmental factors periodically, having waste management plans in place, making proper use of water and its disposal, fulfill oil and gas obligations if necessary, prevent soil contamination, to mention a few.

The Environmental Impact Study (EIA) determines the obligations of each project based on its type, location, impact, duration and size, and is undertaken by registered Environmental Consulting Firms.

The first step to determine the obligations of a project is to classify it according to the established categories. Secondly, a Public Participation Plan must be drawn up with the stakeholders in its area of influence. Following the initial approvals, project holders are required to establish a baseline, a process usually accompanied by the regulator. The Environmental Impact Study (EIA) is evaluated and approved accordingly if it is determined that it considers all the necessary aspects relevant to environmental protection. In some cases, the regulator might present observations that would have to be resolved by the project holder.



Once an EIA is approved it can also be amended or updated depending on the requirements of the project. This process is also regulated, and holders must comply with the established obligations at the appropriate time or will be subject to an administrative process and fines.

## b. Water Resources and Effluents

The Water Resources Law, Act 29338, and its regulation approved by Executive Order (Decreto Supremo) 001-2010-AG, provide the legal framework related to water use and effluents disposal.

Peru has a specialized authority that regulates water use and emits the necessary permits for the different projects. The National Water Authority (ANA) is the office in charge of approving water supply studies and its works; it also issues authorizations for water use and disposal. Water sources in Peru are divided in superficial and groundwater, and can be extracted from rivers, lakes, wells or the ocean.

Peru has a diverse list of water sources, which are controlled and protected to avoid contamination and secure the duration of the supply. The ANA, which is subscribed to the Ministry of Agriculture and Irrigation (MINAGRI) is accompanied by the Local Water Administrators and the Administrative Water Authority (ANA) which support its work locally, to ensure a greater presence and carry out more supervision.

The main operating permits required by projects include the Water Use License, Water Use Permits, Water Use Authorization and the Residual Water Reuse Authorization.

Each permit allows project holders to make use of water resources in specific circumstances and must be requested following established procedures.

Water licenses or permits determine not only the sources from which the water is extracted, but also the volume of water that can be used, the consideration that must be paid and the control instruments.

Water can be used in different ways, with specific permits required accordingly. Additionally, if the water is to be used for human consumption, it also needs authorization from the Directorate of Environmental Health - (DIGESA).

Once water is disposed it also needs to fulfill predetermined obligations in order to guarantee that the effluents will not endanger the environment. Some of these obligations can include treatment plants or grease traps. Water disposal can be done through the sanitation sewer network, managed by a Service Provider Company (SPC) or returned directly to nature through a water source. In both cases the effluents must comply with the maximum acceptable values or maximum permissible limits, accordingly. In the event it is determined that effluents are considered pollutants, the supervisor can impose a fine; in the case of water disposed through the sanitation sewer the SPC charges an extra fee based on the noncompliance provision. If the water is disposed to a natural source, the OEFA is the agency in charge of its inspection and fine.



### c. Other Permits and Authorizations

Besides environmental certificates and water authorizations, projects are also subject to another set of permits and obligations related to their location.

Local governments are in charge of issuing building and operating licenses, carrying out technical safety inspections, authorizing the transit of certain vehicles, determining the use of the streets adjacent to the projects, and in some cases they can determine working hours depending on the zoning.

Besides issuing special permits, local governments also monitor noise pollution, sanitation obligations, waste management, air pollution, as well as handling possible claims presented by local stakeholders.

Depending on the location of the project and its characteristics, other entities might be required to be involved, such as the National Service of State Protected Natural Areas (SERNARP) Forest and Wildlife Service (SERFOR) Coastguard Authority (DICAPI) the Supervisory Body of Private Investment in Energy and Mines (OSINERGMIN) the National Superintendence of Tax Administration (SUNAT) and the Office of the Prime Minister (PCM).

### d. Waste Management

The Solid Waste Management Act, Legislative Order (Decreto Legislativo) 1278, and its accompanying regulation, approved by Executive Order (Decreto Supremo) 014-2017-MINAM, regulate how solid waste is managed, encouraging waste reduction, recovery, recycling and valorization, setting its goal on reaching an optimal circular economy production.

Waste can be divided following different aspects. A first division is done by considering if it is or not municipal waste. Municipal waste is managed by local governments and usually consists of domiciliary waste or similar. Non municipal waste is handled by service operators. A third category can also be considered, which includes demolition waste and has a particular treatment, regulated by Executive Order (Decreto Supremo) 003-2013-VIVIENDA.

In general, projects handle waste as non-municipal through a specialized operator. These service providers must have the necessary authorizations to operate according to their specific activities. This type of waste is also subdivided in different categories and managed accordingly. Waste can be usable, non-usable or hazardous and each category has a different treatment. Non-usable waste has to be completely discarded and receive the necessary final treatment. Hazardous waste has a special treatment and has to be managed separately so that it does not contaminate other waste. It usually consists of batteries, medicine, chemical substances, lights, oil, contaminated paper and similar products. Usable waste is encouraged to be recycled, reused or reduced.

Project holders are bound to follow the Solid Waste Management Law, which includes the obligation to present waste management schemes for hazardous waste and reports, manage waste according to its category through a specialized operator, have proper waste storage locations, minimize waste, have sanitation systems, and properly identify waste.



# APPENDIX





# PRINCIPAL REGULATORY AND PROMOTION ENTITIES

- 1. CENTRAL RESERVE BANK OF PERU - BCRP**  
(Banco Central de Reserva del Peru - BCRP)  
Phone: +51 1 613 2000  
[www.bcrp.gob.pe](http://www.bcrp.gob.pe)

The Central Reserve Bank of Peru (BCRP) is an autonomous constitutional institution of the Peruvian State. According to the Constitution, the faculties of the BCRP are to regulate currencies and credits in the financial system, manage international reserves kept in its custody, and other functions provided in the law that created the institution. The Constitution also establishes that the BCRP may issue coins and paper money and accurately and periodically inform the citizens on the state of national finances. It also has the responsibility of maintaining monetary stability, avoiding the pressures of inflation and depreciation on the economy.

- 2. OFFICE OF THE PRIME MINISTER - PCM**  
(Presidencia del Consejo de Ministros - PCM)  
Phone: +51 1 219 7000  
[www.pcm.gob.pe](http://www.pcm.gob.pe)

The Office of the Prime Minister is the technical-administrative institution of the Executive Branch, whose maximum authority is the President of the Republic of Peru. It coordinates and follows up on multi-sector policies and programs of the Executive Branch. It also carries out coordinated actions with the Congress and different constitutional entities.

- 3. MINISTRY OF ECONOMY AND FINANCE - MEF**  
(Ministerio de Economía y Finanzas - MEF)  
Phone: +51 1 311 5930  
[www.mef.gob.pe](http://www.mef.gob.pe)

The Ministry of Economy and Finance is an entity of the Executive Branch responsible for planning, directing, and controlling matters related to the budget, treasury, debt, accounting, fiscal policy, public spending, and economic and social policies. It also designs, establishes, performs, and supervises national and sector policies under its competence, assuming a guiding role therein.

- 4. MINISTRY OF LABOR AND JOB PROMOTION - MTPE**  
(Ministerio de Trabajo y Promoción del Empleo - MTPE)  
Phone: +51 1 630 6000  
[www.mintra.gob.pe](http://www.mintra.gob.pe)

The Ministry of Labor and Job Promotion is the State institution responsible for designing, coordinating, and executing the policies and programs aimed at creating and improving dignified and productive work through the promotion of job market insertion opportunities and skills, as well as fostering a democratic system of labor relations through labor coordination, monitoring compliance with the laws, conflict prevention and resolution, and the improvement of working conditions.



**5. NATIONAL INSTITUTE FOR THE DEFENSE OF FREE COMPETITION AND THE PROTECTION OF INTELLECTUAL PROPERTY - INDECOPI**

(Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual - INDECOPI)

Phone: +51 1 224 7777

[www.indecopi.gob.pe](http://www.indecopi.gob.pe)

INDECOPI promotes a culture of fair competition and protects all forms of intellectual property (trademarks, copyrights, patents, and biotechnology).

**6. SUPERVISORY BOARD FOR INVESTMENT IN ENERGY AND MINING - OSINERGMIN**  
(Organismo Supervisor de la Inversión en Energía y Minería - OSINERGMIN)

Phone: +51 1 219 3400

+51 1 219 3410

+51 1 427 4935

[www.osinerg.gob.pe](http://www.osinerg.gob.pe)

OSINERGMIN is responsible for supervising and controlling compliance with legal and technical provisions of activities developed by companies in the electricity and oil and gas subsectors, as well as compliance with legal and technical regulations related to conservation and environmental protection. It is also in charge of quality and quantity control of fuels and higher prerogatives as part of its power to impose sanctions.

**7. SUPERVISORY BOARD FOR PRIVATE INVESTMENT IN TELECOMMUNICATIONS - OSIPTEL**

(Organismo Supervisor de Inversión Privada en Telecomunicaciones - OSIPTEL)

Phone: +51 1 225 1313

[www.osiptel.gob.pe](http://www.osiptel.gob.pe)

OSIPTEL is in charge of regulating and supervising the public telecommunication service market, independently of the operating companies.

**8. SUPERVISORY BOARD FOR INVESTMENT IN PUBLIC TRANSPORTATION INFRASTRUCTURE - OSITRAN**

(Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso Público - OSITRAN)

Phone: +51 1 440 5115

[www.ositran.gob.pe](http://www.ositran.gob.pe)

The purpose of OSITRAN is to regulate, govern, supervise, and audit the behavior of the markets under its competence, with regard to the actions of service providers, as well as the compliance of concession agreements, impartially and objectively protecting the interests of the State, investors, and users.



- 9. AGENCY FOR THE PROMOTION OF PRIVATE INVESTMENT - PROINVERSIÓN**  
(Agencia de Promoción de la Inversión Privada - ProInversión)  
Phone: +51 1 200 1200  
[www.proinversion.gob.pe](http://www.proinversion.gob.pe)

ProInversión promotes private investment that does not depend on the Peruvian State. It is also in charge of agents under the private system in order to improve the country's competitiveness and sustainable development and thus improve the population's welfare.

- 10. NATIONAL SUPERINTENDENCE OF LABOR AUDITING - SUNAFIL**  
(Superintendencia Nacional de Fiscalización Laboral - SUNAFIL)  
[www.mintra.gob.pe](http://www.mintra.gob.pe)

SUNAFIL is a specialized technical entity that forms part of the Ministry of Labor and Job Promotion, and is responsible for promoting, supervising, and auditing compliance with labor laws and those related to occupational health and safety.

- 11. SUPERINTENDENCE OF BANKING AND INSURANCE (SBS) AND PRIVATE PENSION FUND MANAGEMENT COMPANIES (AFP)**  
(Superintendencia de Banca, Seguros y Administradoras de Fondos de Pensiones - SBS-AFP)  
Phone: +51 1 630 9000  
[www.sbs.gob.pe](http://www.sbs.gob.pe)

SBS - AFP is in charge of regulating and supervising the financial, insurance, and private pension fund systems. Its main objective is to protect the interests of depositors, the insured, and pension fund affiliates.

- 12. NATIONAL SUPERINTENDENCE OF PUBLIC RECORDS OFFICES - SUNARP**  
(Superintendencia Nacional de los Registros Públicos - SUNARP)  
Phone: +51 1 208 3100  
[www.sunarp.gob.pe](http://www.sunarp.gob.pe)

The mission of the SUNARP is to provide legal security and certainty of ownership of different rights duly registered with this institution, backed by modernization, simplification, integration and the specialization of registration nationwide.

- 13. NATIONAL SUPERINTENDENCE OF SANITATION SERVICES - SUNASS**  
(Superintendencia Nacional de Servicios de Saneamiento - SUNASS)  
Phone: +51 1 614 3180  
[www.sunass.gob.pe](http://www.sunass.gob.pe)

SUNASS is a decentralized public institution that rules, regulates, supervises and controls water and sewage services provided, impartially and objectively protecting the interests of the State, investors, and users.



**14. STOCK EXCHANGE SUPERINTENDENCE  
- SMV**  
(Superintendencia del Mercado de Valores  
- SMV)  
Phone: +51 1 610 6300  
[www.smv.gob.pe](http://www.smv.gob.pe)

The SMV is a specialized technical institution attached to the Ministry of Economy and Finance (MEF) designed to oversee the protection of investors, the efficiency and transparency of the markets under its supervision, the correct setting of prices, and the dissemination of all information necessary to achieve these goals. It has legal status to act under national administrative or constitutional law and has complete functional, administrative, economic, technical, and budgetary autonomy.

Social conflicts have also played an important role throughout the years, delaying projects or putting them at risk, which has been reflected in the evolution of the applicable regulations as well as the active participation of local stakeholders.

**15. ENVIRONMENTAL ASSESMENT AND  
FISCALIZATION AGENCY - OEFA**  
(Organismo de Evaluación y Fiscalización  
Ambiental - OEFA)  
Phone: +51 1 204 9975  
[www.oefa.gob.pe](http://www.oefa.gob.pe)

OEFA is the specialized public technical body, attached to the Ministry of the Environment, in charge of promoting compliance with environmental regulations by economic agents in order to protect the balance between investment in economic activities and environmental protection.

**16. MINISTRY OF TRANSPORTATION AND  
COMMUNICATIONS - MTC**  
(Ministerio de Transportes y  
Comunicaciones - MTC)  
Phone: +51 1 615 7800  
[www.mtc.gob.pe](http://www.mtc.gob.pe)

The MTC is the entity of the Peruvian State that seeks to achieve a rational territorial order linked to the areas of resources, production, markets and population centers, through the regulation, promotion, execution and supervision of transport and communications infrastructure.

**17. MINISTRY OF ENERGY AND MINES -  
MINEM**  
(Ministerio de Energía y Minas - MINEM)  
Phone: +51 1 411 1100  
[www.minem.gob.pe](http://www.minem.gob.pe)

The MINEM is the entity in charge of promoting the development and use of energy resources in a rational, efficient and competitive manner, in a context of decentralization and regional development, prioritizing private investment, the satisfaction of demand, as well as employment of renewable energies. Likewise, it promotes the development of the mining industry, watching over legal stability and the rational exploitation and introduction of clean technologies.





# ECONOMIC PROMOTION INSTITUTIONS

## 1. MINISTRY OF FOREIGN AFFAIRS - MRE: EXECUTIVE OFFICE FOR ECONOMIC PROMOTION (DPE) (Ministerio de Relaciones Exteriores -MRE) (Dirección General de Promoción Económica -DPE)

The Directorate General for Economic Promotion (DPE) is the institution of the Ministry of Foreign Affairs (MRE) responsible for coordinating with Peruvian missions abroad to promote Peru as a country capable of providing goods and services to international markets, as well as positioning it as a world-renowned tourist destination, and a country with interesting business and investment opportunities in different economic sectors.

It should be noted that the DPE has a Quality Management System certified with ISO 9001:2008 International Standards, governed under the values of equality, social commitment, honesty, transparency, and teamwork, thus ensuring that the needs of its national and international users are met.

The DPE reaffirms its commitment to provide services with high standards of quality, excellence, and continuous improvement in the development of the certified processes, such as:

- ▶ Support for exporters, investments, and travel agents
- ▶ Support for trade, investment, and tourism missions
- ▶ Attention to requests
- ▶ Training
- ▶ Dissemination of opportunities
- ▶ Organization of events
- ▶ Resolution of trade problems and impasses
- ▶ Support for exporters, investors and travel agents

### SERVICES OFFERED BY THE DPE

- #### a. TRADE PROMOTION SERVICES - PCO (Servicios de Promoción del Comercio - PCO)
- ▶ Dissemination of business opportunities
  - ▶ Dissemination of the export offer
  - ▶ Support in the solution of trade problems between companies
  - ▶ Identification of business opportunities
  - ▶ Support to trade missions and their participation in fairs abroad
  - ▶ Support to exporters in the resolution of trade impasses
  - ▶ Organization of trade events



**b. INVESTMENT PROMOTION SERVICES****- PIN (Servicios de Promoción de las Inversiones - PIN)**

- ▶ Participation in the negotiation of Foreign Investment Promotion Agreements
- ▶ Dissemination of investment opportunities (federal, regional and municipal governments)
- ▶ Coordination of international events for investment promotion (road shows, videoconferences, fairs, and seminars)
- ▶ Preparation and coordination of an agenda for foreign business missions
- ▶ Dissemination of specialized information on foreign investment
- ▶ Support in the identification of investment possibilities and strategic alliances
- ▶ Dissemination of tenders and international bidding processes called by public and private Peruvian entities

**c. TOURISM PROMOTION SERVICES - PTU****(Servicios de Promoción del Turismo - PTU)**

- ▶ Dissemination of tourism offer
- ▶ Support for culinary events
- ▶ Dissemination of tourism materials
- ▶ Support for tourism promotion fairs abroad
- ▶ Support for agendas involved in the promotion of tourism
- ▶ Promotion and negotiation of tourism agreements
- ▶ Dissemination of tourism information obtained by our missions

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## 2. MINISTRY OF FOREIGN TRADE AND TOURISM - MINCETUR AND PROMPERU (Ministerio de Comercio Exterior y Turismo -MINCETUR)

The Ministry of Foreign Trade and Tourism (MINCETUR) defines, directs, carries out, coordinates, and supervises foreign trade and tourism policies. In coordination with the Ministry of Foreign Affairs (MRE) and the Ministry of Economy and Finance (MEF) and the other Government sectors in their related areas, it is responsible for the promotion of exports and international trade negotiations. The Minister leads international trade negotiations on behalf of the State and may sign related agreements. The Ministry promotes, guides, and regulates tourism activities in order to encourage its sustainable development, including the promotion, orientation, and regulation of handicrafts.

### Contacts

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Website: www.mincetur.gob.pe

### PERUVIAN EXPORTS AND TOURISM PROMOTION BOARD - PROMPERU (Comisión de Promoción del Perú para la Exportación y el Turismo - PROMPERU)

PROMPERU is the agency of the Ministry of Foreign Trade and Tourism (MINCETUR) in charge of developing strategies to produce an integrated and attractive image of Peru. This image will help develop domestic tourism and promote the country to the world as a privileged destination for inbound tourism and investment. It is also in charge of promoting Peruvian exports.

### Objectives and guidelines

- Design, coordinate, arrange, and execute policies and actions with the objective of promoting Peru's image internationally, as well as promoting its exports
- Manage and channel international technical and financial cooperation to meet its objectives
- Participate in the strategic planning for the promotion of exports, as set forth in Legislative Order (Decreto Legislativo) 805
- Participate in the design, coordination and execution of a strategic plan to promote investment, in coordination with the competent entities
- Design, coordinate, and execute actions to promote inbound tourism to Peru and domestic tourism within Peru
- Manage and channel international financial and technical cooperation for the promotion of tourism in Peru

### Contacts

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- Exports and Tourism Office: Av. Jorge  
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(General Secretariat)  
+51 1 616 7300  
+51 1 616 7400  
(Exports and Tourism Office)  
Email: webmaster@promperu.gob.pe  
Website: www.promperu.gob.pe

### PERU BRAND (Marca Perú)

The primary objective of the Peru brand is to endorse the country's image, building and protecting its international reputation. It thus seeks to become the seal that accompanies everything originating in Peru and which represents the country beyond its borders. It focuses on three main areas of promotion:

#### ► **Tourism:**

Centered on promoting Peru as a unique and comprehensive tourist destination that includes cuisine, archaeology, culture, etc.

#### ► **Exports:**

Backs Peruvian products to the world, based on the premise that Peruvian exports are singular, unique, and not mass-produced, but above all, they are of very high-quality

#### ► **Investment:**

Promotes Peru's positive business climate and encourages investment with the presentation of the country as a land full of opportunities, with an enviable growth rate

### 3. AGENCY FOR THE PROMOTION OF PRIVATE INVESTMENT (PROINVERSIÓN) (Agencia para la Promoción de la Inversión Privada - ProInversión)

ProInversión is a public entity attached to the Ministry of Economy and Finance (MEF) and is in charge of executing the national policy for promoting private investment. Its mission is to promote investment via agents in the private sector, in order to boost Peru's competitiveness and sustainable development and thus improve the wellbeing of the population.

ProInversión provides information to potential investors regarding the incorporation of a business in Peru, identifying investment opportunities by sectors, learning about the processes of Public-Private Partnerships (PPP) among others.

ProInversión offers its services for investments in Peru free of charge, in three stages:

#### a. Pre-Incorporation

- General information service: macroeconomic data, legal framework, tax system, etc.
- Specific information service, at the request of the potential investor
- Preparation of agendas with: potential partners, suppliers, clients, authorities, associations, unions, etc.

#### b. Incorporation

- Guidance on obtaining municipal permits and licenses for the establishment of an industrial or commercial business
- Contact and accompaniment to the regions and potential production zones
- Advisory on migratory processes for entry and residence of business people



### c. Post-Incorporation

- ▶ Establishment of a network of contacts with public and private companies
- ▶ Guidance for the expansion of the business
- ▶ Identification of administrative barriers

### Contacts

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Phone: +51 54 608 114  
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  - Piura: Los Palmitos Mz. Ñ Lote 13, Urb. Santa María del Pinar, Piura  
Phone: +51 73 309 148  
Fax: +51 73 310 081

## 4. ASSOCIATION FOR THE PROMOTION OF NATIONAL INFRASTRUCTURE - AFIN (Asociación para el Fomento de la Infraestructura Nacional - AFIN)

AFIN is an association of Peruvian companies that have signed a concession agreement with the government in order to build, operate and maintain public infrastructure projects, in sectors such as energy, transportation, telecommunications, health, sanitation, among others. It also includes other kind of associates who are involved in infrastructure projects such as accounting firms (EY is an associate of AFIN), law firms, among others.

### Objectives and Guidelines:

- Encourage the development of infrastructure, contributing to the economic growth and poverty reduction in the country
- AFIN submits legislative proposals, agreed with its associates on issues affecting the development of infrastructure, to the Congress and/or the Government, depending on the specific matter.

### Contact

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## 5. PERUVIAN CHAMBER OF CONSTRUCTION - CAPECO (Cámara Peruana de la Construcción - CAPECO)

The Peruvian Chamber of Construction (CAPECO) is a business institution created in 1958 with the purpose of grouping and representing all those who work in the construction industry in the country. Its vision is to contribute to national development and to improve the quality of life of Peruvians through responsible construction.

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## 6. LIMA CHAMBER OF COMMERCE - CCL (Cámara de Comercio de Lima - CCL)

For the past 125 years, the Lima Chamber of Commerce (CCL) has represented and defended the interests of the business community before Peruvian authorities, as well as national and foreign entities. As part of its activities, it promotes free market policies and free competition with a sense of social responsibility, as well as fair and honest competition within a framework of values and ethical principles, fostering domestic and foreign trade and promoting good commercial practices.

The Lima Chamber of Commerce (CCL) is a strategic partner of the State, cooperating to ensure that the laws and other provisions foster national social and economic prosperity, taking the initiative in offering proposals and assuming responsibility in the activities entrusted to CCL by the State. It attempts to maintain close relations with all organizations representing business

activities and cooperation for development both Peruvian and international, especially supporting the decentralization of production. As a complementary activity, it conciliates interests and manages arbitration proceedings in an affordable and democratic manner between companies or business people, trying to ensure swift and friendly agreements.

The mission of the Lima Chamber of Commerce (CCL) is to promote the development of free enterprise, ensuring respect for the business community's legitimate rights and facilitating business opportunities, providing assistance and services, and incentivizing competitiveness. The vision of the Lima Chamber of Commerce (CCL) is to be the country's leading business association, respected by society and a reference point for the opinion of the business community.

The Lima Chamber of Commerce (CCL) groups together over 13,000 member companies, including the Chamber of Commerce, Production, and Services (Perucamaras) which, in turn, groups together the country's 63 chambers of commerce and associations.

Among its 15 sector departments, Construction & Engineering plays a vital role in the infrastructure sector. It is the major representative in construction, buildings, engineering, suppliers and related services.

### Contacts

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## 7. PERUVIAN FOREIGN TRADE ASSOCIATION - COMEXPERU (Sociedad de Comercio Exterior del Perú - COMEXPERU)

COMEXPERU is the private association that groups the leading companies involved in foreign trade in Peru. Its main purpose is to contribute to the improvement of competitive conditions within a free market environment to make Peru an attractive destination for private investment.

### Objectives and Guidelines

- Promote the development of foreign trade
- Defend free market policies
- Encourage private investment

### Contact

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## 8. NATIONAL CONFEDERATION OF PRIVATE BUSINESS INSTITUTIONS - CONFIEP (Confederación Nacional de Instituciones Empresariales Privadas - CONFIEP)

The National Confederation of Private Business Institutions (CONFIEP) brings together and represents private business activities within Peru and abroad. Its principal objective is to contribute to the process of sustained economic growth, based on investment and job creation through individual effort and initiative, the promotion of entrepreneurship and private property.

### Objectives and Guidelines

- Business unity: Strengthen the union between Peruvian business entrepreneurs to build an order in which free enterprise and a market economy are the distinguishing features
- Representation: Act as the principal spokesperson for entrepreneurs nationwide before the State, and in public and private forums
- Services: Promote greater communication and coordination between business sectors, and support, back, and provide advice to the business community

### Contact

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## 9. ASSOCIATION OF CAPITAL MARKETS BUSINESS PROMOTERS - PROCAPITALES (Asociación de Empresas Promotoras del Mercado de Capitales - PROCAPITALES)

The Association of Capital Markets Business Promoters (PROCAPITALES) brings together the principal actors in the market, channeling their concerns and proposals. It acts as a business guild to focus fundamentally on promoting investment and capital markets. It speaks on behalf of its associates to the public sectors with proposals to reduce legal costs and bureaucratic barriers that hinder easy market access. The institution's principal objective is to encourage an efficient legal framework and appropriate corporate governance practices.

### Objectives and Guidelines

- Promote the development of new investment instruments
- Encourage access by new issuers of fixed-income and equity securities
- Promote the mobilization of institutional investor resources through new intermediary vehicles
- Actively promote improvements in legislation and the regulation of the capital market
- Publicize and encourage the implementation of good corporate governance practices
- Create a permanent, proactive, and organized space for dialogue and interaction between agents in the market, including the regulatory and supervisory institutions
- Contribute to the institutional strengthening of agents participating in the capital market

### Contact

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## 10. inPERU (EXPORTING PERU TO THE WORLD)

inPERU was established on January 11, 2012 as a non-profit corporation to promote investment towards Peru in the principal international financial markets, seeking an exchange of better practices and, in general, providing information on Peru as a destination of multiple investment opportunities. The incorporation of inPERU consist of the following private institutions: Lima Stock Exchange (BVL), Cavali, Private Pension Fund Management Association (AAFP), Banking Association of Peru (ASBANC), Procapitales, Peruvian Finance Association (APEF), National Confederation of Private Business Institutions (CONFIEP) and the Peruvian Association of Insurance Companies (APESEG).

It also has the support of the Peruvian State through the Ministry of Economy and Finance (MEF), the Ministry of Foreign Trade and Tourism (MINCETUR), the Ministry of Foreign Relations (MRE), the Central Reserve Bank of Peru (BCRP), the Superintendence of Banking, Insurance and Private Pension Fund Management Companies (SBS), the Superintendence of the Stock Market (SMV), ProInversión and PromPeru.



## 11. NATIONAL ASSOCIATION OF INDUSTRIES - SNI (Sociedad Nacional de Industrias - SNI)

The National Association of Industries (SNI) is the institution that groups together Peru's private industrial companies. It is a private-law, non-profit legal entity.

The members of the SNI currently include over 1,000 of the most representative companies of the country's industrial sector, accounting for 90% of the gross value of national production. It should be noted that 16% of Peru's Gross Domestic Product (GDP) is contributed by the industrial sector.

### Contact

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## 12. PERUVIAN ASSOCIATION OF EXPORTERS - ADEX (Asociación Peruana de Exportadores - ADEX)

The Peruvian Association of Exporters (ADEX) is a business institution founded in 1973 to represent and provide services to its members: exporters, importers, and trade service providers. It is an association made up of large, medium, and small enterprises whose common denominator is their vision of achieving ambitious business objectives.

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## 13. NATIONAL SOCIETY OF MINING, OIL AND ENERGY - SNMPE (Sociedad Nacional de Minería, Petróleo y Energía - SNMPE)

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**17. PERUVIAN BANKING ASSOCIATION - ASBANC (Asociación de Bancos del Perú - ASBANC)**

**Contact**

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EY has a global focus on infrastructure, with global professionals including engineers, project process specialists, economists, legal and regulatory experts in more than 140 countries. Our global team is closely networked and shares industry and technical knowledge to provide our clients with a seamless global service.

Some of our specialist infrastructure-based services include:

### **PROJECT FINANCE ADVISORY**

Advising on the development, optimization and implementation of finance plans covering the full range of project financing options for infrastructure projects; non and limited recourse debt and tax effective leasing structures as well as assistance in seeking local equity investors.

### **INFRASTRUCTURE LEAD ADVISORY**

Advising sell-side or buy-side clients in privatizations, concessions and PPP deals. Our teams have the capabilities to assist in the preparation of tender offers and unsolicited proposals, analysis of project risks and mitigation mechanisms, review of tender documents and contracts and legal, financial and taxation advice in dispute resolution. Fundraising for projects if clients are awarded the transaction is also part of our comprehensive services.

### **MERGERS AND ACQUISITIONS ADVISORY**

Mergers and acquisitions, at either the holding company or asset level, require specific knowledge and skills in order to complete transactions. The knowledge and skills required relate to the regulatory environment, including the rules and regulations of each country's stock exchange, accounting, legal, structuring and taxation disciplines in addition to an understanding of transaction value-drivers.



## TRANSACTIONS ADVISORY

Our global transaction capability covers over 80 countries and comprises over 5,000 professionals. These transaction professionals work across many elements of the transaction life cycle in the deal critical areas of financial due diligence, commercial due diligence, tax due diligence, legal due diligence and structuring and transaction integration.

## VALUATION, BUSINESS MODELING & ECONOMICS (VME)

Providing a range of services to companies in the infrastructure sector including valuations for purchase price, allocation/acquisition, accounting, tax planning, finance and capital markets purposes, and has specialists with extensive skills ranging from valuations of businesses and intangible assets to specialized industry knowledge.

Further VME has deep expertise in reviewing models for financing purposes and is also able to construct or review cash flow models as part of an acquisition strategy.

## TRANSACTION INTEGRATION

Providing commercial and operational due diligence, integration planning and methodology development, synergy assessment, and integration program management; corporate strategy advice on market opportunities and areas to exploit along the value chain, as well as practical operational advice in areas such as overhead and capital expenditure cost reduction, process efficiency, supply chain and procurement, and in functional areas such as finance and human resources.

## TAX ADVISORY SERVICES

The provision of tax advisory services involves our support in the different stages of the project (PPP, Oxl, G2G, among many others): preliminary studies; bidding process; kick off and initial stage; and ongoing assistance during its execution. Our tax assistance includes tax burden determination in financial models; tax planning to structure the investment within the country, legal vehicles to be chosen, related parties transactions, reorganization processes, exit strategy; etc.; tax advisory, focused mainly on the agreement signed with the government or with foreign and local strategic suppliers, tax stability agreements, early recovery of VAT, among many other fields.

## VAT EARLY RECOVERY

Advising on the evaluation of the requirements and preparation of the application to qualify as beneficiary of the VAT Early Recovery System; on the preparation of the investment schedule and the list of goods and services related to the project considering the required codes; follow up of the applications before the authorities in charge; on the formulation of amendments to the investment commitment; strategy and preparation of recovery requests; review of the VAT prior to filing the application and support during the verification and controls from the sectoral authorities and the Tax Authority, among other services.



## LEGAL SERVICES

We provide a full range of legal advice to international and domestic investors, banks and multilateral organizations on public and private infrastructure and construction projects, including PPP, G2G, public procurement process and Works for Taxes. We advise our clients during the entire project life, including its inception and legal structuring, the bidding process, the drafting and negotiation of the legal agreements required for the project (such as concession contracts), the financing of the projects, management of claims, regulatory advice once the project is operating and the settlement of claims. Our expertise covers several and diverse sectors such as transportation (ports, airports, toll roads, urban highways) social infrastructure (health, education, penitentiaries) energy, oil and gas, water and sewage, real estate, among others.

## CUSTOMS

Advising on the optimization of customs regimes; planning and advice on customs valuation in the importation of goods; implementation and use of free trade agreements; advice and analysis of customs tax impact of international trade of goods; advice on risk prevention and customs compliance; evaluation and design of business structures from a customs perspective, support in customs audits and customs litigation, among other services.

For more information about our services visit our website [www.ey.com/pe](http://www.ey.com/pe)





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## GLOBAL CAPITAL CONFIDENCE BAROMETER

The EY Global Capital Confidence Barometer gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agendas.



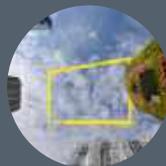
## PERU'S MINING & METALS INVESTMENT GUIDE

Key information on the mining and metals industry in Peru, to assist investors in making decisions regarding the exploration and development of new extractive projects.



## HOW GOVERNMENT CAN WORK WITH COMMUNITIES TO STRENGTHEN RESILIENCE?

To improve resilience planning, cities must evaluate the community-based networks already in place and how they can be strengthened.



## HOW WILL ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE SHAPE YOUR FUTURE?

While the social and economic impacts of the COVID-19 pandemic continue to play out on the global stage, questions remain over how investors will direct capital to support the economic recovery. Accordingly, investors are increasingly using nonfinancial factors in their assessment of a company's performance, as they look to build insight into longterm value.



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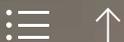


## STATEMENT

This publication contains summarized information and is therefore intended solely as a general reference guide for facilitating potential business.

It is not intended, under any circumstances, to be used as a substitute for detailed research or the exercise of professional criteria and judgment.

Additionally, the constant changes in the markets and their resulting information may result in the need to update the information included in this document. Project's pictures are referencial. EY accepts no responsibility for the economic results that any person, company, or business may attempt to attribute to any material in this publication. For all specific business or investment matters, advice should always be sought from a qualified advisor.



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#### About EY

EY is the global leader in assurance, tax, consulting and strategy and transactions services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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